

1501 7224

XD

**AGRICULTURAL SECTOR ASSISTANCE
PROGRAM
(ASAP)**

VOLUME I: PROGRAM ASSISTANCE APPROVAL DOCUMENT

NPA Number: 612-0239

USAID/MALAWI

Project Number: 612-0235

September 1991

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM
(NPA: 612-0239; Project: 612-0235)

PROGRAM ASSISTANCE APPROVAL DOCUMENT

Contents

Vol. 1: Program/Project Description

<u>Section</u>	<u>Title</u>	<u>Page</u>
	Action Memorandum	
	Program Facesheet	
	Project Data Sheet	
	Project Assistance Authorization	
	Contents	i
	Glossary of Terms and Acronyms	iv
I.	<u>Executive Summary</u>	
	A. Program and Project Description	1
	B. Policy Matrix	4
II.	<u>Background</u>	6
	A. Macroeconomic Framework	6
	B. Social Indicators of Development	8
	C. Agricultural Sector	9
	D. Constraints to Agricultural Development	14
	E. USAID Development Strategy in Malawi	18
III.	<u>Program Description</u>	20
	A. Program Objectives and Strategy	20
	1. Program Goal and Purpose	
	2. Strategy: Achievement of Objectives	
	B. Program Elements	22
	1. Production and Marketing of Crops	
	2. Efficiency of Input Delivery	
	3. Equity in the Agricultural Sector	
	4. Crop Diversification	

C.	Program and Project Conditionality	27
1.	Conditions	
a.	Tranche One	
b.	Tranche Two	
c.	Tranche Three	
d.	Phase Two Conditions	
2.	Covenants	
3.	Project Conditions Precedent	
D.	Project Component	33
1.	Overview	
2.	Activities	
a.	Agricultural Policy Research Unit	
b.	Food Security Monitoring and Policy Development	
c.	Agroforestry Extension	
d.	Environmental Impact Monitoring	
e.	Special Studies and Action Plan Implementation	
E.	Anticipated Impact	36
F.	Relationship to Other Donor Programs	37
IV.	<u>Program Implementation</u>	39
A.	Implementation Plan	39
1.	Overview	
2.	GOM-USAID Joint Coordination	
3.	GOM Management	
4.	USAID Management	
5.	Implementation Schedule	
B.	Procurement Plan	46
1.	Procurement List	
2.	Procurement Schedule	
C.	Financial Plan	49
1.	NPA Dollar Disbursement Management	
2.	Local Currency	
3.	Method of Financing	
4.	Program/Project Budget	
5.	GOM Contribution	
D.	Monitoring and Evaluation	
V.	<u>Analytical Framework: Summaries of Major Analyses</u>	63
A.	Social Soundness	63
B.	Political	70
C.	Economic	72
D.	Institutional	75
E.	Environmental	84

Vol. II: ANNEXES - Supplementary Approval Documentation

- A. Letter of Intent
- B. Logical Framework
- C. Project Component Descriptions and Illustrative Budgets, including studies.
- D. Justification for Noncompetition Waiver for Agroforestry Activity
- E. PAIP Approval Cable
- F. Initial Environmental Examination
- G. Statutory Checklists
- H. Determination on compliance with FAA Sections 521(a) and 521(b)
- I. Determination On Interest-bearing Local Currency Account
- J. Congressional Notification Release Cable

Vol. III: ANNEXES - Background and Analytical Studies

- K. Bibliography of Reports Contributing to ASAP Design
- L. List of Other Donor Projects in the Agricultural Sector
- M. Description of Crops Produced in Malawi
- N. Description of Tobacco Industry
- O. Social Soundness Analysis
- P. Economic Analysis
- Q. Institutional Analysis

GLOSSARY OF TERMS AND ACRONYMS

A.I.D.	Agency for International Development
ASA	Annual Survey of Agriculture
ASAC	Agricultural Sector Assistance Credit
ASAP	Agricultural Sector Assistance Program
ADMARC	Agricultural Development and Marketing Corporation (the parastatal marketing organization)
DEMATT	Development of Malawian Traders Trust
DREA	Department of Research and Environmental Affairs
EC	European Community
ECMAC	Entrepreneurship and Capital Market Adjustment Credit
FAO	Food Agricultural Organization
FSNU	Food Security and Nutrition Organization
FHA	Farm Home Assistant
GDP	Gross Domestic Product
GOM	Government of Malawi
HYV	high yielding variety
ha	hectare
IMF	International Monetary Fund
IMR	Infant Mortality Rate
INDEFUND	Investment and Development Fund
INDEBANK	Investment and Development Bank
kg	kilogram
KFCTA	Kasungu Flue Cured Tobacco Authority
MEDI	Malawi Entrepreneurs Development Institute
MOA	Ministry of Agriculture
MTNA	Malawi Tree Nut Authority
MUSCCO	Malawi Union of Savings and Credit Cooperatives
NEWS	National Early Warning System
NRDP	National Rural Development Program
NSCM	National Seed Company of Malawi
NSO	National Statistics Office
NSSA	National Sample Survey of Agriculture
ODA	Overseas Development Administration
PAAD	Program Assistance Approval Document
SACA	Smallholder Agricultural Credit Administration
SCA	Smallholder Coffee Authority
SHA	Smallholder Authority
SEDOM	Small Enterprise Development Organization of Malawi
SFFRFM	Smallholder Farmers' Fertilizer Revolving Fund of Malawi
STA	Smallholder Tea Authority
TAMA	Tobacco Association of Malawi
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WMB	Women's World Banking

7

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/MALAWI

Date: September 26, 1991
From: David E. McCloud, PID *DMC*
Subject: Agricultural Sector Assistance Program
(NPA No. 612-0239; Project No. 612-0235)

I. PROBLEM: You are requested (a) to approve and authorize the Agricultural Sector Assistance Program (612-0239) with a three year life of program and a funding level of \$20,000,000, (b) to approve and authorize the Agricultural Sector Assistance Program Support Project (612-0235) with a five year life of project and a funding level of \$10,000,000, and (c) to approve a noncompetitive waiver for an agroforestry activity under the ASAP Support Project. While being approved and obligated separately, the Program and Project share one Program Assistance Approval Document (PAAD). The Program amount will be fully obligated in FY 1991; the Project amount will be incrementally funded, with the FY 1991 obligation being \$2,960,000.

II. DISCUSSION

A. Background

Malawi has one of Africa's strongest economic performance records, but aggregate data masks structural weaknesses, particularly in the agricultural sector. Real GDP grew by 3.7% in 1988, 4.6% in 1989, and an estimated 4.8% in 1990. Thus, even with Malawi's relatively high population growth rate of 3.22% per annum (p.a.), real GDP growth per capita has been achieved. Growth in the agricultural sector has been impressive, but it has been primarily commercial estate based, not smallholder based. The real value of estate production grew by 5.2% p.a. during the 1980s, compared to smallholder production real growth of 0.4%. As a result, the benefits of overall growth have not accrued to the overwhelming majority of Malawi's rural population.

The low smallholder growth rate is indicative of conditions amongst customary landholders. Malawi's customary agricultural sector has become increasingly crowded, and now is characterized by very small farms - 55% have less than one hectare and more than 80% have less than two hectares. Credit, inputs and extension services tend to find their way only to the less than 20% of farmers who have more than two hectares. Customary landholders generally have difficulty (through legal, administrative and practical barriers) participating in the cash crop economy. Given the increasingly smaller sizes

of customary farms and relatively few opportunities for urban employment, it is not surprising that at least 30% of the rural population engages in off-farm employment in order to survive. Many of these are rural laborers or estate tenants who often work under uncertain contractual conditions.

ASAP has been designed to assist the Government of Malawi (GOM) to restructure the agricultural sector by liberalizing agricultural production and marketing systems and by fostering transparency in tenant and laborer terms and conditions of employment, in order to increase agricultural productivity, employment and incomes particularly among Malawi's poorer rural population.

B. Summary of Program Description

The goal of ASAP is to increase agricultural productivity, employment and incomes. Its purpose is to increase smallholder access to agricultural inputs, output markets, cash crop production alternatives and labor market information. The program comprises both nonproject assistance and project assistance. The NPA component is planned in two phases, each involving disbursements of \$20,000,000 against satisfaction of agreed-to conditions. The first phase includes two planned tranches, in FY92 and one in FY93. The proposed second phase, which will require an amendment to the PAAD and the grant agreement and refinement of the policy reform agenda, is intended to include a tranche release in each of FY 1994, 1995 and 1996. The project component has a total value of \$10,000,000 and extends over a period of five years.

The policy reform agenda is divided into four themes: production and marketing of crops; efficiency of input delivery; equity in the agricultural sector; and crop diversification. The overall intent of this agenda is to restructure the agricultural sector in such a way that smallholders on customary land and agricultural laborers and tenants have available to them the opportunities, mechanisms, and resources to participate in and help drive sectoral growth and development. Within the smallholder subsector, the program is working at three levels: (1) to liberalize the overall production and marketing environment for cash and food crops; and, more specifically, (2) to liberalize the production of burley tobacco, Malawi's premier cash crop and currently the best opportunity for smallholders, and (3) to help improve conditions of employment for estate laborers and tenants through support for a more open labor market.

Reform initiatives include the following: increasingly opening up the production of burley tobacco to smallholders, and establishing the necessary support and marketing mechanisms which will allow smallholders to undertake this production and to sell the burley through a variety of marketing channels; supporting smallholder production of all cash crops by alleviating constraints in the areas of credit, inputs, extension delivery systems, and marketing; improving the flow of price and production information to smallholders, and of labor market information to estate laborers and tenants; and encouraging environmentally sound agricultural development policies.

Project activities support various aspects of the program. The establishment of an agricultural policy research unit at Bunda College of Agriculture will strengthen Malawi's capability to define and analyze agricultural policy issues and to identify policy options. A series of studies will be funded, some through the Bunda activity and some separately, which will investigate specific issues and result in action plans to overcome policy, administrative and practical constraints to increased productivity and income generation. Food security project activities will help address the issue of smallholders' meeting basic nutritional needs while taking advantage of newly available cash crop production opportunities. Support for agroforestry extension will lower production costs for smallholders for whom the relatively high price and low availability of chemical fertilizers inhibit increases in productivity. Finally, in recognition that increasing agricultural productivity may improve the well-being of rural Malawians but also may exacerbate current environmental problems, the program will support the establishment of a monitoring unit which will assess on a regular basis the environmental impact of reform initiatives as well as that of other GOM and donor activities.

Implementation of ASAP will involve the Ministry of Finance (MOF), Ministry of Agriculture (MOA), Department of Economic Planning and Development (EP&D), Department of Research and Environmental Affairs (DREA), and Bunda College of Agriculture, as well as USAID and other participants including U.S. universities, private voluntary organizations, and contractors. The intent of the design of program and project implementation is to place responsibility with the Government of Malawi for the development of policy reform initiatives and for their execution. A Program Implementation Committee, chaired by the Ministry of Finance, will oversee overall program implementation, and subcommittees will be established to monitor and assist with implementation of specific components. A Program Management Committee also will be established, consisting of Principal Secretary-level members including the USAID director and chaired by the Secretary to the Treasury, to monitor achievement of program objectives. Major commodity and service procurement will be handled by A.I.D. A procurement plan and implementation schedule are included in the PAAD.

A summary of the program/project illustrative budget appears below. As noted in an earlier paragraph, phase two of the program, covering FY94- 96, will include a planned additional \$20,000,000 of NPA, as well as a possible increase to project component expenditures.

The NPA funds will be disbursed by A.I.D. in three separate tranches, expected to occur during the first quarter and second quarters of FY92, and the second quarter of FY93. The funds will be disbursed into a separate, interest bearing special account, under the management of the Reserve Bank of Malawi, and will not be commingled with funds from any other source. Disbursements by the Reserve Bank from the special account will be against requests, approved by the Bank in accordance with procedures agreed to between the GOM and USAID, by commercial firms for foreign exchange to import goods not included on a negative list. The Bank will maintain records adequate for the tracking of

program dollars, and will report periodically to USAID about disbursements from the account. Local currency in amounts equivalent to the original dollar disbursements will be deposited also into a noninterest-bearing special account maintained with the Reserve Bank, and will be programmed with the GOM as general budgetary support to the Ministry of Agriculture, Bunda College of Agriculture, and the Department of Research and Environmental Affairs. Based on guidance in '91 State 204855, a determination that, in accordance with GOM financial regulations and policy, central government accounts are not held in commercial banks nor in interest-bearing accounts with the Reserve Bank will be signed by the Mission Director and held on file in the Mission.

Project funds will be used in accordance with the budget presented below and the procurement plan included in the PAAD.

ILLUSTRATIVE BUDGET
(US\$ 000's)

<u>ITEM</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>TOTAL</u>
NPA 10,000 10,000						
Agricultural Policy Research Unit	1,272	962	672	531	153	3,590
Agroforestry Extension	544	561	154	153	164	1,576
Food Security	389	423	450	463	402	2,127
Environmental Monitoring Unit	206	170	127			503
Studies, Implementation and Management	430	500	530			1,460
Monitoring, Evaluation and Audit	40	163	46	49	70	368
Contingency	114	109	77	46	30	376
Project Subtotal	2,995	2,888	2,056	1,242	819	10,000
Grand Total	12,995	12,889	2,055	1,242	819	30,000

A comprehensive monitoring and evaluation plan is included in the PAAD. There will be annual evaluations, as well as separate monitoring studies. It is expected to incorporate three annual program evaluations into the workplan of the Bunda College agricultural policy research unit, and funds for that purpose are included in the unit's budget line item. The midterm and final evaluations, however, will be organized independently of any individual project component.

As part of the design process, the following analyses were conducted: social soundness, political risk, economic, institutional and environmental. Summaries of each are included in the PAAD, and full versions (with the exception of the political risk and environmental analyses) are available as annexes.

III. PAIP ECPR Issues and Special Concerns

A. The following issues were raised during review of the PAIP in AID/W, and have been addressed as noted:

1. GOM commitment to a "level playing field": Given the major structural reform implicit in ASAP, a specific commitment by the GOM to the program was determined to be necessary. The GOM has submitted a letter of intent in which it states its commitment, including the following statement: "We recognize that this is a commitment to a liberalized agricultural economy in which there is equal access to the means of production and where there are no barriers to market entry or other practices that discriminate against or reward any category of farmer."

2. Political risk analysis: An analysis was conducted, and concludes, "There is little doubt that substantial political risks remain in undertaking the ASAP program. The program can be easily jeopardized if political leaders do not push aggressively for its full implementation. ... Despite these risks there are strong reasons for moving forward with the program. The most important is that if it is successful, it promises a very substantial equity impact, and, in the longer run, the possibility of a much more broad-based economic growth path for Malawi."

3. Minimum wage and land rental fees: During the ECPR it was suggested that neither of these issues should be specifically addressed by the program, and neither is now included.

4. Monitoring and evaluation plan: A specific concern raised was that the monitoring and evaluation plan should demonstrate linkages between program activities and achievement of strategic objectives. The PAAD includes a comprehensive monitoring and evaluation plan, and in that plan the linkages mentioned are clearly identified.

5. Tobacco activities and Bumpers: Because program activities concern the production of tobacco, a question was raised about the program's compliance with relevant restrictive legislation. A GC/AFR determination states, "The proposed ASAP activities would not violate either section 521(a) or Bumpers [both in the FY91 Foreign Assistance Appropriations Act], and it is not necessary to examine the other factors under those statutes."

B. The following "special concerns" were raised, and have been addressed as follows:

1. DFA statute: Three specific concerns were raised: the level of local involvement during the design process, the program's impact on vulnerable groups, and the impact on the environment. There was substantial local involvement during the design process, in addition to the involvement of GOM officials. Individual and groups of smallholders were visited and interviewed, as were both small and large estate owners and representatives of the growers' association. ADMARC buying centers were visited, and smallholder sales of burley observed. Regarding the program's impact on vulnerable groups, a major emphasis of the program's reform agenda is to improve the well-being of customary landholders with less than 1.5 ha, and to improve the

well-being of female smallholders. Increased income and employment generation, as well as improved nutritional status, for these groups are expected impacts of the program. The program's potential negative impact on the country's natural resource base was an additional concern. Increasing agricultural productivity which is the objective of the policy reforms could have negative environmental effects. To monitor the environmental impact of policy reforms as well as other agricultural development activities, the program will support the establishment and operations of an environmental monitoring unit within the Department of Research and Environmental Affairs. This unit will work with line ministries such as MOA and Ministry of Forestry. In addition, the program includes the extension of agroforestry techniques, which reduce the need for chemical fertilizers and introduce soil erosion barriers and fuelwood sources.

2. Dollar tracking and local currency generation and use: During the ECPR, it was noted that in order for the Mission to not require dollar tracking, the Congressional Notification (CN) had to include the appropriate language. In addition, it was recommended that the Mission not require local currency generation. Subsequent to the ECPR, the Africa Bureau approved a waiver to not require dollar tracking, and the appropriate language was included in the CN. As a result, throughout the PAAD design process, it was the Mission's intention to require neither dollar tracking nor local currency generation. A similar path was being followed for the Mission's other major NPA new start, the GABLE Program. The ASAP CN was not released, however, apparently over the dollar tracking issue. As a result, during the Mission's PAAD review session, about one week prior to obligation, it was decided that both dollar tracking and local currency generation would be required. (The following day, the CN was released.) Fortunately, the Mission's Regional Legal Advisor (RLA) was resident for another 30 hours, and all the necessary revisions to the Program Grant Agreement, Authorization and PAAD have been made, and discussions with the GOM about relevant technical issues have been held. A separate Action Memorandum has been prepared for the Director's signature to approve the use of a noninterest-bearing local currency account under the program.

4. Initial Environmental Examination: The ECPR noted that the Initial Environmental Examination (IEE) should describe the possible negative environmental impact of reform measures, and how these would be mitigated. Based on this guidance, the Mission prepared and submitted a revised IEE which was approved. The IEE is attached to the PAAD as an annex.

5. Gender impact: The program's differential impact on males and females was questioned. This issue was addressed directly in the social soundness analysis, and is addressed in the program design, which has as one emphasis improving women's access to opportunities in the agricultural sector.

IV. Program Revisions from PAIP to PAAD

There is a high degree of correspondence between the PAIP and the PAAD, with the principal differences apparent in the more precisely defined reform and activity agenda of the PAAD. At the goal and purpose levels, the PAIP and PAAD remain essentially the same. The six themes of the PAIP were, through discussion and analysis, refined and reduced to four. The major difference is that now marketing and production options feature more prominently in the PAAD. The emphasis shifted to clearly highlight the development of increased marketing and production options for smallholders, in particular those with less than 1.5 ha and including but not limited to burley, so as to raise agricultural productivity, rural incomes and general well-being. Support for improving conditions for estate laborers and tenants and for institutionalizing an agricultural policy research capability remains. The areas which are no longer directly addressed concern estate land use and the GOM's capacity to manage land use. However, a major environmental monitoring activity and a study of land tenure issues have been included. As recommended in the ECPR cable, the monitoring and evaluation plan is considerably more developed than at the PAIP stage. The ECPR comments regarding dollar tracking and allocations of local currencies have, unfortunately, been superseded by events which will now require tracking and allocations. Finally, while the PAIP identified the Mission offices for ASAP management, the PAAD has devoted considerable effort to defining the roles of the various GOM entities and project committees in program and project implementation.

V. Other Requirements

A. Documentation

1. Statutory checklist: The statutory checklist is included as an annex. Detail is provided concerning the program's relevance to specific Development Fund for Africa (DFA) priorities. An explanation is provided to satisfy the requirement of Section 611(a)(2) of the FAA concerning any required legislation and its likelihood of being passed.
2. Waiver: A waiver is attached as an annex to the PAAD, and will be approved along with the PAAD, for the noncompetitive award of a cooperative agreement with Washington State University for the provision of services in the field of agroforestry extension.
3. Source/Origin: The authorized A.I.D. Geographic Code for procurement of goods and services, with the exception of ocean shipping, air travel and transportation services, is Code 935 and Malawi. Shipping and air travel/transportation regulations are specified in the Program Grant Agreement. Generally, all reasonable efforts are to be made to maximize procurement of goods and services from the U.S.
4. Technical reviews: Relevant sections of the PAAD have been reviewed by RLA, Regional Commodity Management Office (RCMO), and the Mission Controller (CONT). All clearances have been noted on the PAAD clearance sheet.

^

B. Twenty-five Percent Host Country Contribution

Phase one of the program is expected to generate MK 56 million in counterpart funds (at the current exchange rate of U.S.\$1=MK2.8). These funds, excluding the 5% contribution to the USAID Trust Account, will be used to support overall program objectives through budgetary support to the relevant GOM entities as discussed above. This amount amply exceeds the required 25 percent host country contribution of \$10 million equivalent.

VI. Mission Review

The Mission review was held on Thursday, September 19, 1991. In attendance were representatives of all relevant Mission divisions as well as the RLA. The following issues arose.

1. As explained above, dollar tracking and local currency generation and programming had to be incorporated into the program design. This has been accomplished.

2. For the program to succeed, close collaboration with the GOM during all stages of implementation will be required. It was agreed that while the program design incorporated this in various ways, nonetheless the Mission would have to be constantly alert to the need for continuous interaction with GOM counterparts.

3. The GOM's letter of intent had not been received. This was received the following day.

4. The AID/W requirement that it receive the letter of intent, the policy matrix and the project budget prior to field authorization had been met for the latter two items, but not the first. The letter was received on Friday, September 20, and was sent by fax to AID/W that afternoon, thereby meeting all of the above three requirements.

5. Consistency of phraseology among the various component documents had to be verified. This has been completed.

6. A host country contract is anticipated for the construction activity at Bunda College. While a preliminary review has indicated that the University of Malawi is qualified to execute such a contract, a formal review by A.I.D. is required prior to implementing that activity. It was agreed that such a review would be completed by a relevant technical specialist prior to any disbursement for that activity.

The review committee also discussed the status of negotiations, the general acceptance of the program within Malawi, all ECPR issues and special concerns, and outstanding actions and a schedule for their completion.

VII. Delegation of Authority

An ad hoc delegation to the field was necessary. Delegation was granted in State 63922, subject to the following conditions:

1. senior AID/W dialogue with GOM officials and participation in PAAD review;
2. Delegation of Authority 551 requirements met, with the exception of the dollar amount limitation; and
3. submission to AID/W of illustrative budget for projectized activities, detailed policy matrix, and the GOM letter of intent.

All of the above conditions have been met. It should be noted that while there was not personal AID/W participation in the PAAD review, during the recent visit by the Deputy Assistant Administrator for the Africa Bureau the program was discussed at length, and the AID/W desk officer for Malawi contributed substantially to the drafting of the PAAD during a three week TDY devoted wholly to that purpose.

VIII. Recommendations

That you sign:

1. the attached PAAD Facesheet for the Agricultural Sector Assistance Program, thereby approving a life of program amount and obligation of \$20,000,000;
2. the attached Project Data Sheet and Project Authorization for the Agricultural Sector Assistance Program Support Project, thereby approving a life of project amount of \$10,000,000 and an initial obligation of \$2,960,000; and
3. the attached noncompetitive waiver for the agroforestry activity with Washington State University.

Attachments:

1. PAAD Facesheet/Authorization
2. Project Data Sheet
3. Project Authorization
4. Noncompetitive Waiver
5. PAAD

Drafted by: DMcCloud, PID: DMcCloud 9/26/91
Clearances: Tlofgren, PID: Tlofgren 9/27/91
JHale, AFS: JHale 9-26-91
RMahoney, PAE: RM 9/27/91
RAmin, CONT: BA 9/27/91

CLASSIFICATION:

AID 1120-1 PAAD AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD No. 612-T-604 (612-0239)	
	2. COUNTRY Malawi	
	3. CATEGORY Agricultural Sector Assistance Program	
	4. DATE September 26, 1991	
	5. OYB CHANGE NO. N/A	
6. TO: Carol A. Peasley Director, USAID/Malawi		8. OYB INCREASE N/A
7. FROM: David E. McCloud PID, USAID/Malawi		TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF \$ 20,000,000		10. APPROPRIATION - BUDGET PLAN CODE 72-111/21014 GSSI-91-31612-KG39
11. TYPE FUNDING LOAN <input type="checkbox"/> GRANT <input checked="" type="checkbox"/>	12. LOCAL CURRENCY ARRANGMENT INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE <input type="checkbox"/>	13. ESTIMATED DELIVERY PERIOD 10/91 - 9/94
14. TRANSACTION ELIGIBILITY DATE Fulfillment of conditions		
15. COMMODITIES FINANCED This is a sector assistance grant. However, because dollar tracking is required, the Government of Malawi has agreed to use the funds for commodity procurement from Code 935 countries by private individuals and commercial firms. A negative list of goods disallowed for procurement using A.I.D. grant funds will restrict procurement under the grant.		
16. PERMITTED SOURCE U.S. only: Limited F.W.: Free World: \$20,000,000 Cash:		17. ESTIMATED SOURCE U.S.: Industrialized Countries: \$20,000,000 Local: Other:
18. SUMMARY DESCRIPTION See attached text.		
19. CLEARANCES		20. ACTION
PID: TD Lofgren <i>TD Lofgren</i> 9/26/91 PAE: RMahoney <i>RMahoney</i> 9/27/91 AFS: JTHale <i>JTHale</i> 9/26/91 CONT: RBamin <i>RBamin</i> 9/27/91 RLA: CBrown Draft 9/20/91		APPROVED <input checked="" type="checkbox"/> DISAPPROVED <input type="checkbox"/> <i>Carol A. Peasley</i> 27 Sept 1991 AUTHORIZED SIGNATURE DATE Carol A. Peasley TITLE: Director, USAID/Malawi

CLASSIFICATION:

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

PAAD FACESHEET, BOX 18, SUMMARY DESCRIPTION

The attached PAAD contains a full justification for, and this facesheet approves, a program assistance grant in the amount of \$20,000,000, to support policy reforms and other activities in Malawi which will increase smallholder (i.e., individuals cultivating customary land) access to agricultural inputs, output markets, cash crop production alternatives, and labor market information (the "ASAP Program"). The Program grant will be disbursed in three separate tranches over a three-year period, subject to satisfaction of certain conditions precedent outlined below. The PAAD contains justification for a \$10,000,000 Support Project to assist with the implementation of the reforms and other activities contemplated by the Program, which Project is subject to a separate authorization and project grant agreement. This PAAD also discusses a Phase Two for the same Program which will be the subject of amendments to both this PAAD and the Program Grant Agreement.

Pursuant to Chapter 10 of the Foreign Assistance Act of 1961, as amended, and provisions of Title II of the FY 1991 Foreign Operations, Export Financing and Related Programs Appropriations Act, under the heading "Sub-Saharan Africa, Development Assistance", I hereby approve for obligation the three-year, nonproject assistance component described herein. The Program Grant Agreement shall contain the following essential terms and conditions, together with such other terms and conditions as are deemed appropriate by A.I.D.:

Conditions Precedent to Disbursement

Conditions Precedent to First Tranche. Prior to the first tranche of the Grant, which shall be Four Million U.S. Dollars (US\$4,000,000), Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(a) Grantee has designed, announced and implemented an interim customary landholder registration system, acceptable to A.I.D., which will be managed and staffed by Ministry of Agriculture ("MOA") personnel and which will result in participating customary landholders being issued with quotas in their own names;

(b) not less than 3.5 million kg of burley tobacco production quotas have been allocated to customary landholders who have been registered for issuance of quotas in their own names, with the exception of receipt of official certification of individual quota amounts;

(c) Grantee has adopted a credit plan, acceptable to A.I.D., that provides full details concerning the provision of necessary credit to customary-land burley tobacco quota holders for the purchase of inputs for the 1991-92 season;

(d) Grantee has adopted a plan, acceptable to A.I.D., that provides full details concerning the second payment to customary-land burley tobacco growers who produced burley under the World Bank-sponsored pilot smallholder scheme during the 1990-91 season;

(e) Grantee has adopted a plan, acceptable to A.I.D., that provides full details concerning the timely supply of fertilizer and seed sufficient to meet the requirements of the customary land burley tobacco producers registered with the MOA in accordance with the condition stated in paragraph (a) above;

Conditions Precedent to Second Tranche. Prior to the second tranche of the Grant, which shall be six million U.S. Dollars (US\$6,000,000), Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(a) Grantee has issued official individual production quota certificates, which are recognized by any marketing entity, to customary landholders in a total amount of 3.5 million kg of burley tobacco;

(b) Grantee has legalized and publicly announced, in a manner acceptable to A.I.D., that customary landholder burley can be legally purchased by quota-holding burley tobacco estates within an estate's own quota;

(c) Grantee has adopted a detailed plan acceptable to A.I.D. for the dissemination of market price information in each Agricultural Development Division, for a mutually agreed-to list of agricultural commodities;

(d) Grantee is requiring that terms and conditions of tenancy and of casual and permanent labor be posted on all estates;

(e) Grantee has adopted a plan, acceptable to A.I.D., for monitoring the environmental impact of reforms implemented as part of the Agricultural Sector Assistance Program;

(f) Grantee and A.I.D. shall have jointly approved an implementation schedule for studies (described in more detail in Annex 1) which are intended to be financed by the related Agricultural Sector Assistance Program Support Project and for the development of related action plans in the following areas:

- (1) Alternative Marketing Channels for Smallholder Producers
- (2) Credit Plan for Smallholders
- (3) Private Sector Distribution of Seeds and Fertilizer
- (4) Legislative and Administrative Barriers to Smallholder Crop Production and Marketing
- (5) Impediments to Private Sector Maize Marketing
- (6) Improved Extension Service to Small Customary Landholders
- (7) Crop Diversification Opportunities and Constraints
- (8) Pricing of Tenants' Burley Production

Conditions Precedent to Third Tranche Prior to the third tranche of the Grant which shall be ten million U.S. Dollars (US\$10,000,000), Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(a) Grantee has designed, implemented and announced by September 1, 1992, a permanent customary landholder burley registration system, acceptable to A.I.D., which will be managed and staffed by MOA personnel and which will result in participating customary landholders being issued with quotas and quota certificates in their own names. In accordance with this system, quota holders will be entitled to sell their production to any legal marketing entity.

(b) not less than 7.0 million kg. of burley tobacco production quotas have been allocated to individual customary landholders, quotas which can be recognized by any legal marketing entity;

(c) Grantee has adopted a plan, acceptable to A.I.D., whereby, for the 1992-93 growing season, all customary landholding burley producers can purchase burley seed from ATC, NSCM, ADMARC and any other authorized burley seed outlet;

(d) Based on the study described above, on the topic of alternative marketing channels for smallholder farmers, Grantee shall have completed the following actions in a manner acceptable to A.I.D.;

- (1) designed and begun to implement a system whereby estates can purchase burley from quota-holding customary landholders in excess of the respective estates' individual quotas;
- (2) Legalized, and publicly announced the legality of, the sale of burley by quota-holding producers to any marketing agent who complies with criteria agreed to between the Grantee and A.I.D.;

(e) Grantee shall have submitted to A.I.D. a joint report by September 1, 1992, on the evaluation of the 1991-92 smallholder burley scheme, conducted by Grantee, A.I.D., the World Bank, and other donors as appropriate;

(f) Grantee shall have completed an evaluation of the method of establishing prices paid to tenants for burley tobacco, and shall implement evaluation recommendations, as mutually agreed to by the Grantee and A.I.D.;

(g) Grantee shall have clarified and publicly announced, in a manner acceptable to A.I.D., the adjudication procedures for estate-tenant disputes and estate-labor disputes;

(h) Grantee shall have implemented the market price information system as approved in accordance with the second tranche condition (c) noted above

(i) Grantee shall have developed action plans acceptable to A.I.D. in the following areas:

- (1) Alternative Marketing Channels for Smallholder Cash Crops
- (2) Credit Plan for Smallholders
- (3) Private Sector Distribution of Seeds and Fertilizer
- (4) Private Sector Maize Marketing

Special Covenants

Quota Allocation: Of burley tobacco quotas issued to customary landholders, Grantee shall see that an increasing proportion is allocated to customary landholders with less than 1.5 ha, and an increasing proportion is allocated to women.

Environmental Monitoring: Grantee shall conduct regular monitoring of the environmental impact of reforms implemented as part of this Program, and report to A.I.D. its findings annually.

Annual Evaluation: Grantee shall conduct annual evaluations of the smallholder burley scheme, and report its findings to A.I.D.

Special Local Currency Account. The Grantee covenants that, except as A.I.D. may otherwise agree in writing:

(a) It will maintain a Special Local Currency Account in the Reserve Bank of Malawi, or such other institution as the Parties may mutually agree to, and, following each disbursement of U.S. dollars hereunder, will deposit or cause to be deposited therein currency of the Republic of Malawi in a sum equivalent to such U.S. dollar disbursements under this Agreement, calculated at the exchange rate specified in the Program Grant Agreement below on the date dollars were disbursed. Funds in the Special Local Currency Account will not be commingled with local currencies from any source other than the Program financed pursuant to this Agreement.

(b) It is agreed that, except for any funds made available to USAID, all local currencies in the Special Local Currency Account will be used only for general budgetary support to the Ministry of Agriculture and Bunda College of Agriculture, in such proportions as Grantee and A.I.D. may later determine.

Utilization of Dollars. Dollars disbursed hereunder will be used only for importation of commodities from the United States and other countries included in A.I.D. Geographic Code 935, by private individuals and by commercial firms operating in Malawi. No grant funds will be used to finance military or paramilitary requirements of any kind, including the procurement of commodities or services for those purposes; for luxury goods; for goods having their source or origin (or for providers of services, their nationality) in countries not included in A.I.D. Geographic code 935 as in effect at the time orders are placed or contracts are entered into for such goods or services; nor for the payment of debt if such debt was incurred for the purpose of financing any transaction not permitted by the Program Grant Agreement, including Annex 1 thereto.

XD-ABC-184-A

5A79299

APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: **A** (A = Add, C = Change, D = Delete)
Amendment Number: _____
DOCUMENT CODE: **3**

COUNTRY/ENTITY: **Malawi**

3. PROJECT NUMBER: **612-0235**

4. BUREAU/OFFICE: **Africa**

5. PROJECT TITLE (maximum 40 characters): **Agricultural Sector Assistance Program Support**

6. PROJECT ASSISTANCE COMPLETION DATE (FACD): MM DD YY **09/31/96**

7. ESTIMATED DATE OF OBLIGATION (Under 2" below, enter 1, 2, 3, or 4)
A. Initial FY **91** B. Quarter **3** C. Final FY **94**

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FISCAL FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) DFA	(2,960)	()	(2,960)	(10,000)	()	(10,000)
(Loan)	()	()	()	()	()	()
Other						
U.S.						
Host Country		956	956		3,229	3,229
Other Donors)						
TOTALS	2,960	956	3,916	10,000	3,229	13,229

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION PURPOSE	B. PRIMARY CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DFA				-	-	2,960		10,000	
(2)									
(3)									
(4)									
TOTALS						2,960		10,000	

10. SECONDARY TECHNICAL CODES (maximum 8 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 400 characters)

The project purpose is to increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information in support of the Agricultural Sector Assistance Program (ASAP)

14. SCHEDULED EVALUATIONS

15. SOURCE/ORIGIN OF GOODS AND SERVICES

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (Third page 1 of 2 page FP Amendment)

1/ Proportional amount of anticipated host country contributions to the project and the Agricultural Sector Assistance Program

Controller Clearance: CONT:RBamin *RBamin*

17. APPROVED BY: **Carol A. Peasley**
Signature: *Carol A. Peasley*
Title: Mission Director

Date Signed: MM DD YY **09/27/91**

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

Project Authorization

Name of Country: Malawi
Name of Project: Agricultural Sector Assistance Support Project
Number of Project: 612-0235

1. Pursuant to Title II of the Foreign Operations, Export Financing and Related Program Appropriations Act of 1989 (Sub-Saharan Africa, Development Assistance), I hereby authorize the Agricultural Sector Assistance Project (the "Project") for Malawi (the "Cooperating Country") involving planned obligations of not to exceed \$10,000,000 in grant funds over a five year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is five years from the date of initial obligation.

2. The Project consists of assistance to the Cooperating Country to support policy reforms designed to increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information, in order to increase agricultural productivity, employment and incomes.

3. The Project Grant Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4.A. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the United States, in the Cooperating Country, or in countries included in Geographic Code 935, except as A.I.D. may otherwise agree in writing.

Except for ocean shipping, the suppliers of commodities or services shall have the United States, the Cooperating Country, or other countries included in Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or Code 935 countries. Air travel and transportation shall be financed only on U.S. flag air carriers to the extent they are available. Procurement of commodities and services of U.S. source, origin and nationality shall be maximized to the extent practicable.

B. Conditions Precedent

(1) Conditions Precedent to First Disbursement

Except as A.I.D. may otherwise agree in writing, prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish to or have furnished to A.I.D., in form and substance satisfactory to A.I.D., a written statement setting forth the names and titles of persons holding or acting in the Office of the Grantee and of any additional representatives, and representing that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each such person certified as to its authenticity.

(2) Conditions Precedent to Disbursement for Ministry of Agriculture (MOA) Food Security Activity

Except as A.I.D. may otherwise agree in writing, prior to disbursement of funds for the component of the Food Security Monitoring and Policy Development activity located in the Ministry of Agriculture, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D., a plan which demonstrates that all GOM positions required for implementation of that activity will be filled within a two-year period, including the source of funding for the costs involved.

(3) Conditions Precedent to Disbursement for Department of Economic Planning and Development Food Security Activity EP&D Food Security Activity

Except as A.I.D. may otherwise agree in writing, prior to disbursement of funds for the component of the Food Security Monitoring and Policy Development activity located in the Department of Economic Planning and Development, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D., a plan which demonstrates that all GOM positions required for implementation of that activity will be filled within a two-year period, including the source of funding for the costs involved.

C. Covenants

(1) The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include during the implementation of the Project:

(a) evaluation of progress towards attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and,

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

D. Waiver

A noncompetition waiver for an agroforestry extension activity to be contracted with Washington State University is included as an annex to the Program Assistance Approval Document.

Carol A. Peasley
Carol A. Peasley
Mission Director
USAID/Malawi

27 Sept. 1991
Date

Drafter: DEMcCloud, PDO
Clearances: JHale, AFS
RMahoney, PAE
TLOfgren, PDO
RAmin, CONT
CBrown, RLA

[Signature]
J. Hale
[Signature]
[Signature]
[Signature]
Draft

Date: 9/26/91
Date: 4/27/91
Date: 9/27/91
Date: 9/27/91
Date: 9/20/91

I. EXECUTIVE SUMMARY

The Agricultural Sector Assistance Program (ASAP) focuses on increasing agricultural productivity, employment and incomes through improved smallholder access to agricultural inputs, outputs markets, cash crop production alternatives, and labor market information. To achieve these objectives, the program includes both nonproject and project assistance as support for policy reforms and agricultural sector restructuring by the Government of Malawi (GOM).

Malawi has one of Africa's strongest economic performance records, but aggregate data masks structural weaknesses, particularly in the agricultural sector. Since independence in 1964, the economy has grown at nearly three times the pace of sub-Saharan Africa as a whole. While there have been hills and valleys to the growth curve over time, recent performance has been strong. Real GDP grew 3.7% in 1988, 4.6% in 1989, and an estimated 4.8% in 1990. Thus, even with Malawi's relatively high population growth rate of about 3.2%, real GDP growth per capita has been achieved. Growth in Malawi's agricultural sector has been especially impressive, but it has been primarily commercial estate, not smallholder, based. The real value of Malawi's estate production grew by 9.6% p.a. during the 1970s and 5.2% p.a. during the 1980s. By comparison, the value of smallholder production during the 1980s grew by only 0.4% p.a.

The low smallholder growth rate is indicative of conditions amongst customary landholders. Malawi's customary agricultural sector has become increasingly crowded, and now is characterized by very small farms - 55% have less than one hectare which is insufficient to supply the family's basic nutritional needs - and more than 80% have less than two hectares. Credit, inputs and extension services tend to find their way only to the less than 20% of farmers who have more than two hectares. Customary landholders generally have difficulty (through legal, administrative and practical barriers) participating in the cash crop economy. Given the increasingly smaller sizes of customary farms and relatively few opportunities for urban employment, it is not surprising that at least 30% of the rural population engages in off-farm employment in order to survive. Many of these are rural laborers or estate tenants who often work under uncertain contractual conditions.

ASAP is designed to assist customary landholders with small farms, and rural laborers and tenants, through support for GOM reform initiatives and through the implementation of project activities. Given the breadth and complexity of the reform package, the program has been designed in two phases. Both phases are organized around four themes:

- Theme 1: Production and Marketing of Crops;
- Theme 2: Efficiency of Input Delivery;
- Theme 3: Equity in the Agricultural Sector; and
- Theme 4: Crop Diversification.

Phase one consists of: a set of reforms which will open up the production of Malawi's premier cash crop, burley tobacco, to smallholder farmers; identification of major constraints to smallholder production and marketing of other crops, and development of action plans to overcome those constraints; improvements to the efficiency of input delivery systems; improved access by tenants and laborers to information regarding their contractual agreements; and identification of opportunities for crop diversification. Phase two will continue many of the reforms introduced during phase one, including in particular the further opening up of burley tobacco production to smallholders, and will draw on the findings and recommendations of studies conducted during phase one to implement new reform initiatives which will foster increased smallholder economic activity. By the end of the program, smallholder farmers, i.e. those in the customary landholding sector, will be free to grow and market an unrestricted variety of food and cash crops in order to generate additional income to produce or acquire sufficient food and to improve their well-being. The long-term intended impact of this program, in combination with on-going and planned programs by the World Bank, the European Community, British ODA, and UNDP, is a liberalized agricultural economy in which there is equal access to the means of production and there are no barriers to market entry or other practices that are biased for or against any category of farmer.

Project activities support various aspects of the program. To strengthen Malawi's capability to define and analyze agricultural policy issues and to identify policy options, all from an independent perspective, the program will assist Bunda College of Agriculture in establishing an agricultural policy research unit. A cooperative agreement with a U.S. university or consortium will be negotiated for the provision of the necessary technical and organizational assistance. A series of studies will be funded, some under the Bunda activity and some separately, which will investigate specific issues, such as appropriate extension modules for smallholders, and mechanisms for the delivery of credit and inputs and for the marketing of smallholder cash crops. These studies will result in action plans which will be supported and implemented through the program.

The promotion of cash crop production by smallholders who now can not or can barely meet their own nutritional needs raises the issue of food security. The program includes funding for activities both in the Ministry of Agriculture (MOA) and in the Department of Economic Planning and Development (EP&D) designed to support current GOM efforts to monitor the food security situation, to maintain an early warning food alert system, and to develop policies which promote improved food security. Also, a major impediment to increased crop production is the cost and availability of fertilizer. While other donors are engaged in helping Malawi to revise its fertilizer import, pricing and distribution policies, ASAP will support the extension of agroforestry techniques designed to reduce smallholder reliance on chemical fertilizer by substituting relatively easily adopted and well researched agroforestry technology.

Finally, it is well known that Malawi has some potentially serious environmental problems in the form of deforestation and soil erosion. Increasing agricultural productivity through increased crop production may improve the well-being of rural Malawians, but also exacerbate current

expected to include an additional \$20 million in cash disbursements over a three year period. The project component has a total value of \$10 million, with a five year life covering both phases. Annual evaluations will be conducted, with more major efforts in years three and five, to assess in particular the impact of the program on the intended beneficiaries. A comprehensive monitoring and evaluation plan has been developed, with specific impact indicators which should allow a fair assessment of program accomplishments.

The policy matrix is presented on the following pages.

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM: POLICY MATRIX

GOAL: To increase agricultural productivity, employment and incomes
PURPOSE: To increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information

Theme 1: Production and Marketing of Crops

PHASE ONE Tranche 1	PHASE ONE Tranche 2	PHASE ONE Tranche 3	PHASE TWO Tranche 4 **	PHASE TWO Tranche 5 **	PHASE TWO Tranche 6 **
<ul style="list-style-type: none"> - For 1991/92 crop year, MOA to: <ul style="list-style-type: none"> (1) Design, announce and implement interim burley registration criteria and procedures for customary landholders; (2) Complete initial registration process whereby customary landholders are assigned individual quotas which total 3.5 mil kg and which enable sale of production to any legal marketing entity; (3) Implement credit plan for 1991/92 burley growers; and (4) Implement fertilizer supply plan for 1991/92 burley growers - Adopt and announce second payment plan for 1990/91 smallholder burley growers which provides sufficient resources to repay loans assumed for burley production 	<ul style="list-style-type: none"> - For 1991/92 crop year, MOA to complete registration process by having issued official individual smallholder burley production quota certificates for 3.6 mil kg smallholder production - For registered smallholders, legalize and announce purchase of smallholder burley by estates within an estate's own quota - Complete design of public information program on timely collection and dissemination of commodity prices on ADD basis - Complete schedule for following studies and for development of associated action plans: <ul style="list-style-type: none"> — Alternative marketing channels for smallholder producers — Legislative/administrative barriers to smallholder crop production and marketing — Private sector maize marketing - Complete plan for environmental monitoring 	<ul style="list-style-type: none"> - For 1992/93 crop year, MOA to issue individual smallholder burley production quota certificates for 7 mil kg recognized by any legal marketing entity - By 9/1/92, design, announce and implement permanent burley registration criteria/procedures for customary landholders - For registered smallholders, legalize and announce marketing of smallholder burley both by estates in addition to estates' own quota, and by other acceptable marketing entities (based on alternative marketing channel study) - Permit smallholder purchase of burley seed from ATC, NSCM, ADMARC, and other legal entities - By 9/1/92, complete evaluation of 91/92 smallholder burley scheme including impact on beneficiaries - Implement program to publicize commodity price information - Complete action plan for <ul style="list-style-type: none"> — development of alternative marketing channels for cash crops — private sector maize marketing 	<ul style="list-style-type: none"> - For 1993/94 crop year, MOA to issue individual smallholder burley production quota certificates for 8.5 mil kg recognized by any legal marketing entity - Implement agreed upon changes from 91/92 burley evaluation and evaluate 92/93 experience - Complete action plan, based on study, on promoting private sector maize marketing - Earlier action plans and project activities implemented 	<ul style="list-style-type: none"> - For 1994/95 crop year, MOA issue individual smallholder burley production quota certificates for 9.2 mil kg recognized by any legal marketing entity - Implement agreed upon changes from 92/93 burley evaluation and evaluate 93/94 experience - Complete action plan, based on study, to remove legislative/administrative barriers to smallholder crop production and marketing - Earlier action plans and project activities implemented 	<ul style="list-style-type: none"> - For 1995/96 crop year, MOA issue individual smallholder burley production quota certificates for 10.7 mil kg recognized by any legal marketing entity - Implement agreed upon changes from 93/94 burley evaluation and evaluate 94/95 experience - Assess viability of secondary quota market and feasibility of quota system elimination - Earlier action plans and project activities implemented

Handwritten mark

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM: POLICY MATRIX

Theme 2: Efficiency of Input Delivery

PHASE ONE Tranche 1	PHASE ONE Tranche 2	PHASE ONE Tranche 3	PHASE TWO Tranche 4 **	PHASE TWO Tranche 5 **	PHASE TWO Tranche 6 **
	<ul style="list-style-type: none"> - Complete schedule for following studies and for development of associated action plans: <ul style="list-style-type: none"> --- Smallholder credit plan --- Private sector distribution of seeds and fertilizer --- Extension modules for small customary landholders 	<ul style="list-style-type: none"> - Complete action plans in following areas, based on completed studies: <ul style="list-style-type: none"> --- Smallholder credit plan --- Private sector distribution of seed and fertilizer - Complete design of study to examine land use & land tenure issues vis a vis estate registration backlog 	<ul style="list-style-type: none"> - Execute study & prepare action plan for land use & land tenure issues - Earlier action plans implemented 	<ul style="list-style-type: none"> - Complete action plan for development and implementation extension modules for small customary landholders - Earlier action plans implemented 	<ul style="list-style-type: none"> - Earlier action plans implemented

Theme 3: Equity in the Agriculture Sector

PHASE ONE Tranche 1	PHASE ONE Tranche 2	PHASE ONE Tranche 3	PHASE TWO Tranche 4 **	PHASE TWO Tranche 5 **	PHASE TWO Tranche 6 **
	<ul style="list-style-type: none"> - Require porting on estates of terms and conditions of tenancy and casual and permanent labor - Smallholder/estate interface study planned 	<ul style="list-style-type: none"> - Clarify adjudication procedures for estate-tenant disputes & estate labour disputes - Evaluate method of establishing prices paid to burley tobacco tenants, and if necessary approve revised pricing structure 			

Theme 4: Crop Diversification

PHASE ONE Tranche 1	PHASE ONE Tranche 2	PHASE ONE Tranche 3	PHASE TWO Tranche 4 **	PHASE TWO Tranche 5 **	PHASE TWO Tranche 6 **
	<ul style="list-style-type: none"> - Complete schedule for crop diversification study and development of action plan 		<ul style="list-style-type: none"> - Complete action plan to implement crop diversification study recommendations 	<ul style="list-style-type: none"> - Action plan implemented 	<ul style="list-style-type: none"> - Action plan implemented

** Phase two actions will be further defined based on studies and evaluations conducted during phase one

62

II. BACKGROUND

A. Macroeconomic Performance

Malawi's economy is severely handicapped by a unique combination of problems, notably poor resource base, high population density, and by being landlocked and far from any sea port. The country has an area of 94,200,000 square kilometers and a population of about 8.1 million, estimated to be growing at 3.22% annually. The country has no substantial mineral resources but is endowed with moderately fertile soils, ample water resources, and a climate favorable to production of many crops - consequently, agriculture dominates the economy. Agriculture contributes 35% to the Gross Domestic Product (GDP), accounts for 90% of export earnings and absorbs 80% of the labor force.

The country faces formidable impediments to economic growth including: (a) high population growth, resulting in a severe strain on natural resources, food supply and social services; (b) limited employment opportunities relative to its fast growing labor force; (c) under-developed human resources; (d) a narrow export base concentrated in three commodities (tobacco, tea and sugar); and (e) extremely high transport costs to the sea due to closure of transport routes through Mozambique.

Despite these problems, Malawi has had one of the best economic performance records in Africa. Since Independence in 1964, the economy has grown at nearly three times the pace of sub-Saharan Africa as a whole. However, macroeconomic growth has not been even and the 27 years since Independence can be divided into four major economic periods: economic growth (1964-1980); stabilization and structural adjustment (1981-1985); exogenous shocks and macroeconomic distortions (1986-1987); and renewed adjustment and growth (1988-1990).

Malawi's economic growth between 1964 and 1980 was impressive: GDP doubled, resulting in real per capita GDP growth of 3 percent per year. Growth was fueled by export-oriented agriculture, with modest contributions from a nascent manufacturing sector based on agro-processing and simple import substitution. The policy environment was particularly supportive: capital and labor were priced to reflect the country's abundance of labor; trade and foreign exchange policies maintained a competitive exchange rate, low import duties, and relatively high import levels; domestic savings were generated and plowed into the estate sector, albeit on the back of the smallholder sector; and, tight money policies kept inflation low.

By the late 1970s, growth was derailed by a series of shocks, including: soaring oil prices; plummeting agricultural prices which reduced the value of Malawi's agricultural exports; gradual disruption of transportation through northern Mozambique; and drought. These difficulties exposed certain underlying weaknesses within the economic fabric of Malawi and opened the door for Government to become a more assertive actor in economic decision making than had previously been the case.

Structural weaknesses within the economy included: lack of export diversification; slow growth in the smallholder sector; and, the import dependence of industry, energy and transportation. The increasing role played

by Government was revealed in growing trade and macroeconomic distortions including: exchange rate overvaluation and import distortions arising from a tightly administered foreign exchange allocation system; growth of an inefficient parastatal sector; rising fiscal deficits; burgeoning current account deficits; and dramatic increases in external commercial borrowing for projects of dubious economic merit.

During the 1980's with the support of the donor community, led by the World Bank and the International Monetary Fund (IMF), Malawi entered into a stabilization and structural adjustment effort of significant proportions. As a result of reforms undertaken within the context of the IMF's Stand-bys, Extended Fund and Enhanced Structural Adjustment Facilities, and the World Bank's Structural Adjustment Loans and Sectoral Adjustment Credits, the Government managed to reduce expenditures and the fiscal deficit ratio, improve the current account balance, contain domestic aggregate demand, realign the exchange rate, and allow GDP to grow again.

Just as these gains were becoming established, new shocks struck, led by the closure of Mozambique ports, renewed drought, and further deterioration in the terms of trade. Government's response to these shocks was to maintain spending through domestic borrowings and to again allow mild appreciation of the Malawi kwacha. Continued stabilization and structural adjustment efforts redressed these concerns and began to reach into the structure of various sub-sectors of the economy. With external assistance, Government redoubled its efforts to restore domestic and external balances and reduced the fiscal deficit. Streamlining parastatal activities and increasing their operational efficiency reduced both subventions by central government as well as parastatal borrowings within the economy. Government was able, therefore, to sharply reverse its domestic borrowings, thereby reducing monetary demand pressures and increasing the availability of credit to the private sector. At the same time, reforms within the industrial sector had virtually dismantled the system of foreign exchange allocation controls and streamlined import and export procedures.

As a result of these reforms, coupled with substantial donor flows, the economy has responded remarkably. Just as the Government has out-performed targets set for it on such items as fiscal deficit to GDP ratio, so too has the economy grown faster than expected. Real GDP grew by 3.7% in 1988, followed by 4.6% in 1989, 4.8% for 1990 and an estimated 4.4% in 1991. USAID monitoring of the industrial sector shows that small-and-medium-scale employment has increased substantially while real wages have been maintained. Industrial production continues to expand and the unit value index for domestic export production shows a marked improvement which suggests either agro-processing of exports has increased or that diversification into higher valued export crops has occurred.

Thus the reforms which Government has undertaken have been significant and, although interrupted by difficult events, sustained over a lengthy period of time. Macroeconomic indicators have responded encouragingly to these reforms, and real per capita GDP gains are beginning to become noticeable.

B. Social Indicators of Development

Despite the laudable effort, commitment and success with respect to macroeconomic reforms and growth, Malawi's indicators of human welfare have failed to show substantial improvements. Malawi is one of the poorest countries in the world with a per capita income of US\$160. About half the population lives below the level of absolute poverty, with an annual per capita income of less than US\$36. About 85% of the population living below absolute-poverty levels consists of smallholder farmers with less than one hectare of land (some 55% of all smallholders).

In the mid-1980s, fully 15% of infants died before reaching age one, and nearly one-third died by age five. High as these statistics are, they are rising as a result of increasing incidence of chloroquin-resistant Malaria and of pediatric AIDS. Thus, 1990 figures show that in one district, the Infant Mortality Rate (IMR) increased to approximately 178 and is expected to continue to rise.

Malaria and AIDS are only part of the story. Malnutrition, whether measured by physical stunting or weight for age statistics, is endemic. Recent national level statistics indicate that 35% of all children are malnourished less than 80% of the normal weight for age. The same survey shows that 56% of all children could be classified as physically stunted - two or more standard deviations below average height for age.

Literacy is another often quoted social indicator of development against which Malawi performs poorly. Using primary school enrollment as a proxy for literacy, only 43% of 5 to 13 year olds were enrolled in primary school in the 1988/89 school year. Although the number of students has increased by 34% between 1984/85 and 1988/89, the number of school-aged children grew even faster. The result is a falling proportion of the age cohort attending school. When disaggregated according to gender, the statistics show that girls are less likely than boys to begin school in the first place, and once in attendance, are far more likely than boys to drop-out before completing primary school. Important to note in this regard is that improved nutrition, as well as fertility reduction, is positively associated with female school attendance.

It is not surprising therefore to see that diminishing per capita food production is of growing concern in Malawi. Efforts to improve on-farm food security through on-farm production are undermined by diminishing average farm size. By the late 1980s, 55% of smallholders had less than the one hectare minimum required to meet the nutritional needs of a family, given current production practices. The food security situation declines dramatically for the 23% of farm families, predominately female headed, who hold less than 0.5 hectares. As a result of these factors, life expectancy in 1986 was only 46 years whereas the average for all low income and developing countries was 61 years.

The seriousness of this situation is reflected in the title and contents of the March 1990 World Bank Country Economic Memorandum entitled, "Malawi: Growth Through Poverty Reduction." This report, which was the focus of the 1990 Donor Consultative Group Meeting, seeks to refocus donor and Government of Malawi reform efforts on sectoral programs which can take into account

improvements in the quality of life in Malawi while adhering to macroeconomic adjustment and growth programs.

C. The Agricultural Sector

1. The Setting

Malawi has experienced significant growth in its agricultural sector, but this growth has been primarily estate, not smallholder, based. As a result, combined with the country's high population growth rate and lack of opportunities in the industrial sector, the smallholder rural sector has become increasingly crowded and less productive, with more than half the farms having less than one hectare - insufficient to grow adequate food for a family, with current technologies.

The value of Malawi's estate-based agricultural production has grown impressively since independence. Malawi's tobacco estates entered the international tobacco market aggressively and profitably when the international boycott on trade with Rhodesia was enacted, and over time have established their market share. The real value of Malawi's estate production grew by 9.6% p.a. during the 1970s; and even during the slow-growth '80s, the real value of estate production grew by over 5.2% p.a. The value of output has grown with all three estate-based crops (tea, sugar and tobacco), and, taken together, exports of these crops grew to the point where they constituted 85% of total exports by the late 1980s.

Estate-based agricultural growth coincided with strong GDP growth, particularly in the 60s and 70s, resulting in a diminished contribution of agriculture to GDP: an estimated 58% contribution at independence became just 34% by the close of the 80s. Thus, an image was established of an agricultural sector which, while in need of diversification, was nonetheless growing within a reasonably developing economy. The smallholder sector was often overlooked, however.

At the same time that estate production was performing so well, smallholder production was declining markedly in per capita terms. The decade between 1978 and 1988 saw the value of smallholder production grow by only 0.4% per annum, while population grew by an estimated 3.2% per annum, not including the rapid influx of refugees. In addition, lack of employment opportunities within the industrial sector, combined with declining real wages in industry during most of the 1980s, kept nearly 85% of the population in the rural sector.

As a result of growing population pressures and lack of opportunities elsewhere, Malawi's traditional agricultural sector has become increasingly crowded, and now is characterized by very small farms - 55% with less than one hectare; 20% with one to one and one-half hectares; and less than 20% with more than two hectares. Not surprisingly, therefore, at least 30% of the farming population engages in off-farm employment in order to survive. But it is a meager existence, and Malawi's poor social development indicators notwithstanding, the traditional sector produces over 80% of the nation's food using mainly unimproved maize varieties and the most rudimentary technologies (manual land preparation, hand weeding, little or no fertilizer nor pesticide, and rain-fed conditions).

Given the importance of the agricultural sector to the vast majority of Malawi's population, improvements in agricultural production, particularly in smallholder production, are central to any development strategy. Beginning with the World Bank's Agricultural Sector Adjustment Credit (ASAC) program in 1990, the Government of Malawi and the donor community began working together to improve the capacity of Malawi's agricultural sector to contribute to sustainable growth, food security and poverty reduction. ASAP, along with the World Bank's ASAC and other donor programs, has objectives that focus on sectoral adjustment to enhance smallholder opportunities.

2. Domestic Production

Approximately 1.3 million smallholder families cultivate customary land, producing about 85% of the Malawi's basic food supply of maize, groundnuts, pulses, cassava, sorghum, millet, and rice. Most food crops are grown for home consumption, and ADMARC, the state marketing board and principal purchaser of smallholder production, only purchases about 15% of smallholder's maize. On average, subsistence needs absorb nearly all the land and labor resources in the smallholder sector. But among certain sub-populations resources are insufficient to meet subsistence needs. For example, 55% smallholder families have plots less than one hectare, an area insufficient, at current productivity levels, to supply the family's basic nutritional needs. For the additional 20% of families living on one to one and one-half hectares, land resources are barely adequate to produce both subsistence requirements and an occasional small surplus. Consequently, only 20% of the rural population has access to adequate of land to produce a consistent surplus. Increasing population pressures, a fixed land base, limited rural purchasing power for fertilizer and HYV seeds, and continuous monocropping all have drastically reduced soil fertility levels. Thus, the majority of smallholder land and labor is devoted to maize production with disappointing returns. Many must resort to off-farm employment in order to survive. The majority of households deplete their own food supplies three to four months before the annual maize harvest and become net purchasers of staple food. Chronic malnutrition for half of all rural children, and seasonal under-nutrition for many low income adults, result from this situation, and help explain the low energy reserves available for critical field operations.

Maize production accounts for approximately 85% of the total food crop area and provides 75% of the nation's caloric requirements. Only 15% of production enters into domestic trade, but it is an amount which leads to misunderstandings about domestic foodcrop production. ADMARC tripled its maize purchases from smallholders in the first half of the 1980s, enabling Government to fill the newly established Strategic Grain Reserves nearly to capacity (180,000 tons) and to export more than 300,000 tons of maize between 1983-86. During roughly the same period, however, ADMARC's domestic sales of maize fell markedly despite sustained gross domestic production. Thus, while the population grew by over 16% during the period, total consumption declined by 8%. Moreover, national maize production does not meet national nutritional requirements: per capita production of maize is 20% below requirements. Therefore, although marketed surpluses give the appearance of national food security, it is an illusion. Most smallholders consume inadequate levels of the staple food, and demand for cash may force some food-deficit smallholders

to sell maize following harvest which they cannot afford to replace later in the season.

At present, only 30% of smallholders apply any fertilizer and the vast majority of this input is directed to low yielding maize varieties. Current HYV maize varieties are not widely planted by smallholders due to relatively poor village storage and processing characteristics. This situation should improve in 1991-92 with the release of 400 tons of seed for a hard endosperm HYV maize variety which is suited to village storage and processing needs.

Groundnuts rank second in importance to maize, are grown with almost no purchased inputs, and compete directly with maize for scarce land and labor. The crop is grown by over half a million farm families. The nearly 200,000 hectares of groundnuts are traditionally cultivated by women. Smallholder groundnut production has decreased from 88,000 tons in 1988 to 17,000 tons in 1990 due to short seed supplies and price disincentives. Supply has been extremely price responsive, with marketed volumes changing as relative prices (maize/groundnut) and market options (private traders vs ADMARC) shifted.

An estimated 100,000 smallholders, or less than 8% of the smallholder population, grow 25,000 tons of seed cotton annually on 40,000 hectares. It is especially important in the extreme southern areas which are too arid for respectable maize yields. High labor requirements make cotton production attractive, but low producer prices paid by ADMARC offset such advantages. Pest control accounts for 80% of cash production costs and low producer prices do not motivate farmers to take adequate preventative measures.

Only 1,000 tons of wheat, or 6% of domestic consumption, are produced in Malawi due to predominately high temperatures which result in poor stooling, early ripening and a reduced growth period. Sorghum and millet are traditionally grown in the drier areas of the Shire Valley and the southern lakeshore area, and are principally used in home brewing of traditional beer.

3. Export Production

Tobacco, tea and sugar are Malawi's primary export crops followed by arabica coffee, macadamia nuts, cashew nuts and guar beans. Tobacco is by far the most significant crop, accounting for over 30% of GDP and over 60% of total domestic export earnings. It is exported to manufacturers in 60 countries through four buyers, and is processed for the domestic market by British American Tobacco.

Malawi produces six types of tobacco: burley, flue-cured, Northern Division dark-fired, Southern Division dark-fired, oriental, and sun-air cured. Burley and flue-cured tobacco are the major foreign exchange earners, and, prior to the 1990/1991 crop, were produced exclusively on estates. Auction sales by estates of burley and flue-cured tobacco amounted to about 87% of total tobacco export earnings in 1990, with the balance coming from smallholder-produced fire-cured and sun-air cured tobacco. Production of estate flue remained relatively static during 1986-1989, whereas estate burley increased by an average of 26% per year during the same time period, and smallholder dark-fired and sun-air decreased by an average of 14% due to discouragingly low pass-through prices to farmers from ADMARC. When ADMARC prices for dark-fired increased by 35%, production more than tripled.

Tobacco estates, which until the 1990/91 crop were the only legal producers of flue-cured and burley tobacco, were started by the Malawian elite in the 1960s and the 1970s. However, the estate sector has dramatically altered in ownership composition and size during the 1980s, with a tremendous increase in the number of estates and a corresponding fall in the average size of estates and average quota. In 1980, there were 814 burley estates with an average quota of 20,000 kg each. By 1989, there were more than 9,000 burley estates with an average quota of 7,000 kg each. Today, approximately 15,500 estates produce 85 million kg of tobacco on 70,000 hectares, with 70% of these estates being less than 30 hectares and with 50% of the estates having average quotas of 5,000 kg. Burley is generally grown under a tenancy system established in the 1920s. Typically, tenants live on estates, produce tobacco on estate-owned land using estate-furnished production inputs advanced on credit, are supplied with monthly maize rations, and sell tobacco to the estates at government administered prices.

Prior to 1990/91, smallholders were allowed to grow only four types of tobacco on customary land: Northern Division dark-fired, Southern Division dark-fired (more lightly fired), sun-air cured, and oriental. In 1990, 73,000 smallholder growers (6% of smallholder families) produced 15 million kg of tobacco on 30,000 hectares. Smallholders must market their entire production through the parastatal marketing corporation, ADMARC, which historically has passed through only one fifth of auction floor prices to smallholder growers. For 1990/91, under the World Bank-sponsored ASAC program, about 6,000 smallholders were registered to plant burley. Actual production statistics are not available, but it is estimated that approximately one million kg. of burley was produced in 1991 by smallholders.

Unattractive returns on investment, due to a large extent to low prices paid by ADMARC, have prompted a decline in the production of smallholder dark-fired and sun-air cured tobacco. However, a recently announced two-tier pricing structure for ADMARC-purchased tobacco is intended to improve returns to smallholders and thereby to increase production. Production of dark-fired tobacco fell from 15,000 tons in 1985 to less than 5,000 tons in 1989, and of sun-air cured from 1,600 tons in 1985 to a mere 372 tons in 1989. Finally, Malawi's production of smallholder oriental tobacco declined from a high of 600 tons in 1982 to 100 tons in 1988. An increase in ADMARC's pass-through tobacco prices to smallholders in 1991 from 20% to 45% and above elicited an enormous producer response: an estimated 24 million kg of dark-fired tobacco, the largest ever in Malawi's history.

Tea is produced mainly on estates owned largely by British firms. In addition, an estimated 3,700 smallholders grow approximately 2% of the tea on 11% of the tea area. Smallholders grow tea under the supervision of the Smallholder Tea Authority, a parastatal. The potential for expanded tea production is almost entirely dependent on yield increases, since little additional land suitable for growing tea exists: the higher and more evenly distributed rainfall and high altitude conditions found in the Southern region are not duplicated elsewhere in Malawi. Total exports of 42,000 tons in 1990 generated \$47 million in export revenue or 13% of total domestic exports.

The sugar industry is comparatively new, growing in significance since the early 1970s. Prior to 1979, Malawi was a net importer of sugar, but now approximately 75% of the current production of 200,000 tons is sold on the domestic market as refined sugar and the balance is exported as raw sugar. Malawi has a 20,000 ton quota for exports to the EEC and a 10,000 ton quota for the USA. In 1990, 60,000 tons of sugar were exported at a total value of \$30 million. Most of the cane is estate-grown. One company, Dwangwa, has a small outgrower scheme including 200 smallholder growers.

Arabica coffee is a minor crop with a few hundred smallholders growing 7% of the coffee on 520 hectares in the northern area under the Smallholder Coffee Authority, and 12 estates producing 200 tons of coffee from 900 hectares in the southern highlands. Malawi will never be a major producer of coffee due to limited suitable land area with the required rainfall and temperature conditions. Coffee ranks fourth as a foreign exchange earner with 1990 receipts totaling \$12 million.

Malawi's annual production of macadamia nuts, 17 tons, has recently ranked the nation as the world's third largest producer of these valuable nuts, behind Hawaii and Australia. Until recently, it has been legally defined as an estate crop. However, the long establishment period of 5 years to first crop, and 15 years to full maturity, combined with climatic requirements and processing difficulties to effectively constrain smallholder production.

Cashews are grown commercially by smallholders along the central and southern lakeshore area. Until recently Malawi's small crop of 70 tons was exported to India for further processing. Several characteristics lend themselves to smallholder production: cashew trees are drought tolerant, have minimal labor requirements, low establishment costs, high economic value, and can be grown in poor soils and rocky areas with low rainfall. Cashews exhibit a high efficiency of resource use and offer a promising role in crop diversification for Malawi.

Guar bean is produced by 25,000 smallholders on 7,500 hectares in semi-arid areas in the Lower Shire Valley. This legume fits easily into crop rotation with cotton, sorghum, and millet and does not compete with other crops for labor use. Guar is used as a thickening, binding, and stabilizing agent in the oil, paper, mining and textile industries.

There was also a world demand for Malawian groundnuts, but production stagnated due to movements in seed supply, producer prices and relative price shifts between maize and groundnuts. At the same time, international demand for groundnut types has shifted from the traditional type of nut produced in Malawi -- the Chalimbana and the Chitembana varieties -- which was popular with the European confectionary trade due to good flavor, long shelf life and large size. New processing equipment does not cope well with the irregular nut shape of Chalimbana and Chitembana. Research is exploring new varieties to meet the new trade demands.

D. Constraints to Smallholder Agricultural Development

1. Introduction

Several major constraints exist which limit smallholder production: natural resources, including land, are scarce; the supply of production inputs (fertilizer, seed) is limited and unevenly distributed; credit is not readily available; technical assistance to smallholders is poor; production and marketing choices are few and often regulated; and, returns to labor are extremely low.

2. Natural Resource Constraints

The prospects for economic growth and poverty reduction among the largely subsistence smallholder sector is first and foremost limited by natural resource constraints. Indeed, the seeming scarcity of land and the unquestionable density of households in the smallholder sector are traditionally presented as the nexus of the poverty problem in Malawi. Data on the size of landholdings indicate that: 24% of all households cultivate less than 0.5 hectare of land; 34%, less than 0.7 hectare; 55%, less than one hectare; 75%, less than 1.5 hectares; and fully 86%, less than two hectares. It is important to note that current production practices -- unfertilized local maize varieties cultivated with hand tools -- will not produce enough food to meet minimum caloric requirements for a family living on one hectare of land.

Not surprisingly, longitudinal data show a worsening problem. The average holding fell from 1.54 hectares in the late 1960s to 1.16 by the early 1980s. Over the same time period, the 28% of all farmers with less than two hectares of land became more than 80% by the early 1980s. And the averages steadily decline as population pressures continue. It is not surprising, either, to learn that per capita availability of maize, the nation's principle food crop, has declined by over 20% between the late 1970s and late 1980s.

Other natural resources do not compensate for the scarcity of land. The unimodal distribution of rainfall, where virtually all rainfall is concentrated in the period between November and April, limits cultivation to a one crop cycle. Small-scale irrigation is limited to less than 2% of the cultivated land area. Constant farming of small plots does not allow the land a natural fallow period during which soil nutrient levels can be replenished. Deforestation rates are among the highest on the continent, leading to the further erosion of fragile soils. Finally, neither animal nor mechanical traction are common in this country where most land is tilled by the smallholder and a hand-held hoe.

3. Limited and Unequally Distributed Amounts of Inputs (Fertilizer, Seed), Credit, and Extension Services

The supply of credit, inputs and extension services are so intertwined that the introduction of reforms in any one area alone may risk disrupting other areas of the agricultural supply and distribution system. The paragraphs below discuss both each individual resource, as well as their interrelationships.

The availability of credit is critical to agricultural production, yet it is in extremely short supply and unequally distributed within the agricultural sector. Despite statistics which indicate that over half of all commercial bank credit in the country goes to the agricultural sector, much more is needed. The statistics on commercial bank credit are a record of funds which go principally to the commercialized estate sector, and to the larger estates in that category. Smaller estates and the vast majority of smallholder farmers lack access to the formal financial markets due to a lack of collateral and an absence of banking history.

The most significant supply of credit to smallholders comes from the Ministry of Agriculture's Smallholder Agricultural Credit Administration (SACA) program. Supported by both the IDA and IFAD, lending through SACA has increased rapidly in recent years from MK27 million in 1987 to MK68 million for the 1990/91 growing season. While SACA has enjoyed high repayment rates over its 20 years of operation, averaging between 79% and 93%, repayment rates have fallen most recently with increased lending and the expansion of the program. The interest rate charged for these seasonal smallholder loans is 13% which, when annualized, is a positive rate of interest.

Through MOA agricultural extension officers, SACA provides seasonal credit to farmers who have joined together in clubs whose members share repayment risks. Participation includes some 300,000 families in 10,000 clubs; approximately 94,000 member families are headed by females. Given the size of the smallholder sector, this implies that less than 25% of smallholder families receive credit. Again, demand for credit exceeds supply at current prices, so a non-price rationing mechanism exists.

Farmers' clubs have tended to have as members those who are the best credit risks -- and this often means the larger smallholders. Thus, of all smallholder households which receive SACA credit, 80% have more than one hectare of land, leaving the majority of the smallholder sector (55% of whom have less than one hectare) without access to credit. This particularly affects women because female-headed farms comprise 76% of all farms with less than one hectare of land. Given the linkages between credit and inputs (inputs to smallholders generally are available only with SACA credit and through ADMARC), this effectively denies a majority of the smallholder sector access to purchased inputs.

All fertilizer currently used in Malawi is imported. Given the closure of external trade routes, transportation costs for such a high bulk, low value commodity such as fertilizer have sky-rocketed. The result is one of highest nutrient price levels, combined with one of the lowest per capita income levels, in sub-Saharan Africa. Not surprisingly, few smallholder farmers use fertilizers.

The input delivery system for fertilizers has been bifurcated in an effort to service the segmented agricultural sector. Estates have had two supply channels open to them: Optichem, the parastatal charged with bulk fertilizer purchases for the estate sector, and direct import from external suppliers. Estate fertilizer is not subsidized, and, with the fall-back position of direct imports, is generally available at the right time and in the right nutrient mix for the larger estates. Estates account for approximately 40% of the national consumption of fertilizer.

33

Smallholder fertilizer is imported by the Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM) established in 1983. SFFRFM collects donor-financed fertilizer imports, augmenting these with commercial imports as required. The donor fertilizers do not dilute the overall price of fertilizer; rather subsidized values are retained by the type of fertilizer provided. As a result, fertilizers for the smallholder sector are subsidized according to a schedule ranging from 6% to 29%, depending on type. SFFRFM's role is limited to importation of fertilizers for smallholders; distribution is ADMARC's responsibility. Although improvements have been noted, deliveries of the right fertilizers to the right place at the right time remain problematic. Nonetheless, supplies of fertilizer to the smallholder sector account for 60% of the national consumption of fertilizer.

Not all smallholders can get fertilizers, however, and not all SFFRFM fertilizers reach the smallholder sector. While fertilizer imports have increased, by an average 13% per annum since 1985, some estimate that demand for fertilizers is nearly double the supply at current prices. Thus, non-price rationing of fertilizers exists for the smallholder sector. One resulting distortion is the linkage made between credit and fertilizer. SACA credit can be used only for purchase of inputs from ADMARC. This has engendered a system whereby the majority of fertilizers distributed through the ADMARC channel, e.g. all smallholder fertilizers, are made available primarily to those receiving credit through the extension service and not to those willing to pay cash. Another distortion which reduces the volumes of SFFRFM fertilizers reaching smallholders is the practice among some estates of procuring SFFRFM fertilizers for estate use.

Malawi's low levels of donor financed fertilizers (25% of total imports) and the inefficiencies caused by small lot procurements into a country facing the world's highest transport cost structure have worked to reduce the supply of affordable fertilizers when compared to neighboring countries. The cumulative impact of these events is a smallholder fertilizer distribution system which favors the larger farmers in the customary sector. A promising supplement to imported chemical fertilizers is the use of indigenous agroforestry techniques. Appropriate agroforestry techniques only recently have been identified, however, and now require specific extension efforts to promote their adoption.

The use of hybrid seed is similarly limited by the lack of available credit, but its adoption has also been limited due to lack of a maize seed which embodies characteristics vital to the mode of storage and processing common in Malawi. The varieties offered to date have been soft endosperm varieties that cannot withstand weevil attack and which suffer high losses under hand pounding conditions in villages. Recent development of a hard endosperm HYV should overcome these problems, but is expected to encounter distribution problems if current marketing arrangements are not modified. Hybrid seed currently enjoys a subsidy element to encourage its adoption. The subsidy is placed at the point of sale, rather than the point of production. The result is that 90% of the sales of the seed are channeled through ADMARC, where the sales subsidy element can be more easily administered. Adding to this proclivity to use ADMARC is the link between credit and ADMARC seen in the fertilizer sub-sector. Thus, smallholders have little choice but to rely on ADMARC. As a result, appropriate seeds may not be available as needed.

24

Extension services also are made disproportionately available to the larger smallholders given the inadequate supply of extension agents. Currently, only one extension agent exists for each 750 smallholder households, and only 15% of all extension agents are women. Given the low coverage, the smallest farm families are often overlooked. Currently, the World Bank estimates that only 14% of smallholders with less than 0.5 hectare, and 18% with 0.5 to 1.0 hectare, are serviced by an extension agent, while 40 to 50% of those farmers with more than two hectares receive advice. This highlights an additional problem: extension agents tend to service credit recipients on a priority basis because they have access to inputs and other resources necessary to implement extension advice, and because extension workers are promoted on their credit performance.

This difficult situation is made even worse by operating budgets which are inadequate to cover the recurring costs of the extension service and by the demands on extension agents' time to provide service to the SACA credit program. As a result, current extension modules are attuned to the needs of the larger farmer currently serviced, rather than to the smaller farm household.

In sum, the vast majority of Malawi's smallholders have experienced great difficulty in procuring inputs, credit, and extension services. This results in de facto discrimination against the smallholder, to the detriment of on farm food security and national agricultural production and productivity.

6. Limited Production and Marketing Choices

Smallholder production choices have been limited by a combination of legal, administrative, and pricing restrictions. On the legal front, the most conspicuous restriction was the ban on smallholder burley production until the 1990/1991 season. Flue-cured tobacco were similarly restricted. Although legal barriers seem to have been removed, strict administrative controls over the production and marketing functions remain embodied in the Tobacco and Agricultural General Purposes Acts. This legislation requires that producers of export crops and traders of all crops be registered with one of many public sector or parastatal bodies involved with crop production and marketing.

Combined with few marketing options, administered producer prices also have limited smallholder production choices. ADMARC has the legal monopsony for all smallholder tobacco, cotton, and groundnuts. ADMARC has traditionally paid low prices to smallholders, averaging some 20 to 30% of world market prices garnered by ADMARC for the crop. Smallholder parastatals -- for coffee, tea, and sugar -- have been similarly parsimonious in paying smallholders for their crops. Recent pressure from the World Bank has revised upward the average payment made by ADMARC for tobacco, with the ultimate objective of paying smallholders 85% or more of the world market price less marketing margins and overhead.

Given past performance with ADMARC and other parastatals, smallholders have indicated a desire to market their own crops and gain access to better prices, particularly by accessing the tobacco auction floors for their burley. Few formal, organized smallholder marketing groups exist, however, as well as few

informal associations. This results in part from a lack of technical assistance and finance in this area, and to a reluctance among some to organize with other unknown or unfamiliar farmers. Independent marketing of non-organized crops is surprisingly difficult in this small country, given the dearth of transport vehicles and services. When transport can be found, it is often prohibitively expensive for all but the most lucrative cash crops.

7. Low Returns to Labor

Low returns to labor in the agricultural sector, which in turn lead to low levels of investment by smallholders, are not wholly or even largely determined by market forces. The prices paid to tenant farmers, for example, are administratively set by the Government in conjunction with estate owning burley producers. The result is that prices seem to be set to protect inefficient estate producers, rather than adequately compensate tenants for the value of their labor.

Many (but not all) estates, particularly smaller ones, survive primarily because they have enjoyed privileged access to the production of burley -- Malawi's most valuable crop -- while simultaneously enjoying low labor costs in the form of administratively set tenant prices. These payments would be a major source of consumption and investment finance for the agricultural sector, but their administratively set low levels preclude much movement even as labor productivity or the value of the product increase. A system designed to protect all estates, even those inefficient ones, constrains the development of smallholder agriculture by reducing overall investments in the sector. Two important challenges to this controlled system are the dilution of the privileged access to tobacco production enjoyed by estates, and a tenant remuneration system which recognizes the value of output and labor productivity.

E. USAID Development Strategy in Malawi

In December 1989, AID/Washington approved USAID/Malawi's new Country Development Strategy Statement (CDSS) in AID/Washington. The goal of the program was expressed as enhancing the economic well-being of the average Malawian household. Associated sub-goals were to raise per capita income and improve food security, and to improve the health status and improve workforce productivity. Achieving the goal and sub-goals of the program rests on five strategic objectives:

- increase foodcrop production and productivity;
- increase off-farm employment;
- reduce fertility;
- decrease infant and child morbidity and mortality; and
- control the spread of AIDS.

ASAP is being designed as the principal program vehicle through which the Mission will address the first strategic objective. The link to increasing foodcrop production and productivity comes about through improving smallholder access to crop production opportunities, better prices, and inputs and markets. ASAP is also designed to help improve off-farm employment. With such a significant proportion of the labor force already working in the estate

sector, improving the terms and conditions of employment will be important. Furthermore, by improving smallholder opportunities in particular for cash crop production, off-farm employment opportunities are expected to increase. This program should complement the Mission's small and medium enterprise support activities, and the NGO/PVO support activity. Thus, the planned effect of these interventions is increasing employment under improving conditions, and greater agricultural productivity.

III. PROGRAM DESCRIPTION

A. Program Objectives and Strategy

1. Program Objectives

The goal of ASAP is to increase agricultural productivity, employment and incomes. Its purpose is to increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information. By the end of the program, smallholder farmers, i.e. those in the customary landholding sector, will be free to grow and market an unrestricted variety of food and cash crops in order to generate additional income to produce or acquire sufficient food and to improve their well-being. The long-term intended impact of this program, in combination with on-going and planned programs by the World Bank, the European Community, British ODA, and UNDP, is a liberalized agricultural economy in which there is equal access to the means of production and there are no barriers to market entry nor other practices that are biased for or against any category of farmer.

2. Strategy: Achievement of Objectives

Program objectives will be achieved through a combination of policy reform and project assistance, designed to increase smallholder production and marketing of crops, improve the efficiency of agricultural input delivery, promote equity in particular for estate laborers and tenants, and identify opportunities for and constraints to crop diversification. (See Sections III. B. and III. C. , Program Elements and Program Conditionality.) Phase one of the two phase program will provide \$30 million of assistance, \$20 million of which will be nonproject assistance split into three tranches, and \$10 million of which will be project assistance. Phase two, which is planned to begin during the second quarter of FY 93 and which technically will constitute an amendment to the program, is expected to involve an additional \$20 million of nonproject assistance and possibly additional project assistance. Both phases will support the continuation and expansion of structural changes in the agricultural sector through NPA support for regulatory and procedural reform along with project support for complementary activities.

Policy and regulatory reforms, described in detail in following sections, are in a variety of areas which have been identified as being critical to the achievement of ASAP's goal and purpose. A project component has been incorporated into ASAP to complement, strengthen and implement the policy reform package, and includes: the establishment of a policy research unit at Bunda Agricultural College; the support of agroforestry extension and food security monitoring, both of which help address the issue of incorporating the smallest customary landholder into the program; the establishment of an environmental impact monitoring system to monitor the environmental effects of increased agricultural production and structural change; and a variety of studies which investigate particular constraints and how these may be

alleviated. Support also has been included for the implementation of activities, resulting from study recommendations, intended to alleviate identified constraints particularly to smallholder production and marketing of cash crops. The following paragraphs of this section describe in summary form major aspects of the overall strategy guiding the program. The subsequent two sections describe in more detail individual program elements and conditionality.

A major initial step the GOM will take under ASAP will be to expand cash crop production opportunities for smallholders by issuing individual burley production quotas to customary landholders. Burley production is the premier cash crop opportunity for agricultural producers, and offers substantial income-earning potential for smallholders. Under ASAP, an increasing amount of production each year will be allocated to quotas for smallholders. While the issuing of individual quotas is a necessary condition to the full incorporation of smallholders into the burley production process, it is not sufficient to guarantee that smallholder production, and the resulting income generation, will occur. The elimination of procedural constraints must be matched by provision of services and goods required by the production process. For the 1991/92 burley production year, the GOM is committed to seeing that production requirements will be met, i.e. in terms of credit, extension, fertilizer and seed. In addition, under the program's project component, farmer organizations for production and/or marketing, as well as other alternative marketing mechanisms, will be identified which are appropriate for the production and marketing of smallholder burley.

Concerning future year burley production, and more generally concerning other crops which also can provide employment and income opportunities for smallholders, ASAP will fund studies of input requirements and distribution systems, as well as alternative marketing channels, necessary reforms of regulatory procedures, and other topics, so that smallholders, especially those with landholdings under 1.5 ha, can benefit from a more liberal agricultural production and marketing environment. These studies are designed to help the GOM meet the challenge of undertaking technical, administrative and policy reforms as quickly as possible, but also with as much information as possible. Both phases of the program will include funds for implementing study action plans which the GOM believes to be instrumental to achieving program objectives.

Many of the studies referred to above will be conducted through an agricultural policy research unit to be established under ASAP at the University of Malawi Bunda College of Agriculture. The lack of an independent agricultural policy analysis capability in Malawi is a major weakness of policy development. ASAP intends to assist with overcoming this weakness by helping to establish a policy research unit at Bunda College through a cooperative agreement with a U.S. university or consortium. This unit would be responsible for conducting specific studies under the program, and would be a resource for others to use, including the GOM, other donors, and private firms.

To successfully influence producer behavior requires not only appropriate policies and services, but also adequate information. Some planned studies will improve the flow of information to smallholders. In addition, the

program will support the GOM in creating a price information system which will communicate market prices of commodities to farmers on a regular and timely basis, and thereby improve their decision-making environment. It also will support improved access to labor market information by estate tenants and laborers so that they can decide for whom to work based on more complete knowledge of contract terms and conditions, and thereby maximize their income potential or general well-being.

Increasing smallholder production and productivity cannot be a capital-intensive operation if it is to succeed. One way to reduce capital requirements is to reduce expenditures on fertilizer. Some expenditure on fertilizer generally will be required, and the program will attempt to liberalize and expand fertilizer distribution. However, to reduce expenditures by smallholders on fertilizer and to increase soil fertility levels on holdings where farmers cannot afford fertilizer, a project activity will extend agroforestry techniques which are designed to reduce reliance on chemical fertilizer. These techniques have been developed during years of research in Malawi under another A.I.D. project, and indications are that yields of various crops can be significantly improved through their use.

Finally, the environmental impact of agricultural policy reforms are particularly important in a country like Malawi which has high rates of deforestation and soil erosion. The program, along with other donor assistance, will support the GOM's efforts to monitor environmental change and to develop sound environmental policies. Project assistance will assist with the strengthening of an environmental monitoring unit within the Office of the President and Cabinet (OPC), which will liaise with other GOM ministries to collect and analyse data necessary for policy development and regulatory action.

B. Program Elements

Program elements include program themes, which concern primarily policy reform areas, and project activities, which support reforms but which may cut across individual themes. Project activities and their places in the overall program strategy are discussed in the above section, and also are described in Section III. D. and in an annex. Below, the program themes are explained, and mention is made where project activities have a particular relevance. Studies which are not identified as Bunda research unit studies will be contracted separately. Some studies must be conducted before the unit is established. However, it is expected that even these studies are likely to include the participation of Bunda staff.

1. Theme 1: Production and Marketing of Crops

The objective of theme no. 1 of the program is the revision of policies and regulations, and the establishment of necessary mechanisms, to permit smallholders to grow any cash crop and to market those crops through a variety of marketing channels. A brief description of elements under this theme follows.

a. Smallholder Production and Marketing of Burley Tobacco

Burley tobacco is currently the most profitable cash crop available to smallholders. As a condition to the 1990 and 1991 disbursements under the World Bank's ASAC program, the GOM committed itself to allocating an increasing amount of burley tobacco produced by smallholders who are customary landholders. As agreed under the ASAP program, the GOM will provide smallholder farmers with individual production quotas which, in the aggregate, will total 3.5 million kg for 1991, 7 million kg for 1992, 8.5 million kg for 1993, 9.2 million kg for 1994, and 10.7 million kg for 1995.

In recommitting to these targets, the GOM also has agreed to revise the registration system that was put into place prior to the first disbursement by the World Bank. The original hastily designed procedure involved ADMARC holding the production quota for all smallholders who had registered for the scheme, rather than each smallholder being issued with his/her own officially recognized quota. This procedure restricted the access of smallholders to the auction floor (and international market prices), and necessitated the sale of smallholder production to ADMARC, which to date has paid smallholders about 25% of the auction floor price. (A second payment has been announced, but its amount, dependent in part on ADMARC's marketing overhead costs, is not yet known.) Under ASAP, the GOM will design and implement a burley smallholder registration system according to which each producer will be issued his/her own production quota which will enable him/her to market through any legal marketing entity.

Under ASAP, the GOM also is committing itself to efforts to incorporate into the smallholder burley scheme an increasing percentage of women and customary landholders with holdings less than 1.5 ha. About 75% of smallholdings nationwide are under 1.5 ha, and yet services and opportunities for this overwhelming majority of farmers are limited. Greater access to cash cropping opportunities should significantly improve the welfare of these smallholders.

Finally, the interface between smallholder and estate production will be investigated through a study conducted by the Bunda research unit.

b. Creating Multiple Marketing Channels

Until now, the marketing of most cash crops by smallholder producers has been entirely through parastatal organizations such as ADMARC or smallholder authorities. As a first step to providing multiple marketing choices for smallholders, the GOM will remove the Tobacco Act's legal impediment to smallholders marketing their burley crop to estates, which can then market it on the auction floor. This will allow smallholder burley producers one additional marketing channel. The GOM also will conduct a study, with ASAP project assistance, to determine the most appropriate additional marketing channels, such as private traders and grower marketing associations. This study will identify the constraints (e.g. shortage of credit, presence of hidden subsidies to parastatal traders, legal and administrative restrictions, etc.) to successfully implementing alternative marketing systems, and will recommend actions to alleviate those constraints.

41

(For reasons of efficiency, amounts marketed directly on the auction floor must be not less than 2500 kg) The program includes funds to help establish growers associations, so that this activity can be implemented as quickly as possible once organizational requirements are known.

Another marketing issue which will be investigated is the liberalization of domestic crop marketing. For example, of the 15% of smallholder maize production which is sold, 95% of it is still sold to ADMARC, despite the fact that three years ago maize marketing was liberalized. An evaluation of constraints to further growth of private marketing channels will be conducted, and actions undertaken to remove those constraints in such a way as to not jeopardize Malawi's food security nor smallholder welfare. This study will be conducted by the program-supported agricultural policy research unit at Bunda College.

c. Legal and Administrative Impediments

In addition to the legal impediments noted above, there may be additional legal and administrative impediments to the production and marketing of both domestic and export crops by smallholders and private traders. Under ASAP and with project assistance, a review of legislation and administrative regulations will identify impediments which now exist, and recommend corrective actions.

d. Adequate Market Information

Essential to a farmer's decision about production and marketing is information about market opportunities and prices. Under ASAP, the GOM and USAID will develop a system for the dissemination of market price information on an ADD basis for a mutually agreed-to list of agricultural commodities. This plan will include a mechanism whereby the information will be collected and publicly disseminated in a timely fashion. It is intended that this will be done on a weekly basis, however the schedule will be determined during the design of the plan, and will depend on available resources and the system's requirements.

2. Theme 2: Efficiency of Input Delivery

Increasing agricultural production and productivity in Malawi, given decreasing land fertility and per capita land availability, will require increased utilization of fertilizer and high yielding varieties of seed. Income generated from the sale of cash crops will facilitate the purchase of these inputs. However, their increased use is linked to many other factors, including: the availability of seed and fertilizer at both the national and local level; the price structure for these inputs; knowledge of how to effectively use the inputs; the availability of storage and transport; and the availability of credit.

The objective of activities under Theme 2 is to increase access to and utilization of agricultural inputs by removing constraints to private sector participation in their supply and distribution, and by improving or developing modalities of technical information dissemination.

42

A number of studies have been done, especially concerning fertilizer, but there has not been sufficient analysis of various interrelationships to help determine the sequencing and magnitude of required reforms. At the moment, the supply of extension services, credit, seeds and fertilizer are so intertwined that the introduction of reforms in any one area alone may risk disrupting other areas of the agricultural supply and distribution system.

Under this element of the program, there will be four targeted studies that, utilizing the results of other already completed studies and drawing on relevant experience, will lead to recommendations regarding each of following:

a. Credit

The availability of credit in a timely and efficient manner is a problem particularly for women and for smaller landholders, i.e. those with holdings less than 1.5 ha. This study will identify specific constraints to the provision of credit to these groups, and recommend ways in which these constraints can be overcome. Emphasis will be placed on a more liberalized system of input delivery, e.g. one in which farmers can use credit to purchase inputs from any legal private trader as well as from parastatals.

b. Seed and Fertilizer Distribution

Broader and more timely distribution of seed and fertilizer is essential to promoting increased agricultural activity. This study will identify the means whereby distribution can be more widely organized through private sector channels. Issues will include eliminating subsidies which parastatals alone use to provide inputs at lower cost, assuring that the private sector has access to adequate supplies to meet demand, and assuring that private sector traders have access to credit, storage and transportation.

c. Availability of Extension Services

Historically extension services have not been readily available to small customary landholders, nor to women. This study, to be conducted by the Bunda policy research unit, will identify impediments to providing services to those farmers, and will recommend ways in which production modules can be developed and delivered concerning burley tobacco, HYV maize, and chemical and organic fertilizer use.

d. Land Tenure and Cash Crop Production

The intent of ASAP is to assist in particular customary landholders with less than 1.5 ha to increase crop production and productivity. Clarification is required concerning the relationship in Malawi of land tenure to land use, in particular with respect to commercial crop production. One specific issue which will be included in this study, also to be conducted by the Bunda unit, is that of leasehold registration for the purpose of establishing an estate. Some action must be taken about a large registration backlog, but broader land tenure issues must be better understood before decisions are made. Recommendations resulting from this study will lead to proposed action concerning this and other land tenure and land use issues.



Prior to the conclusion of phase one of the program, the first two studies discussed above will be completed, and recommendations incorporated into action plans for policy, technical and financial reforms for implementation as quickly as possible. The latter two studies are planned for completion during phase two.

3. Theme 3: Equity in the Agricultural Sector

The objective of activities under Theme 3 is to promote improved conditions for tenants and agricultural laborers, both for their own welfare and to encourage improvements to their productivity. The program will undertake the following two activities.

a. Posting of Terms and Conditions

Under ASAP, the GOM will require that estates publicly post the terms and conditions of tenancy and the terms and conditions of casual and permanent labor. The Factories Act and other laws already specify minimum working conditions, and this program does not seek to further regulate conditions of employment, but rather only to make them publicly known. This will permit both tenants and laborers to determine whether it is in their economic interest to work for a particular estate.

b. Tenant Burley Price

The method of establishing prices paid to tenants for burley tobacco will be evaluated, and, if appropriate, recommendations made to revise the method now used. It is important that the price structure fairly compensates both the landowner and the producer, that it is set in such a way that a stable production system is established, and that it encourages favorable husbandry techniques.

4. Theme 4: Crop Diversification

The GOM is interested in diversifying its export crop base. In addition, while there is evidence that neighboring countries are using Malawi's primary products as inputs to other manufacturing processes, there has been little research with regard to understanding the possibilities and resource requirements for value-added agribusiness enterprises or non-traditional export opportunities within Malawi's own agricultural sector. Using a combination of Malawian and U.S. technical expertise, the objective of Theme 4 is to identify appropriate diversification paths for Malawi and potentially to identify U.S. joint venture partners. This will be accomplished by: identifying diversification opportunities; identifying legal, administrative or policy constraints to profitable diversification; identifying technical constraints to successful diversification; recommending actions to implement a diversification program; and identifying and assisting in initiation of specific projects. The Bunda policy research unit will conduct the necessary research and develop recommendations and an action plan.

C. Program Conditionality

ASAP is organized conceptually by themes, and sequentially by phases and tranches. The four program themes are described in the above section. Phase one of the program includes three tranches, and is expected to be completed by January, 1993. (See Implementation Plan, Section IV. A.) The release of funds under each tranche is dependent on the GOM meeting specific conditions as detailed below. Funding only for phase one is being obligated at this time. Phase two will include three tranches as well, each anticipated to be disbursed annually in January, from 1994 to 1996. Phase two will be obligated subject to the availability of A.I.D. funds for this purpose, and subject to the mutual agreement of the GOM and A.I.D. to proceed at the conclusion of phase one. ASAP also includes a project component, which is designed to strengthen the reform package and to implement individual reform actions, and there are separate conditions precedent for project activities. Conditions for both the program and project components are described below.

Some conditions stated below will require legislative changes. It is only for the third tranche release that legislative action is required, and the Mission believes that the required changes will be made. This is based on the text of the GOM's letter of intent, which indicates the GOM's overall agreement with ASAP, and on the fact that other changes have already been enacted in the same area. While the GOM cannot guarantee that the Parliament will pass specific legislation, it has indicated its acceptance of the principle behind the changes, and this suggests that parliamentary approval should be granted.

1. Program Conditions, Phase One

a. First Tranche

(1) The GOM has designed, implemented and announced an interim customary landholder burley registration system, acceptable to A.I.D., which will be managed and staffed by MOA personnel and which will result in participating customary landholders being issued with quotas in their own names. For the 1991-92 season only, or until otherwise mutually agreed between the GOM and A.I.D., this interim registration system may include the use of ADMARC facilities as registration points. While it is understood that issuance of final official individual quota documentation will take place early in 1992, the GOM will demonstrate, prior to this tranche one disbursement, that these landholders have been accepted as quota applicants and that, as a consequence, they have access to inputs as stated in conditions (3) and (5) below. In accordance with the covenant stated below, the GOM will take steps to encourage the registration both of customary landholders with holdings smaller than 1.5 ha and of women as quota holders.

(2) Not less than 3.5 million kg of burley tobacco production quotas have been allocated to customary landholders as registered quota holders in their own names. Given procedural requirements, it is agreed that official certificates of individual quota amounts will be issued no later than February, 1992.

15

(3) The GOM has adopted a credit plan, acceptable to A.I.D., that provides full details concerning the provision of necessary credit to customary-land burley tobacco quota holders for the purchase of all necessary inputs for 1991-92 season.

(4) The GOM has adopted a plan, acceptable to A.I.D., that provides full details concerning the second payment to customary-land burley tobacco growers who produced burley under the World Bank-sponsored pilot smallholder scheme during the 1990-91 season. This plan will provide sufficient resources to participating growers to repay loans assumed for burley tobacco production inputs for use during the 1990-91 season.

(5) The GOM has adopted a plan, acceptable to A.I.D., that provides full details concerning the timely supply of fertilizer and seed sufficient to meet the requirements of the customary-land burley tobacco producers registered with the MOA in accordance with the condition stated above. This will include locations of ADMARC fertilizer and seed outlets closest to burley growers as well as amounts of burley fertilizer in each specified outlet as distinct from maize fertilizer requirements for the same client area.

b. Second Tranche

(1) The GOM has issued official individual production quota certificates, which are recognized by any legal marketing entity, to customary landholders in a total amount of not less than 3.5 million kg of burley tobacco.

(2) The GOM has legalized and publicly announced, in a manner acceptable to A.I.D., that customary landholder burley can be legally purchased by quota-holding burley estates, within the existing limits of those estates' own quotas. Public announcements will be in both English and Chichewa and will be by newspaper, radio, and other appropriate means.

(3) The GOM has adopted a detailed plan acceptable to A.I.D. for the dissemination of market price information in each Agricultural Development Division, for a mutually agreed-to list of agricultural commodities. This plan will include the mechanisms whereby the information will be collected and publicly disseminated in a timely fashion. It is intended that information will be collected and disseminated on a weekly basis, however it is agreed that the frequency of collection and dissemination will be determined during the design of the plan. Project support will be provided to prepare this plan.

(4) The GOM is requiring that terms and conditions of tenancy and of casual permanent labor be posted on all estates. Where production and/or marketing licenses are required, a statement which certifies that the applicants are aware of this requirement will be included in the license application forms. Terms and conditions will include all minimum standards already required by the GOM under existing legislation, plus other terms and conditions offered by the estate owner or manager, including how inputs, rations and services are provided, valued and/or costed.

(5) The GOM has adopted a plan, acceptable to A.I.D., for monitoring the environmental impact of reforms implemented as part of ASAP. The plan will include regular annual reporting based on agreed-to indicators.

(6) The GOM and A.I.D. shall have jointly approved an implementation schedule for studies and for the development of action plans in the areas listed below. The implementation schedule will include the timing of the following: preparation of study scopes of work, execution of studies, and preparation of action plans.

(a) **Alternative Marketing Channels for Smallholder Producers**

This study will identify possible alternative marketing channels for smallholder producers, in particular for burley tobacco producers but also for producers of other crops. The study will identify options, research the advantages and disadvantages of individual options, provide details (including cost estimates, human resource requirements, and timing) of implementing each option, and make recommendations.

(b) **Credit Plan for Smallholders**

The availability of credit to purchase production inputs in a timely and efficient manner is a problem particularly for smallholders, i.e. those with holdings less than 1.5 ha. This study will identify specific constraints to the provision of credit to these smallholders, and recommend ways in which these constraints can be overcome. Emphasis will be placed on a more liberalized system of credit use, i.e. the design of a system whereby credit can be redeemed through any input supplier.

(c) **Private Sector Distribution of Seeds and Fertilizer**

This study will identify the constraints to increased private sector distribution of seeds and fertilizer. This will include an examination of adequate and timely national supplies of fertilizer and seed to meet demand.

(d) **Legislative and Administrative Barriers to Smallholder Crop Production and Marketing**

A variety of major and minor impediments to crop production and marketing remain in either legislative or administrative form. This study will identify those impediments and recommend corrective action.

(e) **Impediments to Private Sector Maize Marketing**

Although private sector traders can market maize, only a very small proportion of production is marketed through the private sector. This study will identify impediments to private sector maize marketing, and recommend an action plan whereby these impediments can be removed.

(f) Improved Extension Service to Small Customary Landholders

To date, extension services have not been readily available to small customary landholders. This study will identify impediments to providing services to those farmers, and will recommend, along with an action plan, ways in which production modules can be developed and delivered in areas such as burley tobacco, HYV maize, and chemical and organic fertilizer use.

(g) Crop Diversification Opportunities

This study will identify diversification opportunities as well as legal, administrative, policy and technical constraints to profitable diversification, and will recommend actions to implement a diversification program.

c. Third Tranche

(1) The GOM has designed, implemented and announced by September 1, 1992, a permanent customary landholder burley registration system, acceptable to A.I.D., which will be managed and staffed by MOA personnel and which will result in participating customary landholders being issued with quotas and quota certificates in their own names. In accordance with this system, quota holders will be entitled to sell their production to any legal marketing entity.

(2) Not less than 7.0 million kg of burley tobacco individual production quotas, which can be recognized by any legal marketing entity, have been allocated to individual customary landholders.

(3) The GOM has adopted a plan, acceptable to A.I.D., whereby, for the 1992-93 growing season, all customary landholding burley producers can purchase burley seed from ATC, NSCM, ADMARC and any other authorized burley seed outlet. It is intended that smallholders, in accordance with this plan, will be able to purchase seed from any of these three outlets, and from any other outlet which at the time is licensed or permitted to market seed.

(4) Based on the study described in item b(6)(a) above, on the topic of alternative marketing channels for smallholder farmers, the GOM shall have completed the following actions in a manner acceptable to A.I.D.:

(a) Designed and begun to implement a system whereby estates can purchase burley from quota-holding customary landholders in excess of the respective estates' individual quotas. This will allow estates to act as marketing agents for quota-holding smallholders, i.e. to purchase for sale on the auction floor burley which is in excess of the estate's own quota. The system will include record keeping by which smallholder burley marketed through estates will be identified separately from the estates' own burley, e.g. by using smallholder quota registration numbers upon delivery of the tobacco to the auction floor.

(b) Legalized, and publicly announced the legality of, the sale of burley by quota-holding producers to any marketing agent who complies with criteria as agreed between the GOM and A.I.D.

(5) The GOM shall have submitted to A.I.D. a joint report, conducted by Grantee, A.I.D., the World Bank and other donors as appropriate, on the evaluation of the 1991-92 smallholder burley scheme. Particular emphasis will be placed on identification of beneficiaries, identification of constraints to implementation, and quality of burley produced. The evaluation will be completed by September 1, 1992.

(6) The GOM shall have completed an evaluation of the method of establishing prices paid to tenants for burley tobacco. The evaluation report will include, if appropriate, recommendations concerning revisions to the price determination method. The GOM will implement the study recommendations, as mutually agreed by the GOM and A.I.D. It is expected that this study will be conducted as part of or in conjunction with the review of specific policy changes appropriate for tenancy arrangements, including pricing and contracts, required under the World Bank ECMAC Program.

(7) The GOM shall clarify and publicly announce, in a manner acceptable to A.I.D., the procedures which comprehensively explain the adjudication procedures for estate-tenant disputes and estate-labor disputes.

(8) The GOM shall have implemented a market price information system as approved in accordance with item b (3) above.

(9) The GOM shall have developed action plans, acceptable to A.I.D., in the following areas:

- Alternative marketing channels for smallholder cash crops;
- Credit plan for smallholders; and
- Private sector distribution of seeds and fertilizer.
- Private sector maize marketing

2. Program Conditions, Phase Two

Phase two conditions will have the same intent as those in phase one, i.e. to increase agricultural production and productivity, and in particular to do so for smallholders who have less than 1.5 ha. Under phase two, quota allocations of burley production to customary landholders will increase in the aggregate from 8.5 million kg to 10.7 million kg. Each year the smallholder burley production scheme will be evaluated, and recommendations developed to improve implementation of the scheme for the following year. Findings and recommendations of the various studies conducted during phase one of the program will form the basis for action plans which will be agreed-to and implemented during phase two. These will concern issues related to production and marketing of crops, efficiency of input delivery, equity, and crop diversification. Throughout phase two, progress toward getting services, inputs and increased opportunities to women and landholders with less than 1.5 ha will be monitored.

3. Program Covenants

As part of its agreement, the GOM will covenant to do the following:

a. Of burley tobacco quotas issued to customary landholders, the GOM will see that an increasing proportion is allocated to landholders with less than 1.5 ha, and an increasing proportion is allocated to women.

b. The GOM will conduct regular monitoring of the environmental impact of reforms implemented as part of ASAP, and report to A.I.D. its findings annually.

c. The GOM will conduct annual evaluations at the smallholder burley scheme, and report its findings to A.I.D. as well as other interested donors.

4. Project Conditionality

Two specific conditions precedent will be included as part of the Project Agreement:

a. Prior to disbursement of funds for the component of the Food Security Monitoring and Policy Development activity located in the MOA, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the GOM will submit a plan, acceptable in form and substance to A.I.D., which demonstrates that all GOM positions required for implementation of that activity will be filled within a two-year period including the source of funding for the costs involved, or as otherwise agreed between the GOM and A.I.D.

b. Prior to disbursement of funds for the component of the Food Security Monitoring and Policy Development activity located in the Department of Economic Planning and Development or to the issuance by A.I.D. of documentation to which such disbursement will be made, the GOM will submit a plan, acceptable in form and substance to A.I.D., which demonstrates that all GOM positions required for implementation of that activity will be filled within a two-year period including the source of funding for the costs involved, or as otherwise agreed between the GOM and A.I.D.

D. Project Component

The project activities described below are focussed on creating an agricultural policy analysis capacity within Malawi, monitoring the impacts of agricultural policy change, helping smallholders to benefit from new opportunities created under the program, and supporting the implementation of other program initiatives. These project activities are specifically designed to support the objectives of themes 1 through 4 above. Detailed project descriptions, along with their respective budgets, are included as an annex.

1. Agricultural Policy Research Unit

The development of an indigenous institutional capacity is necessary to undertake policy-relevant research, both in direct support of Government agencies such as the Ministry of Agriculture, the Ministry of Finance, and Office of the President and Cabinet, and in support of more general agricultural development goals. Under ASAP, an Agricultural Policy Research Unit will be established at Bunda College which will support the expansion of local capacity in policy-based agricultural research and encourage expanded ties among Government, the College, the private sector, and donors. In particular, studies conducted by the unit will involve, as appropriate, the Government's participation so that policy implications are agreed by all relevant parties.

Project Support will include financing the following: a cooperative agreement with a U.S. institution (or consortium) experienced in agricultural policy analysis; local research and dissemination costs of program related studies; unit management and support staff during a two-year start-up period; required commodities such as vehicles, computers, and other office equipment; and construction of an office block and two houses. The cooperative agreement will include provision for technical collaboration between the U.S. institution and Bunda College. Collaboration will take the form of: two long-term positions,

one in statistics/research methodology and the other in agricultural economics; short-term visits by U.S. academic staff and researchers to Bunda; and visits by Bunda academic staff to the collaborating institution and to other locations as appropriate. Training for Bunda staff also will be included. Using ASAP funds, this Unit will undertake a number of studies which have been identified as being critical to the implementation of the Program. The results of these studies, and recommended actions based on their findings, will form much of the foundation for phase two of ASAP. Funding also will be provided for the dissemination of study results and for workshops/seminars to be held to discuss issues raised by the studies.

2. Food Security Monitoring and Policy Development

The Food Security and Nutrition Unit of the Department of Economic Planning and Development (EP&D) plays a key role in defining and coordinating Malawi's policies and programs to improve national and household food security and nutrition. To continue to develop the unit's capacity and to assist it in accomplishing an ambitious program of analysis, surveillance and coordination, a four year plan of assistance will be financed under ASAP.

This unit also will provide USAID/Malawi with monitoring data to assess ASAP program impact. Through a cooperative agreement with a U.S. university, ASAP will provide a fulltime resident food security advisor, and short-term consultancy visits. In addition, ASAP will support food security surveys and workshops in collaboration with UNICEF, FAO and the Ministry of Agriculture, and will fund an assessment of the impact of the burley tobacco smallholder scheme on food security.

3. Environmental Impact Monitoring

Although the environmental impact of policy reforms is uncertain, it is known that generally Malawi's natural resource base has deteriorated as the result of past minimal emphasis on environmental controls in the areas of agriculture, soil conservation and forestry. Successful implementation of ASAP may impact on the quality of the natural resource base through increased crop production and more intensive and extensive use of land and greater fertilizer consumption. Under ASAP, A.I.D., in collaboration with other donors, will support the establishment and operation of an environmental monitoring unit within the GOM's Department of Research and Environmental Affairs (DREA), for the purposes of establishing environmental policies, conducting environmental research activities, and monitoring environmental impacts on natural resources. A.I.D.'s support will be coordinated with that of other donors in this activity, and will include primarily technical assistance, training and commodities.

4. Agroforestry Extension Activity

After five years of research work, agroforestry research activities under an earlier A.I.D. project, the Malawi Agricultural Research and Extension (MARE) Project, have laid a solid foundation for making a significant impact on agricultural sustainability and food security in Malawi, consistent with maintaining or improving the natural resource base. Utilizing agroforestry techniques provides smallholders with a relatively low cost technological supplement for increasing agricultural productivity. A 100% to 300% improvement over average smallholder maize yields is possible under alley cropping with leucaena on relatively infertile or depleted soils in the absence of inorganic fertilizers. Yields of sorghum, pearl millet and maize are commonly 50% to 250% higher under Acacia albida than adjacent areas away from the canopy. In addition to higher productivity, these trees also provide fuelwood, increased soil moisture holding capacity, erosion control, and, in the case of Acacia, fodder and building material. Under ASAP, extension activities will be undertaken to inform and encourage farmers, especially women, about agroforestry techniques. Village nurseries and seed orchards will be established to make the necessary inputs available to smallholders at minimal cost. Close linkages will be continued with research to solve unexpected problems and to explore new opportunities and ideas. Project support will include provision of a program implementor, funding of extension equipment and supplies, support for operations, and training. For this activity, USAID intends to negotiate a sole source contract with an institution which has unique qualifications in this area.

5. Special Studies, Action Plan Implementation and Project Management

During the course of program implementation, various studies will be required to support the program's themes and specific policy reforms. The Government of Malawi will take the lead at all stages of the studies, development of study scopes of works, selection of outside technical assistance, implementation, development of recommendations and an action plan and full execution of the action plan. USAID will support the effort but the GOM will fully be in charge of these studies, including local publication and distribution of the report.

Some of these studies will be included as part of the Bunda College activity establishing an agricultural policy research unit. Some will be conducted separately as part of conditionality definition and clarification, and some will be conducted as part of monitoring and evaluation. The major studies anticipated to be part of the program are described in an annex, in which there also is, and a timetable for their scheduling, a brief summary of the required skills, and budget estimates. In addition to those listed, annual evaluations and a midterm and final evaluation will be conducted. Topics of major studies which will be conducted include the following:

- Alternative Marketing Channels for Smallholder Producers
- Legislative and Administrative Barriers to Smallholder Crop Production and Marketing
- Impediments to Private Sector Maize Marketing
- Smallholder-Estate Interface Study
- Credit Plan for Smallholders
- Private Sector Distribution of Seed and Fertilizer
- Improved Extension Services to Small Customary Landholders
- Land Tenure, Land Use and Commercial Crop Production
- System Design for Timely Commodity Price Reports
- Analysis of Tobacco Prices Paid to Burley Tenants and Smallholders
- Crop Diversification Opportunities

Special studies undertaken over the course of the ASAP program will each conclude in a series of recommendations and an action plan. The intent of the special studies component is to highlight the mode and direction of interventions which are expected to follow the studies. At this point, at least two studies are expected to conclude early enough in the implementation of phase 1 of ASAP to warrant budgeting for the follow-on implementation activity. Under "Alternative Marketing Channels for Smallholder Producers" the Mission expects that the researchers will identify one or more pilot marketing organizational structures for smallholder cash crop production, in particular burley tobacco. As a result, an illustrative funding level for the development of such a pilot scheme is included in the budget. In addition, the study of price information collection and dissemination systems will result in the design of an information system. Assistance for developing this system also is included in the budget. Monitoring and evaluation studies are discussed in a separate section.

A personal services contractor project manager may be required to assist with project implementation within the mission. The need for such services will be assessed during the beginning months of project implementation.

5/5

E. Anticipated Program Impact

The ASAP program is designed so that the Government of Malawi restructures its agricultural policy to more evenly distribute the benefits of growth in the agricultural sector. The impact of the program will be monitored, in accordance with the monitoring and evaluation plan, to ensure that the benefits of the program are accruing to rural customary landholders. At the most aggregate level, ASAP is expected to result in rising rural incomes, improved on-farm food security, and reduced malnutrition. Secondly, the income provided by access to the country's most lucrative cash crops is expected to improve smallholder production, productivity, and overall well being. While each of these anticipated impacts are expected to fall broadly on the rural population, it is nonetheless the explicit intent of this program to have an impact on the vast majority of the rural sector, who currently cultivate less than 1.5 hectares of land. Each of these indicators will be assessed during the Program's annual evaluations. It is, however, at the Program goal and purpose levels that people level impact indicators will be most carefully tracked.

1. People Level Impact Indicators:

There are a number of indicators where people level impact is expected over the life of this program, and further, over the period to the year 2000 and beyond.

a. current estimates show that daily per capita caloric requirements are 2200 calories, while per capita domestic production is estimated at only 1750 (some 20% below requirement). Improving incomes and agricultural productivity should result in improved food security such that approximately 1950 calories are available, per capita, daily, by 1995, and 2200, daily, by 2000. The requirement will be met through domestic production and imports, as required.

b. current estimates show that tenant wages have been stagnant or falling over the last decade. Improved on-farm opportunities for smallholders should combine with improved information on tenancy terms and a higher pass-through on tenant prices to result in average real per capita tenant wage growth of 2% per year. Thus, after five years, tenant wages are expected to increase by 10% in real terms.

c. estimates also show that real, per capita smallholder production has been virtually stagnant for the last decade. Complete choice regarding crop production and marketing, complemented by the supply of inputs through all available marketing channels, should result in real smallholder per capita production gains of 3% per year. Thus, after five years, the value of per capita smallholder production is expected to increase by 15% in real terms.

2. Systems Level Impact Indicators:

Major improvements in input supply systems, and access to output markets are also expected to result from this program. Indicators of these impacts include:

SH

a. By 1995, two new extension aids modules for farmers cultivating less than 1.5 ha should be in use; by 2000, 50% of extension aids modules should be designed for the smallholder cultivating less than 1.5 ha; these modules should include at least two smallholder cash crop packages;

b. By 1995, smallholders with less than 1.5 ha should be receiving 15% of all smallholder credit, and by 2000, 25% of all such credit; overall credit flows to the smallholder sector should be increasing; and by 1995, the exclusive link between smallholder credit and supply of inputs by ADMARC will be severed.

c. By 1995, smallholders with less than 1.5 ha should be receiving 15% of all smallholder fertilizer; by 2000, 25% of all such fertilizer; overall flows of fertilizer to the smallholder sector should be increasing; and the percentage of fertilizer and seed provided to smallholders by the private/NGO sector will increase from virtually 0% in 1991 to 10% by 1995 and 25% by 2000.

d. By 1995, five smallholder-owned cash crop marketing units will be operating; by 2000, 50 such units will be operating; in addition, the proportion of smallholder cash crops marketed by the private sector will increase from virtually 0% in 1991 to 10% in 1992 to 25% by 2000, computed on the basis of value.

3. Losers: There will be a loss of potential future income earnings to the current estate sector. While the liberalization scheme as currently constructed does not challenge the current earnings of the estate sector, it does redirect future growth from the estate sector to the smallholder sector. It is expected that this will reduce demand to enter the estate sector. Existing estates which had anticipated future income growth, particularly with increases in world demand for burley tobacco, will lose access to a portion of those future income streams.

F. Relationship to Other Donor Programs

1. The World Bank

By far the largest and most important donor in Malawi's agricultural sector is the World Bank. Led by the \$70 million Agricultural Sector Adjustment Credit (ASAC), the Bank's portfolio also includes the following: Agricultural Marketing and Estate Development Program (\$28 million); Agricultural Research Program (\$24 million); Agricultural Extension and Planning (\$11 million); the Smallholder Credit Program (\$6 million); and the Agricultural Services Project, currently under design. It is expected that the Agricultural Services Project will build on achievements accomplished under the Agricultural Extension and Planning Project, and will include a credit component. In addition to the above agriculture-specific programs, the World Bank currently is negotiating the Entrepreneurship and Capital Market Adjustment Credit (ECMAC), which will include as a condition the identification and review of specific policy changes appropriate for tenancy arrangements, including pricing and contracts.

Of the above, ASAP is designed primarily as a complement to ASAC. Implementation of ASAC began in March, 1990. Two comprehensive sets of conditionality were negotiated. Following are those issues critical to ASAC's policy agenda which relate most closely to the reform agenda proposed for ASAP:

-- Allowing customary landholders access to the cultivation of high value cash crops such as burley tobacco. Amending the regulations to permit such burley production was a condition for first tranche release, and licensing of at least 5,000 smallholders was one of several conditions for second tranche release. (For the 1990/91 growing season, the GOM licensed approximately 6,000 smallholder burley growers.)

-- Increasing the price of smallholder tobacco. By second tranche release, ADMARC is to have enacted a two-payment price system for all smallholder tobacco, with a pre-planting price of not less than 45% of the rolling, three-year average of auction floor prices for tobacco. This was met for most tobacco varieties, but the first payment for burley was only 27% of the rolling three-year average auction price. A second, end-of-season payment will be made to reflect actual auction prices. The Bank is currently reviewing compliance with this condition.

-- Halting the transfer of land from the customary to estate sector. The GOM has amended the Lands Act to halt the transfer of land to the estate sector, except in low density areas and in the cases involving conversion of established customary rights to formal rights.

2. Other Donors

Co-financiers of ASAC include the British, Japanese, and Dutch. In addition, the European Community (EC) is a major donor to the agricultural sector, providing assistance to the Agricultural Development Divisions (ADDs) of the MOA, support to smallholder coffee and tobacco activities, and a significant amount of fertilizer -- along with the Canadians, British, and Japanese. Continued EC support for fertilizer imports is contingent on improved pricing and procurement policies as follows: a rationalized central fertilizer procurement agency; uniform wholesale fertilizer pricing; and decontrolled retail fertilizer pricing. The British also provide support to integrated pest management, estate extension services, the Ministry's Planning Division, and to tea and macadamia research. The Germans are largely involved with an integrated rural development program involving livestock and fisheries, rural market town development, and agro-processing activities which involve women. Finally, UNDP provides a modest amount annually to crop research. A comprehensive list of relevant other donor activities is included as an annex to the PAAD.

There is substantial donor coordination concerning agricultural sector work. Frequent informal meetings on specific issues take place among agricultural officers from the various resident donor agencies, and visiting teams associated with donor activities ordinarily meet with other donor colleagues during their stays. On the policy front, primarily under the coordination of the World Bank, donors consult each other to ascertain progress being made and issues being raised, and to coordinate planned actions. USAID, in the design of ASAP, has been in constant contact with primarily the World Bank, EC and ODA.

IV. PROGRAM IMPLEMENTATION

A. Implementation Plan

1. Introduction

ASAP includes policy reform activities involving a variety of GOM ministries, as well as specific project activities in four different ministries and institutions. Its complexity requires an implementation plan which accounts for its diversity, while providing a structure in which actions can be taken quickly, but deliberately, with the dual objectives that overall implementation is not hampered and that the intended impact of the program is achieved. To accomplish this, there will be a Program Implementation Committee (PIC), chaired by the Ministry of Finance or the Economic Planning and Development Department of the Office of the President and Cabinet, and having as members the various ministries and institutions involved with the program, including USAID. The PIC will have various subcommittees which deal with discrete program areas. A Program Management Committee also will be established, again chaired by the Ministry of Finance, which will include Principal Secretaries, heads of institutions, and the Director of USAID. This structure is discussed in detail below, along with the individual responsibilities of the Government of Malawi, Bunda College and USAID.

2. Management of Program and Project Implementation

a. Joint Host Country and USAID Responsibilities

The management of overall program implementation will be at two levels. At the principal secretary level, there will be a Program Management Committee (PMC) which will include relevant principal secretaries and the director of USAID. This committee will monitor progress of implementation, including progress toward achievement of conditionality. It is expected that this committee will meet twice annually, but may meet on an ad hoc basis as well as need arises.

At an executive level, there will be a Program Implementation Committee (PIC) which will include office directors in areas relevant to program activities. Included on this committee will be the USAID Agricultural Development Officer. This committee will monitor program implementation on a more regular basis, and will deal with implementation matters which require broader discussion and resolution. For example, decisions about study scopes of work and related issues may require discussion by the PIC since both conducting the study and acting on its findings and recommendations may involve a number of offices and ministries. It is expected that the PIC will meet monthly or bimonthly. Sub-committees of the PIC may be formed to consider discrete program or project-specific areas. The composition of the committees, their specific scopes, and their schedules will be the subject of discussion between USAID and the GOM, and will be documented in a PIL.

51

b. GOM Responsibilities

The GOM, through the Ministry of Finance as overall implementing agency, will have primary responsibility for implementing the program. This includes undertaking the necessary reform actions and managing the constituent project activities. Based on actions taken, the GOM will be responsible for submitting to USAID evidence that the conditionalities have been met. The GOM also will ensure that covenants included in the program agreement are met.

The GOM's responsibilities will be executed through the various ministries in which the activities take place. Coordination in particular to see that overall program objectives are being met will take place through the PIC. Responsibilities for specific project activities are as follows: the Ministry of Agriculture will manage the Food Security and Nutrition Monitoring Survey activity and the Agroforestry Extension activity; the Department of Economic Planning and Development will manage the Food Security Policy Development and Analysis activity; Bunda College will manage the Agricultural Policy Research Unit activity; and the Department of Research and Environmental Affairs will manage the environmental monitoring activity.

GOM management of the studies, which are especially important to achieving program objectives, will be accomplished by PIC members. A PIC sub-committee will be formed to supervise the drafting of scopes of work and review report drafts. The PIC also will be responsible for review of final reports, consideration of recommendations and action plans, and identification of additional proposed project activities designed to implement action plans. For each study, the GOM will identify one PIC member to be individually responsible for supervising day-to-day management tasks involved with study design and execution.

c. USAID Responsibilities

Within USAID, the program will be managed by the Agriculture and Food Security Office. Overall supervision of program implementation will be the responsibility of the Supervisory Agricultural Development Officer (ADO). That officer will be assisted by the deputy ADO and by other professional office staff. The ADO or deputy ADO will represent USAID on the Project Implementation Committee, and will participate on PIC sub-committees as required. The Mission Director will represent USAID on the Program Management Committee.

An ASAP Program Committee within USAID also will be established to assist the ADO with program management. This committee will have as members representatives from the Program, Analysis and Evaluation (PAE) Office, Project Implementation and Development Office (PID), and the Controller's office. The Human Resource Development Office (HRDO) will be included whenever Bunda College activities are considered. The ADO will be chairperson of this committee. The function of the Mission Program Committee is to monitor progress of program and project implementation and to address in particular internal Mission management and implementation issues. ASAP is a complex program, and will require a variety of resources from within the Mission for its successful implementation. Initially, committee meetings will be held monthly.

59

Finally, during the initial months of project implementation, the need for a Personal Services Contract (PSC) Project Manager in the Mission will be assessed. If found to be necessary, a PSC will be hired. Additional funds may be required for this purpose, depending on the length of the contract.

3. Implementation Schedule

<u>Time</u>	<u>Action</u>	<u>Agent</u>
<u>1991</u>		
September	Obligation & proag signing	GOM & USAID
	First smallholder burley evaluation	PIC
October	Implementation schedules for tranche two studies completed, and contracting initiated	PIC & USAID
	Prepare 12 DREA job descriptions and advertise in local newspaper	DREA
November	First tranche conditionality met, and funds released	GOM & USAID
	Food security RFP drafted	EP&D & USAID
	SOW for alternative markets (burley) study drafted	MOA & USAID
	SOW for private maize marketing study drafted	MOA & USAID
	Agricultural policy unit (Bunda) RFP drafted	Bunda & USAID
	Credit/seeds and fertilizer/alternative markets cooperative agreement RFP drafted	MOA & USAID
December	PIL earmarking Bunda construction activity	USAID
	Food security RFP issued	EP&D & USAID
	Private maize marketing PIO/T issued	MOA & USAID
	Agroforestry PIO/T issued	MOA & USAID
	Credit/seeds and fertilizer/alternative markets cooperative agreement RFP issued	MOA & USAID
	Alternative markets (burley) study PIO/T issued	MOA & USAID
	Ag. policy unit (Bunda) RFP issued	Bunda & USAID

1992

January	SOW for tenant prices study drafted	MOA & USAID
	Agroforestry coop. agreement signed	MOA & USAID
January	Alternative markets (burley) study delivery order issued	MOA & USAID
	Private maize marketing study delivery order issued	MOA & USAID
	Require estates to post tenant and labor terms and conditions	GOM
	Hire new DREA staff	DREA
	Draft environmental unit work plan	DREA
February	Notice of Bunda construction activity	Bunda & USAID
	Tenant price study PIO/T issued	MOA & USAID
	Initiate private sector maize marketing study	PIC
	Initiate alternative markets (burley) study	PIC
	Pre-tranche assessment, second tranche conditionality met, and funds released	GOM & USAID
	Collect and analyze environmental data	DREA
March	Tenant price study delivery order signed	MOA & USAID
	Proposals for food security coop. agreement received	EP&D & USAID
	Proposals for ag. policy unit (Bunda) coop. agreement received	Bunda & USAID
	Proposals for credit/seeds and fertilizer/alternative markets cooperative agreement received	MOA & USAID
	Proposals for Bunda construction received	Bunda
April	Food Security coop. agreement awarded	EP&D & USAID
	Private sector maize marketing study completed	PIC
	SOW for price info system drafted	PIC

April	Initiate tenant prices study	PIC
	Credit/seeds and fertilizer/alternative markets cooperative agreement awarded	MOA & USAID
May	Ag. policy unit (Bunda) coop. agreement awarded and signed	Bunda & USAID
	Bunda construction contract awarded	Bunda & USAID
	Food security coop. agreement signed	USAID
	SOW for estate/smallholder interface study drafted	PIC
	Credit/seeds and fertilizer/alternative markets cooperative agreement signed	MOA & USAID
	Agroforestry activities underway	MOA
	Contract for one environmental TA (3 months)	USAID & DREA
June	Initiate design of commodity price information system	PIC
	Tenant prices study completed	PIC
	Environmental baseline data determined	GOM & USAID
July	Initiate estate/smallholder interface study	Bunda
	Commodity price information system completed	PIC
	Area specific assessment (Zomba South)	GOM & USAID
	Food security cooperative agreement TA arrives	MOA & USAID
	Ag. policy unit (Bunda) cooperative agreement TA arrives	Bunda & USAID
	Credit/seeds and fertilizer/alternative markets TA arrives	MOA & USAID
	Environmental TA arrives	DREA
August	SOW for land tenure study drafted	Bunda & USAID
September	Agroforestry TA arrives	MOA & USAID
	Environmental TA departs	DREA

October	Initiate land tenure study	PIC
	Annual evaluation	GOM & USAID
November	SOW for crop diversification study drafted	PIC
	Clarify estate/tenant adjudication procedures	GOM
December	Land tenure study completed	PIC
<u>1993</u>		
January	Pre-tranche assessment completed, third tranche conditionality met, and funds released	GOM & USAID
	Initiate crop diversification study	PIC
	Contract for one environmental TA (3 months)	DREA
February		
March	Crop diversification study completed	PIC
	Alternative markets (burley) study completed	PIC
	Environmental TA arrives	DREA
April	Annual evaluation	GOM & USAID
	Audit	GOM & USAID
	Design of phase two begins	GOM & USAID
	Mid-term smallholder burley evaluation submitted	PIC
May	Environmental monitoring report submitted	GOM
	SOW for extension module drafted	PIC
	Environmental TA departs	DREA
June	Environmental monitoring report assessed	GOM & USAID
July	Area specific assessment (Zomba South)	GOM & USAID
	Initiate extension module study	PIC
August	Phase two authorization/obligation	GOM & USAID

September	Estate smallholder interface study completed	Bunda
<u>1994</u>		
February	Contract for environmental TA (2 months)	GOM
April	Environmental TA arrives	DREA
May	Environmental monitoring report submitted	GOM
June	Environmental monitoring report assessed	GOM & USAID
	Mid-term Evaluation	GOM & USAID
July	Area specific assessment (Zomba South)	GOM & USAID
	Extension module study completed	PIC
	SOW for legal/administrative barriers study drafted	PIC
September	Third smallholder burley evaluation submitted	PIC
	Initiate legal/administrative barrier study	PIC
October	Legal/administrative barrier study completed	PIC
<u>1995</u>		
May	Environmental monitoring report submitted	GOM
June	Annual Evaluation	GOM & USAID
	Environmental monitoring report assessed	GOM & USAID
July	Area specific assessment (Zomba South)	GOM & USAID
September	Fourth smallholder burley evaluation submitted	GOM
<u>1996</u>		
May	Environmental monitoring report submitted	GOM
June	Final smallholder burley evaluation submitted	PIC
	Final evaluation	GOM & USAID

B. Procurement Plan

1. Responsible Agencies and Procedures for Commodity Procurement

Procurement of commodities will be the responsibility of USAID and contractors funded under the program. Within USAID, the Agricultural Development Officer will have overall responsibility for procurement actions which are the Mission's responsibility. Electronics such as computers and video machines will be procured using procurement service agents under contract with A.I.D. Vehicles will be procured by the Mission Executive Officer. Institutional services' contracts will be cooperative agreements or other agreements, which will be negotiated and/or cleared by REDSO/ESA RCO, and IQCs managed by AID/W or REDSO/ESA. Some commodity procurement will be included in the institutional contracts. Procedures for the Bunda construction contract are discussed below.

Commodities purchased by the project will be appropriately marked with the A.I.D. handclasp symbol. The PSA will be charged with ensuring that all goods it purchases are marked at source, and USAID will see that other goods are marked appropriately.

A procurement schedule will be developed in conjunction with the institutions providing technical assistance for the same activities.

2.

Equipment List

<u>Activity/Item</u>	<u>Qty</u>	<u>Budget</u>	<u>Prob. S/O</u>	<u>Agent</u>
Bunda Activity:				
Vehicles	6	150,000	Japan	USAID
Multisystem VHS rec/play	1	700	Japan	*
Video monitor	1	800	Japan	*
Video camera w/supplies	1	1,500	Japan	*
PCs w/software & Printers	4	40,000	USA	*
Fax machine, copier	1	<u>5,000</u>	USA/Japan	*
<u>Subtotal</u>		<u>198,000</u>		
Agroforestry:				
Vehicles	9	184,000	Japan	USAID
Scientific instruments	-	20,000	USA	*
PCs w/software	2	10,000	USA	*
Video camera w/access.	8	40,000	Japan	*
Projectors (slide & o'head)	1	1,500	USA	*
Watering cans, hoses, etc	-	<u>200,000</u>	Malawi	Contractor
<u>Subtotal</u>	-	<u>455,500</u>		

* Note: This procurement will be done by USAID through a PSA, or the contractor, and will be decided at time of contract negotiation.

24

Environmental Impact Monitoring with DREA

<u>Commodity</u>	<u>Qty</u>	<u>Budget</u>	<u>Prob. S/O</u>	<u>Agent</u>
Vehicle	1	37,037	Japan	USAID
PC	2	18,519	USA	USAID
Duplicating Macchine	1	2,593	USA	USAID
Word Processor	1	7,407	USA	USAID
Map Cabinet	1	1,852	USA	USAID
Furniture/Equipment	9	27,778	Malawi	Contractor
<u>Subtotal</u>		<u>98,889</u>		

Food Security/Early Warning

Vehicles	1	25,000	Japan	USAID
PCs W/Software	1	5,000	USA	Contractor
Scales (25 kg)	210	30,000	Local	USAID
Pocket Calculators	42	450	Local	USAID
<u>Subtotal</u>		<u>60,450</u>		

TOTAL 812,839

3. Services

All service contracts, with the exception of the Bunda construction contract, will be negotiated by A.I.D. Technical assistance and institutional support for the Bunda activity will be provided through a competitively bid cooperative agreement with a university or university consortium. Technical assistance for the EP&D food security activity will be through a competitively bid cooperative agreement with a university. Technical assistance for the agroforestry activity will be through a negotiated cooperative agreement with Washington State University (WSU). Under the MARE Project, WSU has provided technical assistance for research on agroforestry techniques. Its substantial work in this area in Malawi, and consequent unique capability, justify a sole source contracting mechanism. A full justification for less than full and open competition is attached to this PAAD as an annex. All three cooperative agreements have been chosen as the assistance instrument because a substantial involvement is anticipated between A.I.D. and the recipient during the activities.

It is intended to use host country contracting (HCC) procedures for the construction activity at Bunda College. While a preliminary assessment of contracting procedures used by the University has indicated that the HCC mechanism would be acceptable, a full assessment will be conducted by the REDSO/ESA Regional Contracting Officer prior to any disbursement for this activity. The construction contract to be implemented by the University of Malawi at Bunda College would be the responsibility of the University Estate Development Officer. The University would use its regular architectural advisor to design the facility, and then would request construction bids. Notice of the tender would be advertised both in the Commerce Business Daily and in Malawi. The University Tender Board would review bids received and make the award. USAID would clear on major actions, including the technical drawings, the RFP, the award process, and the final contract document. Payment would be through direct reimbursement against certificates of work performed. If necessary, a consulting architectural or engineering firm would be hired by the University, to manage the construction activity.

Services Procurement Schedule

<u>ACTIVITY</u>	<u>DATE</u>
Project Authorization	September 30, 1991
PIO/T for WSU Cooperative Agreement signed	November 15
PIO/T for food security cooperative agreement signed	November 30
PIO/T for agricultural policy coop. agreement signed	December 15
PIL earmarking Bunda construction activity	December 15
WSU coop. agreement signed	January 15, 1992
Notice of competitive food security coop. agreement	January 15
Notice of competitive ag. policy cooperative agreement	January 30
Notice of Bunda construction activity	February 15
Proposals for food security coop. agreement received	March 15
Proposals for ag. policy coop. agreement received	March 31
Proposals for Bunda construction received	March 31
Food security coop. agreement awarded	April 30
Food security equipment/vehicle PIO/Cs authorized	April 30
Ag. policy equipment/vehicle PIO/Cs authorized	April 30
Ag. policy coop. agreement awarded	May 15

66

Bunda construction contract awarded	May 15
Food security coop. agreement signed	May 15
Ag. policy coop. agreement signed	May 31

4. Development Fund for Africa Certification

The commodities and services to be funded under this program will be financed by Development Fund for Africa (DFA) resources. Following the Congressional guidelines set forth in the legislation authorizing the DFA, all reasonable efforts have and will be made to maximize procurement of U.S. source/origin commodities. Only those items which are not currently made in the U.S. (e.g. 220V 50H electronics equipment and right-hand drive serviceable vehicles) have been designated for purchase from non- U.S. source/origin. Therefore, the USAID/Malawi Mission Director, in accordance with A.I.D. Africa Bureau guidelines, will maximize U.S. procurement whenever practicable. The A.I.D. Project Officer assigned to monitor this project will keep records of all commodities purchased by the project by A.I.D. Geographic code and will report this information annually to A.I.D./W.

5. Gray Amendment Certification

The procurement plan, including procurement of goods and services, for ASAP was developed with full consideration of maximally involving minority and women-owned firms, or Gray Amendment organizations, in the provision of required goods and services. Where this is likely to take place primarily is in the use of procurement service agents, who have been selected on that basis. The nature of the program, however, will not permit major set-aside minority or Gray Amendment contracting. Such contractors, however, will be able to bid on the planned cooperative agreements and other contracts under the program.

C. FINANCIAL PLAN

The Financial Plan for ASAP includes a description of the NPA dollar disbursement mechanism, local currency generation, the method of financing for project activities, budget estimates, and a discussion about the host country contribution.

1. Dollar Disbursement Mechanism

USAID financing for phase one of ASAP totals \$20,000,000 of nonproject assistance. This assistance will be provided in tranches as specific conditions are satisfied, and will be provided on a cash disbursement basis. As conditions are satisfied, a Financing Request is first signed by the designated representative of the GOM, and then approved by the A.I.D. Mission Director. The required information is then sent to AID/W, which is responsible for authorizing the actual cash disbursement.

2. Dollar Tracking and Local Currency Deposits

a. Dollar Disbursements and Tracking

A disbursement, tracking and use system has been adopted which is similar to one used by the World Bank for its nonproject assistance, but which also meets A.I.D. requirements. In accordance with current Foreign Assistance Appropriations legislation and AID/W guidance distributed mid-1991, the cash disbursements will be deposited into a separate, non-commingled interest-bearing account opened by the Reserve Bank of Malawi for this purpose at a U.S. banking institution acceptable to A.I.D. Funds in this account, including all interest earned thereon, will not be commingled with funds from any other source, and will be used for the purposes identified below. The number of the account, along with the name of the bank, will be provided to AID/W as early as possible after obligation.

Disbursements from the special account will be made by the Reserve Bank in accordance with their standard procedures. The Bank will maintain all necessary documentation which will allow the tracking of the use of the funds. The Bank will also submit to USAID on at least a quarterly basis reports on the status of the Separate Account and certified copies of the bank statements. Reporting formats and types of documentation required by A.I.D. will be outlined in a separate Program Implementation Letter. Dollars, and interest earned thereon, will be used only to finance imports of commodities from the United States or other A.I.D. Geographic Code 935 countries, for use by private individuals or by firms operating on a commercial basis in Malawi. The Bank will be informed that no grant funds will be used to finance military or paramilitary requirements of any kind, luxury goods, goods having their source or origin (or for provider of services their nationality) in countries not included in A.I.D. Geographic Code 935, nor the payment of debt if such debt was incurred for the purpose of financing any transaction not permitted by the Grant Agreement.

The Bank has managed and continues to manage nonproject assistance for A.I.D. and other donors, including the World Bank and the European Community, and the Mission, based on that experience and on its regular dealings with the Bank, has confidence that it is capable of managing ASAP disbursements in the manner described above. The system which the Mission intends to use for dollar disbursements and tracking is similar to that used over the past few years by the World Bank, which has not experienced problems.

b. Local Currency Deposits and Utilization

The Reserve Bank will maintain a Special Local Currency Account. Following each disbursement of dollars under the program, the ~~COM~~ will deposit Malawi Kwacha in a sum equivalent to the original dollar disbursement. Funds in this account will not be commingled with local currencies from any source other than the ASAP program. From this account, the Kwacha equivalent of 5% of the total dollar disbursement will be deposited into the A.I.D. Operating Expense Trust Account, and thereby made available to USAID for the requirements of operating the A.I.D. program in Malawi.

108

A noninterest-bearing account held in the Reserve Bank of Malawi will be used for the local currency deposits in accordance with current GOM regulations. Guidance on the programming and managing host country-owned local currency, as presented in State 204855 dated 21 June 1991, states that "A.I.D. policy favors that local currency be placed into an interest-bearing account in a deposit-taking institution ... so long as such accounts are permitted under host country law and regulation." Based on the provisions of the Reserve Bank of Malawi Act, the GOM holds its central government accounts with the Reserve Bank. Other than a couple of exceptions approved by the Minister of Finance and the Governor of the Bank, e.g. for the Post Office Savings Bank, the Bank does not maintain any interest-bearing accounts, nor is the Bank a deposit-taking institution. (It holds commercial bank reserves, but does not pay interest on these.) Based on this information, the Mission concurs with the GOM's intent to abide by its current policy concerning the local currency account. As required by the above-mentioned guidance, a written determination to not follow A.I.D.'s preference for interest-bearing accounts will be made by the USAID Director, and will be kept on file in the Mission.

Disbursements from the Special Local Currency Account will be used for general budgetary support to the Ministry of Agriculture, the Department of Research and Environmental Affairs in the Office of the President and Cabinet, and Bunda College of Agriculture. The actual proportions for these disbursements will be determined through negotiations with the GOM, and will be the subject of a Program Implementation Letter.

Two recent assessments have been conducted of the GOM's accounting systems. One, on the GOM budgeting and accounting system and procedures, concluded that, "Based on this assessment, USAID/Malawi expresses a high degree of confidence that the GOM's budgeting and financial management systems provide reasonable assurance that funds, both U.S. dollars and local currency, if generated, associated with the U.S. assistance will not be diverted and will be used for intended purposes." The second, which looked in detail at local currency program management, stated the following:

On the management of the local currency program by the GOM, the Mission formally signed an agreement with the GOM on March 15, 1990, establishing procedures for programming, accounting and reporting on the use of all local currencies generated under A.I.D. program assistance grants. [The required] statements and advices are usually obtained in a timely manner, though with some difficulties. The Mission, however, has not been able to obtain quarterly financial status reports [and other reports] for individual activities financed by the counterpart local currency. ...

It should be noted that the GOM is technically capable of the reporting requirements for local currencies established under the USAID-GOM agreement, but is [at times] unable to meet these requirements due to a shortage of staff. While the GOM has failed in submitting the required reports on a timely basis, the Mission has a high degree of confidence that A.I.D. resources are being effectively utilized for their intended purposes. We expect this effective utilization to continue as the Mission increasingly programs local currency for general budget support, as opposed to specific projectized activities.

Based on the above assessment, USAID proposed that the GOM hire a fulltime accountant for the establishment and maintenance of necessary files and accounting records for all A.I.D. local currency accounts, following-up with implementing agencies and the Reserve Bank of Malawi to obtain required periodic as well as year- end audited financial status reports and bank statements, and submitting these reports and statements to USAID on a timely basis. GOM has already concurred with this proposal and is in the process of employing the assistant. GOM has also started following-up with implementing agencies to obtain the required reports.

3. Method of Implementation and Financing

<u>Item</u>	<u>Implementation</u>	<u>Financing</u>	<u>Estimated Amount (US\$)</u>
NPA	A.I.D.	Cash disbursement	20,000,000
Bunda College:			
TA	Cooperative agreement	Letter of Credit	2,703,699
Construction	University (HCC)	Cost Reimbursement	678,750
Commodities	A.I.D. Direct Contract/PSA	Direct/Bank L/Com	207,900
Agroforestry:			
TA/Imp. Support	Cooperative agreement	Letter of Credit	873,726
Training/OE	MOA	Cost reimbursement	415,628
Commodities	A.I.D. Direct Contract/PSA	Direct/Bank L/Com	286,500
Food security:			
TA	Cooperative agreement	Letter of Credit	1,164,028
Surveys	MOA	Cost reimbursement	962,611
Environmental Impact Monitoring			
Commodities	AID Direct Contract/PSA	Direct/Bank/L/Com	98,889
Operations	GOM	Cost Reimbursement	203,993
TA	AID Direct Contract	Direct Payment	200,000
Studies/ Action Plan Implementation	A.I.D. Direct Contract	Direct payment	1,460,000
Monitoring, Evaluation & Audit	A.I.D. Direct Contract	Direct payment	367,600
Contingency	-	-	367,676
TOTAL	-	-	30,000,000

Where USAID will use PSAs for the procurement of commodities, a bank letter of commitment (Bank L/Com) will be used because of the involvement of several suppliers and the resulting proliferation of invoices and required payments.

Under the Agroforestry, Food Security, and Environmental Impact Monitoring activities, all expenditures which are the responsibility of host countries ministries are for operating costs of activities, e.g. vehicle operating costs, subsistence, office expenses, etc. While the GOM accounting system generally has been found to be adequate and accurate, USAID has experienced some difficulty with receiving claims on a timely basis. The GOM will assign accountants as necessary to process claims and submit those claims to USAID in accordance with an agreed-to schedule to be defined in a project implementation letter earmarking funds for each activity. If, under this program, there is a problem receiving claims in a timely fashion, additional steps, such as financing an accountant to process only A.I.D. Project-related claims, will be considered.

4. Audits

An audit of the program has been scheduled for April 1993. In addition, all foreign recipients of U.S. Government funds will be responsible for the annual audits of the activities financed under the project component. Such recipients will be required to have these audits performed by independent auditors approved by the A.I.D. Inspector General, and in accordance with U.S. Government auditing standards. Technical assistance, where necessary, will be provided to the recipients by USAID and/or the A.I.D. Inspector General in contracting for and/or implementation of these audits. Sufficient funds are budgeted in the program budget for these purposes.

5. Program/Project Budget

Estimated budget expenditures and host country contributions are presented in the tables on the following pages.

6. GOM Contribution

The GOM is committed to providing support for ASAP which has a value of 32% of the overall cost of total program and project expenditures. It is estimated that two-thirds of the GOM's agricultural extension resources will be used in support of achieving the objectives of the ASAP program, including the agroforestry activity. This includes provision of technical advisory services and credit services to smallholders, as well as other farmer support, and incorporates manpower, transportation, accommodation and other expenditure items. Based on current levels of expenditure, this level of support is expected to have a value of approximately MK36,700,000 over the phase one three-year life of the program. (For estimating purposes, it is assumed that during each of the first two years approx. MK18,350,000 is spent on extension services by the GOM in support of the program.) At the current exchange rate of about US\$1=MK2.8, this contribution is worth approximately \$13,100,000. In addition, the contribution by Bunda College to the establishment and operations of the Agricultural Policy Research Unit, in

^

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM

Illustrative Expenditure Budget

ITEM	FY 92	FY 93	FY 94	FY 95	FY 96	TOTAL
1. Nonproject Assistance						
a. DFA	10000000	10000000				20000000
Subtotal	10000000	10000000				20000000
2. Bunda College Agric. Policy Research Unit						
a. Coop. Agreement	423268	734725	530614	391992	95351	2175950
b. Construction	600000	78750				678750
c. Commodities	155400			52500		207900
d. Res. Unit Support	94500	148365	140904	86033	57947	527749
Subtotal	1273168	961840	671518	530525	153298	3590349
3. Agroforestry Extension						
a. Long-term TA	208792	229370				438161
b. Extension Support	78650	73456	89597	84099	89986	415788
c. Commodities	256400	258376	64496	68951	73682	721905
Subtotal	543842	561201	154093	153050	163668	1575854
4. Food Security						
a. Policy/Sys. Dev.	138947	262483	278304	279036	205258	1164028
b. Survey Support	250000	160500	171735	183756	196619	962611
Subtotal	388947	422983	450039	462792	401877	2126639
5. Environmental Monitoring Unit						
Subtotal	205904	170393	126585			502882
6. Studies, Implementation and Management						
Subtotal	430000	500000	530000			1460000
Subtotal: Items 2-6	2841861	2616417	1932235	1146367	718844	9255724
7. Monitoring/Evaluation Audit	40000	162800	45800	49000	70000	367600
8. Contingency (4%)	113604	109499	77451	46145	29977	376676
Subtotal: Items 2-8	2995465	2888716	2055487	1241512	818821	10000000
TOTAL	12995465	12888716	2055487	1241512	818821	30000000

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM

Illustrative Host Country Contribution Budget
(Malawi Kwacha)

ITEM	FY 92	FY 93	FY 94	FY 95	FY 96	TOTAL
1. Extension Services Support	9175000	18350000	9175000			36700000
2. Bunda College Agric. Policy Research Unit	224000	224000	224000	224000	224000	1120000
3. Studies, Action Plans and Implementation	100000	105000	110250	115763	121551	552563
4. Food Security Activities	200000	210000	220500	231525	243101	1105126
5. Natural Resource Monitoring	50000	52500	55000	206780	217119	581399
TOTAL						40059088
US\$ equivalent at US\$1=MK2.8						14306817

13

terms of staff time, land, and GOM financing of a portion of the construction, is valued at approximately MK11200000, or approximately \$400,000 over the five year life of the activity. The contribution by the GOM toward the food security activities is expected to be MK 110,5126, or approximately \$395,000. The contribution toward the studies, development of action plans, and implementation of those plans is expected to be MK552,563, or approximately \$200,000. The contribution toward the natural resource management activity is expected to be MK581,399, or approximately \$207,000. Total host country contribution is expected to be approximately \$MK40,059,088, or approximately \$14,306,817. . This represents approximately 32% of total program and project expenditures (\$44,306,817).

D. Monitoring and Evaluation

1. Introduction

ASAP is the Mission's principal activity in the agricultural sector. The goal and purpose of the Program are closely linked to the overall strategic objective of the agricultural sector: increasing foodcrop production and productivity. Given the magnitude of the rural population, this agricultural sector program also is closely related to the achievement of the Mission's overall goal: to enhance the economic well-being of the average Malawian household.

These close links to both the strategic objective and overall Mission goal indicate that the monitoring and evaluation plan for ASAP must meet monitoring and evaluation needs at these levels. In addition, the impact of the program on the target beneficiaries, particularly with respect to the equity implications of the program, must be carefully monitored.

Pre-tranche reviews of compliance with the letter and the intent of the conditions must be undertaken. Monitoring and evaluation of the major project components is also critical. And finally, as the design and negotiation of this program demonstrated to Mission staff, the joint conduct and wide dissemination of results from studies, assessments, and evaluations are critical to sustained dialogue on these issues. Thus, the mechanisms and levels of monitoring and evaluation for this Program are complex. Through a combination of periodic monitoring efforts, annual evaluations, special studies, impact assessments and seminar/workshops, the Mission, in conjunction with the Government of Malawi, will monitor and evaluate indicators at the input, output, purpose, and goal levels for the program, as well as the Mission's agricultural strategic objective and overall goal. In all cases, the Mission will rely to the maximum extent on existing data sets and their updates, with supplemental ground-truthing exercises to ensure that aggregate statistics reflect smallholder experiences. To the maximum extent, data will be collected on a gender disaggregated basis.

2. Indicators and Measurement

a. Mission Goal

As mentioned above, the Mission's overall goal -- to enhance the economic well-being of the average Malawian household -- is closely aligned to ASAP, given the high concentration of people in the rural sector who are also engaged in agriculture. Monitoring and evaluating at this level is critical. Indicators which will be measured with respect to this goal include:

- rising rural incomes,
- improved on-farm food security, and
- reduced malnutrition.

These indicators will be tracked annually. Incomes and malnutrition are already monitored within the context of the Mission's Assessment of Program Impact. On-farm food security statistics are provided through three sources: the Ministry of Agriculture, Economic Planning and Development, and through ad hoc studies (Mission supported research by HIID in the Zomba South area, for example). These indicators will continue to be monitored through these mechanisms.

b. Mission Agricultural Strategic Objective

The Mission's strategic objective for the agricultural sector is to increase foodcrop production and productivity. By enhancing smallholder production and marketing options, improving the efficiency of input delivery mechanisms, improving equity in the agricultural sector, and identifying crop diversification opportunities, smallholders are expected to gain the income required to purchase fertilizers and improved seed. Thus, on-farm foodcrop production should increase. The following indicators will be monitored:

- smallholder maize production increases, and
- smallholder maize productivity increases.

Information regarding these indicators is available on an annual basis from the Ministry of Agriculture.

c. Program Goal

The overall goal of the Agricultural Sector Assistance Program is to increase agricultural productivity, employment, and incomes. Over the medium term, Government has committed itself to a liberalization effort which will shift the pattern of cash crop production to include substantial numbers of smallholders. In addition, during the course of the program, smallholders' access to profitable markets and activities is expected to increase. Improvements in this area, as well as GOM commitment to the

intent of the program, will be closely monitored under the program. For these indicators, equity implications and direction as well as magnitude of change will be important aspects to monitor. In addition to the maize indicators noted above, indicators at this level will include:

- food availability increases from approximately 1750 calories per capita daily in 1991 to 1950 calories by 1995, and 2200 calories by 2000;
- increasing real value of smallholder production (by 3% per year in real terms);
- increasing smallholder productivity for key crops (maize, groundnuts, tobacco: crop yields increase by ___% per year);
- increasing real value of smallholder/rural and tenant wages and incomes (by 2% per year);
- increasing rural employment, both formal and informal.

Some of the data required to monitor these indicators are already available at an aggregate level, e.g. annual GDP estimates monitor the real value of smallholder production and productivity for key smallholder crops is monitored at the ADD and national levels. Ground-truthing of these aggregate statistics will be necessary, however. Thus, the Mission intends to provide support for the continuation of data collection and analysis of behavioral change among maize and tobacco farmers in Zomba South. This research, begun in 1985/6 and updated during 1990/1 by Dr. Pauline Peters of HIID, provides a longitudinal data set for investigating the impact of the policy changes on rural smallholders. The Mission intends to capitalize on Dr. Peters' work by engaging her to undertake annual updates of production, productivity, employment, income, and social impact of the changes among members of the data group. Finally, in those areas where periodic monitoring does not take place, e.g. rural wages and rural employment, the Mission will work with Bunda College to help establish methodologies and routine monitoring procedures.

d. Program Purpose

The purpose of the Program is to increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information. Indicators which will be monitored and evaluated include:

- credit flows to smallholders increase by 5% per year in real terms; at the same time, the proportion of all smallholder credit going to smallholders with less than 1.5 ha. increases to 15% by 1995, and to 25% by 2000;
- private sector sales of fertilizer and seed sales to the smallholder sector increase to approximately 10% of the value of each market by 1995, and to 25% by 2000; by 1995, smallholder farmers with less than 1.5 ha. should receive 15% of all smallholder fertilizer, increasing to 25% by 2000;

- private sector marketing of smallholder cash crops increases from nil to 10% by 1995 and to 25% by 2000; by 1995, 5 smallholder owned cash crop marketing units will be operating, increasing to 50 such units by 2000;
- by 1995, two new extension aids modules specifically designed for farmers with less than 1.5ha. will be in use; by 2000, 50% of all extension aids modules will be developed for this group;
- estate tenant and labor terms and conditions of employment will be posted on all estates; and,
- information regarding the labor market will become widely publicized.

As one of the special studies undertaken through the project component, the Mission will finance a land tenure study intended to highlight the causes and areas of land alienation, as well as an assessment of whether or not ASAP and the World Bank's ASAC program have diminished land alienation in areas of high density. The other indicators will be assessed through the program's annual evaluation.

e. Program Outputs

Indicators of Project Outputs answer how the purpose level indicators will be achieved. At the output level, the indicators will cluster about the elements of the program, namely: liberalizing production and marketing of crops by smallholders; improved efficiency of input delivery; increased equity in the agricultural sector; and improved crop diversification opportunities. The indicators to measure achievement of these outputs are, essentially, discreet actions and revised delivery systems. These elements can be seen in the following table:

Liberalize production and marketing of crops	- smallholders receive tobacco quotas in own name
	- crop production choices determined by smallholders
	- smallholders sell tobacco on auction floor
	- alternative smallholder marketing mechanisms established
Improve efficiency of input delivery	- credit system revised to target smallholders with less than 1.5ha.
	- fertilizer marketing and delivery system revised to reach smallholders with less than 1.5 ha, through private as well as public channels

11

- seed marketing and delivery system revised to reach smallholders with less than 1.5 ha, through private as well as public channels
 - smallholder credit becomes redeemable for inputs at private as well as public sector institutions
 - extension modules promulgating agro-forestry techniques for smallholders with less than 1.5 ha in use
- Increase equity in the agricultural sector
- terms and conditions of tenancy will be posted by estates
 - analysis of prices paid to tenants for burley will be undertaken
 - specific consideration of smallholders with less than 1.5 ha of land in agricultural policy formulation
- Improve crop diversification opportunities
- smallholder production of non-traditional cash crops increases
 - for a specific range of crops, net prices paid to smallholders averages no less than 50% of export parity price

Each of these indicators will be assessed in two ways. First, as they pertain to conditions precedent to the release of funds under the program, the indicators will be subject to a pre-tranche release review. Second, these indicators will be reviewed during each annual evaluation. The localized sentinel study described above will complement the national focus of the evaluations, and will be useful in determining the equity implications of the program.

e. Project Outputs

The goal and purpose of the project component coincides with the overall program goal and purpose, but the project activities themselves will have to be monitored to assure achievement of project level outputs and inputs. The project elements of ASAP include activities at the following institutions: Bunda College's Agricultural Policy Research Unit; Department of Economic Planning and Development's Food and Nutrition Study Unit; Ministry of Agriculture's agroforestry technology extension services and food security monitoring unit; and the Department of Environmental Resource Management. In addition, there is a special studies component, and provision for implementing some study action plans. Output level indicators for these activities are presented below:

- Bunda College: Research Unit - unit established
 - staff recruited
 - buildings constructed
 - research undertaken
 - seminars held
- Food & Nutrition Unit (EP&D) - staff recruited
 - research undertaken
 - policy development/analysis conducted
- Agroforestry extension - staff recruited
 - modules developed
 - modules extended
- Food Security Unit (MOA) - surveys undertaken
 - analysis undertaken and results disseminated
- Environmental Resource Unit - staff recruited
 - monitoring system developed
 - monitoring system in use
 - reports issued
- Special Studies - studies completed
 - results disseminated
 - seminars held
 - recommendations for action plans proposed, and action Plans implemented

The Mission's Agriculture and Food Security Office will assume overall responsibility for monitoring these indicators. Status will be tracked through the PIR process.

f. Program and Project Inputs

In addition to the dollars provided in support of the sectoral reforms discussed, the project activities identified above also will require input monitoring. For each activity, the input indicators monitored will be:

- Bunda College: Research Unit - technical assistance recruited
 - construction funds available
 - commodities provided
 - study tours & training provided
 - operating funds available
- Food & Nutrition Unit (EP&D) - technical assistance recruited

Agroforestry extension - technical assistance recruited
- commodity procurement financed
- operating funds available

Food Security Unit (MOA) - survey funds available

Environmental Resource Unit - technical assistance recruited
- operating funds available

Special Studies - technical assistance recruited

The Mission's Agriculture and Food Security Office will assume overall responsibility for monitoring these indicators. Status will be tracked through the PIR process.

V. ANALYTICAL FRAMEWORK: SUMMARIES OF MAJOR ANALYSES

A. Social Soundness Analysis

1. Introduction

The social analyses focussed on two general sets of issues: (1) the current structure of employment, income distribution, and access to land and other resources (credit, labor, inputs and extension advice) among significant social groups within the agricultural sector and, (2) the effects of ASAP on agrarian change and consequent impact on different social groups.

2. Employment, Income and Resource Access in Malawi

In 1987, 70% of full-time farmers and 25% of part-time farmers were women. 72% of the active labor force was employed in the smallholder sector and 9% was employed in the estate sector (World Bank, 1990). As such, smallholders and estates are of particular importance for ASAP.

a. Smallholders

The smallholder sector includes 1.3 million households, 30% of which are headed by women and is squeezed by four main factors: (a) a population growth rate of 3.7% per annum; (b) inadequate access to land, exacerbated by declining per capita farm sizes from an average of 1.5 hectares in 1968/69 to 1.2 hectares in 1980/81; (c) low farmer adoption rates of HYV maize and fertilizer; and, (d) a set of national policies that have neglected the needs of smallholder agriculture or that have transferred wealth from smallholders to support investment in other sectors. This has resulted in a situation whereby 75% of all smallholder households have less than 1.5 hectares of land. These smallest of smallholders are not, however, a homogenous group: 20% have between 1 and 1.49 hectares and are considered subsistence farmers able to produce a small surplus in good years; 55% have less than one hectare, which, at current productivity levels, will supply a maximum of 75% of the family's basic nutritional needs; and 23% live on less than 0.5 hectares, which yields only 27% of their consumption requirements (World Bank, 1990).

The smallholder sector is faced with an increasingly skewed distribution of land and income (both regionally and within communities); a growing proportion of resource-poor, woman-headed households; a growing marginalization which has caused agriculture to become a residual activity providing a less and less meaningful contribution to household food and income; and a growing reliance on alternative, non-farm sources of employment to meet basic subsistence needs. Approximately 40% of all income derived by smallholders, including food retained for consumption, comes from off-farm sources, and 50% of all reported income is controlled by women (Peters and Herrera, 1989). For households where cash crops are a significant income source, there is a tendency for women's access to and control of income to decline. If present trends of large proportions of rural society continue to be unable to earn a living from their land continue, it is likely that the majority of Malawi's rural people will become landless or near landless laborers.

81

i. Women Headed Households

30% of smallholder households are headed by women, 72% of whom have less than 1 hectare of land and cannot produce enough to meet their households' consumption requirements. This is in part due to the fact that women's access to land, labor, livestock and capital is largely determined by the nature of their current and past association with men, particularly with husbands or with male matri-kin in the South. It is also in part because about 40% of these women are married to men who are absent from home more than 50% of the time due to employment located elsewhere in Malawi. The situation for women farmers is bleak. The policies and institutions that have stifled Malawi's smallholder agriculture in general have had a particularly crippling influence on the opportunities available to women farmers. Marginalization of smallholder agriculture is felt most directly and deeply by women.

ii. Production of Cash Crops

With the exception of cotton and groundnuts, all major cash crops are produced primarily by estates. Smallholders have proven that they are aware of market forces by the considerable shifts in production in a response to price incentives and price ratios between various crops. Nevertheless, only 4% of smallholder land is under cash crop production. The low level of cash crop production in the smallholder sector is due to a variety of causes: price disincentives offered by ADMARC, the sole purchaser of smallholder cotton, tobacco and groundnuts; technical and legal constraints; and the inability of subsistence farmers to take risks.

Until this year, smallholders were legally prohibited from growing burley, one of the most profitable types of tobacco. There is, however, considerable potential for expanded smallholder production of burley, especially in households with less than 1.5 hectares. Even a small production quota (250 kg) would provide them with sufficient income to increase consumption expenditures and invest in fertilizer and hybrid seeds for their maize gardens. To achieve this objective, the total production quota for smallholders will have to be increased and credit, extension services, seed and fertilizer made available to them. During the first year of the program, few women were given quotas, although women provide an estimated 50% of the labor requirements on smallholdings and estates. Also in the the first year of the program, most participants had more than 1 hectare of land. Greater effort must be made to reach the very poorest of the smallholders.

b. Estates

The estate sector has been in the forefront of agrarian change during the decade of the 1980's, and can be expected to have a growing influence on agricultural employment and incomes during the 1990's. In 1960, estates occupied 2% of Malawi's land area; the owners were primarily corporations, businessmen, politicians and civil servants. In 1989, there were over 15,000 estates occupying 30% of Malawi's agricultural land and employing 7% of the working population. Increasingly, these leasehold estates have been established by smallholders who converted their customary landholdings to estate status, or who fashioned estates from unallocated customary land held by chiefs (Mkandawire et al. 1990, Jaffee et al. 1991).

82

By assuming the legal status of estate owners, smallholders simultaneously gained access to rewarding commercial crops and security of tenure.

i. Women as Estate Owners

Approximately 3% of Malawi's estates are registered in the names of women. There are, so far as we know, no statutory requirements that impose specific legal barriers to women's participation in the estate sector, but this low rate of participation can only be explained by the presence of de facto or informal barriers (Ariza-Nino 1991). Moreover, for many women, access to land is being jeopardized through estate formation. As is the case elsewhere in Africa, formally gender-neutral land registration procedures can contribute to an erosion of women's rights to land. This is because their names are not present on the legal documents that shift the land they currently cultivate from the customary domain (where access is based on community membership) into the leasehold domain (where access is based on individual identity).

ii. The Estate Labor Force

Four main types of workers are employed on estates: (a) paid and unpaid family members of estate leaseholders and managers (38,000 people), (b) tenants and their unpaid family members (255,000 people), (c) permanent laborers hired for a period lasting from a few months to year-round (163,000 people), and (d) casual (ganyu) laborers hired on a daily or weekly basis from surrounding smallholder communities (140,000 people). (Mkandawire et al., 1990, Jaffee et al., 1991).

Adult men constitute 70% of the total permanent workforce and 42% of the casual workforce. Adult women account for only 8% of permanent laborers but 35% of casual laborers. Children (people under the age of fifteen) constitute 25% of both permanent and casual workforces. Men are paid 50% more than women (but on average, less than the agricultural minimum wage), while children are paid about half the adult male rate. Real income from estate employment has stagnated during the 1980's, but compares increasingly favorably with smallholder real earnings, which have declined (Jaffee et al. 1991). Taking into account all non-working family members, 12.5% of the total national population lives and works on estates. Over one-half of these people are tenant farmers and their families.

iii. Tenancy

Nearly all but a few of the largest estates rely on oral contracts that fail to specify the terms and conditions for tenants. This lack of specificity in the terms of tenancy creates uncertainty and misconceptions, leading to disagreements about earnings and prices charged for housing, food, inputs and other services; high rates of turnover; theft and burning of tobacco; and weak incentives to preserve tobacco quality. From the estate perspective, labor relations are seen as one of the most significant constraints to increased production and improved quality; and from the tenant perspective, there is evidence of artificially low remuneration rates set through collusion and intimidation (Nankumba 1990). The situation is further complicated by the absence of clear and accepted administrative or legal processes for resolving disagreements between workers and managers.

In addition, the Ministry of Agriculture, in conjunction with the Tobacco Association of Malawi, sets a maximum price for tenant tobacco "which is designed to reduce the price paid to the tenant below that which would otherwise be negotiated in a free market" (Fitch and Carvalho 1991:27).

Despite these conditions, smallholders become tenants because approximately one in five achieve economic success. Jaffee et al. (1991) have shown that there are three significant categories among the tenant population: "accumulating tenants" (20% of all tenants), who are able to invest in livestock, small businesses, and estates of their own; "middle tenants" (50% of all tenants), who earn higher incomes than most smallholders; and "poor tenants" (30% of all tenants), who manage to survive at levels that are comparable to or worse than conditions in the smallholder sector. These variations are an important source of dynamism in Malawian agriculture and tenancy appears to be an intermediate step between subsistence-oriented smallholder production and commercially-oriented estate production.

3. Components of Agrarian Change and Policy Implications

a. Agrarian Change: The Estate-Smallholder Interface

Although our understanding of the estate-smallholder interface is not complete, the main sources of dynamism and tension that are driving agrarian change in Malawi appear to derive from (a) competition for land and other rural resources, (b) restrictions on access to commercial agricultural opportunities, and (c) the organization of rural labor markets.

i. Land and Land Use

Estates and smallholders compete for grazing land, fuelwood, building materials, and land for cultivation of food crops. From the estate side, this is perceived as "encroachment"; from the smallholder side, estate owners appear to be taking advantage of traditional community-based modes of rural resource access, at the same time as they use modern juridical mechanisms to gain exclusive access to lands under leasehold. The implication of these land transfers in terms of women's continued rights to land and inheritance are unclear, particularly where a number of households have combined their land resources in order to register under one of their names. While the impact of legalizing smallholder burley production on the demand for leasehold registration is unknown, the desire for registration will decrease as the number of quota-holding smallholder burley growers and their collective quota increase.

ii. Commercial Opportunity

Malawi inherited and sought to maintain a rigid set of agricultural policies and institutions designed to provide a small minority with exclusive access to remunerative export crops. Since the early 1980's, this framework has come under great pressure for change, as evidenced primarily by (a) the rise of the category of "smallholder estates", (b) the increasingly common practice of using illegal smallholder "outgrowers" to produce export crops, and (c) manipulation of smallholder targeted input channels by estates to gain access to cheap farm supplies. The result has been a de facto erosion of long standing policy and institutional barriers. While change is strongly resisted by those within the government and industry

34

who maintain, manage, and benefit from the older alignment, a pilot scheme for smallholder burley tobacco production has been launched and discussions are taking place concerning liberalizing markets for all crops as well as increasing the number of marketing and input supply channels available to smallholders.

iii. Rural Labor Markets

In rural labor markets little attempt is made to enforce national minimum wage laws, arbitrate disputes, or measure the magnitude and direction of market changes. The dynamic interface between estate and smallholders is captured in the following movements: (a) smallholders with less than 1.0 hectare of land spend perhaps 30% of their time performing "ganyu" or casual agricultural labor on the farms of wealthier smallholders or estates (Peters and Herrera 1989, table C10); (b) annually about 140,000 smallholders find some employment as casual laborers on estates (Mkandawire et al. 1990); (c) about 160,000 landless or near-landless rural dwellers have found employment as permanent or semi-permanent laborers on estates (Jaffee et al. 1991); (d) a majority of Malawi's 100,000 tenant families appear to have migrated across district boundaries to find employment, and many have migrated across international boundaries (Jaffee et al. 1991); and (e) there is an appreciable tendency for viable smallholders to seek employment first as laborers, and then as tenants, with the long-term objective of establishing estates or businesses with opportunities for commercial expansion. It is misleading to think of tenants and smallholders as members of two distinct groups; Jaffee et al. (1991) found that the size and distribution of customary landholdings among a sample of tenants was more-or-less indistinguishable from the size and distribution of landholdings among the rural population generally.

Women are discriminated against in rural labor markets, being offered lower wages for the same work as men and often being confined by the dominant gender division of labor to the worst paying jobs of seasonal nature. However, women work on average twice as many hours per day as men with their agricultural labor only decreasing amongst the highest landholding group of smallholders. In contrast men's working hours increase with the size of land holding and the introduction of cash crops (World Bank, Engberg et al, Peters & Herrera, 1989). The effect of increased cash crop production on overall labor availability is, however, unknown.

The key implications here are: (a) rural people are earning a substantial and growing proportion of their incomes through agricultural employment; (b) the rural labor market appears to encompass all categories of agricultural labor, which will speed agrarian change; and (c) basic institutional mechanisms needed to monitor and successfully manage this aspect of agrarian change in Malawi are weak or absent.

b. Agrarian Change: Policy Problem Areas

Agrarian change in Malawi thus has three main components: (a) a continuing marginalization of smallholder agriculture as conventionally conceived, driven by population growth but accelerated by a stifling policy and institutional environment; (b) the emergence of a category of entrepreneurial "smallholder estates", driven by commercial opportunity

and land security, that is comprised of the most viable members of the smallholder population; and (c) a rapidly-growing population of landless or near-landless rural people with few alternatives to estate employment. In principle, it should be possible to take advantage of several clear opportunities for growth, while acting to ameliorate those circumstances that will be most socially disruptive. During the next decade, the Malawi government needs to accommodate and respond to the currents of change in the following ways:

- By encouraging smallholder commercialization. This entails: relaxing institutional controls on input distribution, and on the production and marketing of high value crops, especially tobacco; allocation of burley tobacco quotas to smallholders in a manner which ensures their access to international prices; increasing access to market information, and other complementary government services critical for high quality products, i.e. (credit and extension services); establishing multiple commercial marketing channels by licensing private brokers and estates to buy smallholder burley as well as promoting farmers' collective bargaining power, through the licencing of marketing associations.

- By seeking to manage current and foreseeable conflicts in labor relations. This entails increasing the transparency of contractual relationships in the agricultural sector; requiring full and specific unit costs of inputs and rations to be included in tenant and labor contracts providing a legislative and administrative framework for the resolution of labor disputes, and fostering a more equitable sharing of the wealth generated through export agriculture.

- By increasing security of tenure for women as well as men: female land registration encouraged as well as joint leasehold arrangements which include women's names on leasehold documents.

Taken together, these policy changes will have the following effects which should help Malawi equitably manage the agrarian transition currently underway. First, they will support small-scale agricultural development, which can be expected to be accompanied by growth in and broadening of employment opportunities in rural Malawi. Secondly, they will accommodate the legitimate needs of a rapidly-growing population of agricultural laborers, while providing an institutional mechanism for managing the major stresses associated with rural structural change.

c. Conclusion

Once legal and administrative impediments to smallholder production and marketing of export crops have been removed, the challenge facing Malawi will be to ensure that access to the means of production (land, labor, inputs, credit, and extension) are broadened so that smallholders can take advantage of the opportunities. At the same time the most vulnerable groups (smallholders with less than 1.5 hectares; female-headed households, except those whose husbands work in RSA; estate workers; and, the urban poor) must be protected from the potential adverse impact that liberalization will have on purchasing power. If the vulnerable groups remain barred in reality from the means of production, their household food security could become further threatened. The negative effects of

liberalization on vulnerable groups will, however, be mitigated if smallholders are paid a fair price for their cash crops and if the terms and conditions for their tenancy or labor on estates reflect a fair return on their labor investments.

Since only 20% of all smallholders produce a surplus of maize, the majority are unable to respond to price incentives. Of the target population of ASAP (smallholders with less than 1.5 hectares), the inability of those with less than one hectare (55% of all smallholders) to meet subsistence needs underscores their limited income potential. These farmers are least able to bear the risk of cash crop production in a free market. Consequently without special assistance, they are unable to take advantage of the burley option which is believed to be their best short-term means for escaping their poverty trap. In addition, given organizational constraints which will limit the number of farmers in marketing associations, there will be a need to include all size categories of smallholders in a marketing scheme reflecting differential abilities to bear risks. It is important to ensure that the target population does not become marginalized in this arrangement.

The success of ASAP will be jeopardized if it does not take into account the specific constraints faced by women farmers. Women's smaller plot sizes, labor constraints during peak seasons, increasing involvement in agricultural labor limited access to credit, extension and inputs, and current cultivation of some of the lowest value crops, make more women vulnerable to structural adjustment policies than their male counterparts. Customary, de facto, and legal barriers must be removed. Efforts should be made to encourage their participation in ASAP at all levels. The extent to which women's opportunities to (1) increase production of food and cash crops; (2) take advantage of the extension service, and (3) use credit, are expanded by ASAP will largely determine the extent to which the majority of Malawi's rural households increase their quality of life. Women perform 70% of the agricultural labor and control 50% of household income expenditures. Therefore, their increased participation in commercial agricultural activities is critical to the achievement of ASAP objectives. In addition, ASAP, through the encouragement of more profitable agricultural enterprises on customary land, should also reduce the rate of family disintegration when men are forced to migrate for employment opportunities.

It is expected that the direct beneficiaries of ASAP will be all commercial smallholders, especially the target population of farmers with less than 1.5 hectares; tenants, permanent and casual laborers on estates; and, private traders. Indirect beneficiaries will be individuals who obtain employment from the expected growth in the rural economy and all people whose access to social services is increased by the expected increase in investment in rural areas. People and groups who may be negatively affected by ASAP are smallholders with less than one hectare who are unable to bear the risk inherent in cash crop production and the urban poor because their purchasing power will decrease if market liberalization results in increased prices for staple foods. Estate owners may also be negatively affected if improvements in the terms and conditions of employment on estates and competition from smallholder burley production erode their profit margins and reduce their labor pool. Indeed many of the smaller, less capitalized and less well managed estates may be forced out of business.

87

B. Political Analysis

The ASAP program seeks major structural changes -- essentially the breakdown of dualism and the reduction of government control -- in the Malawian rural economy. These changes challenge significant aspects of the political status quo, as well as the economic interests of some elements in Malawian society. Because the changes will not be easy to achieve, the mission, with REDSO assistance, has made a serious assessment of the political feasibility of the policy initiatives to be undertaken under ASAP. This analysis focused on constraints, as well as steps which should be taken to enhance the political feasibility of the program.

Although ASAP covers a broad range of policy issues, the most contentious involve opening up access to the growing and marketing of burley tobacco to smallholders (the customary sector). As noted earlier, much of Malawi's historic economic growth has been the direct result of agricultural exports. The benefits of this growth have accrued overwhelmingly to agricultural estate owners who have had privileged access to growing burley tobacco, the country's most profitable cash crop. The profitability of estate burley production has itself been the result of Malawi's special position in the international market as a high quality producer and by the estate sector's ability to capture the rents generated by this special position. These rents have been captured by the estate producers through a set of government policies and regulations that have kept factor prices artificially low: e.g., the minimal cost of estate leases has lowered the cost of land; subsidized credit has lowered the cost of capital; and restricted access to production of burley has lowered the cost of labor.

The profitability of burley has made it "the biggest game in town" and played a major role in shaping the country's political economy. Burley's economic and political importance has led to the creation, in post-colonial Malawi, of an almost classic colonial-style social structure in which barriers to entry to income-earning opportunities have held down wage levels. Public policy has served the interests of those who dominate the country's socio-economic structure.

There are three major interest groups which will be threatened by the opening up of burley production and marketing:

First, Malawi's political leadership, which uses the granting of estate leases and burley licenses as a key element of its political patronage system. If the system were opened up, the value of such leases and licenses would be depreciated and political control potentially threatened. It is important to note that, although most of the country's top political leaders are also major tobacco (including burley) producers, they are not threatened economically by the proposed changes in burley production and marketing. Most of these leaders are highly efficient producers who pay their tenants more generously than the so-called TAMA maximums and are secure in the production of burley. They also have other viable economic alternatives. Their concern is political, not economic.

Second, senior civil servants, who have already obtained access to burley or aspire to do so. Their applications for estate licenses have traditionally been approved in recognition of their loyalty and good performance. They do



not have many other economic alternatives, and to the degree they feel themselves economic losers from reform of the existing system, they will resist change.

Third, the burley growers association, the Tobacco Association of Malawi (TAMA), which is the best-organized interest association in the country. TAMA is dominated by the smaller, numerically-predominant estates which are less efficient and dependent on low tennant burley prices for their profitability. TAMA has clearly expressed its opposition to any smallholder burley scheme which gives smallholders a price higher than that paid to estate tennant producers. If smallholders do receive a higher price, there will be potential leakage of burley from the estates to the customary sector. Alternatively, estate owners would have to pay their tennants more to avoid leakage. Either would represent an economic cost to the smaller, less efficient estate owners.

All of these groups have expressed a rhetorical commitment to change in the rural sector and to seeking new ways to increase the general welfare. They would also, however, like to preserve the benefits which accrue to them through the existing burley estate system. These sometimes conflicting perspectives certainly came into play in the early implementation of the pilot burley scheme under the World Bank's Agricultural Sector Adjustment Credit (ASAC). The ASAC scheme was plagued by administrative glitches, resulting ultimately in producers receiving a lower than expected price -- a price which was below production costs for most participants. Some of the problems were due to poor planning, but many observers believe that the scheme was intentionally derailed, either by GOM technocrats or by high political authorities. Other observers believe that the pilot scheme was undercut by TAMA and that the GOM was unwilling to put up a fight to save it.

Thus, there is little doubt that substantial political risks remain in undertaking the ASAP program. The program can be easily jeopardized if political leaders do not push aggressively for its full implementation. They must be alert to potential manipulation by bureaucrats or local political leaders, and they must be willing to counter interest groups such as TAMA which want to preserve the status quo.

Despite these risks there are strong reasons for moving forward with the ASAP program. The most important is that if the program is successful, it promises a very substantial equity impact, and, in the longer run, the possibility of a much more broad-based economic growth path for Malawi. At the same time, considering the political risks that have been identified, it is important for the mission to develop strategies for minimizing the likelihood of "political derailment." In order to enhance the political feasibility of the program, the mission will

-- closely monitor implementation of the policy agenda and provide high-level expert advice, as needed, on the myriad of complex issues that are likely to emerge.

-- explicitly include TAMA in policy discussions, both as direct dialogue between the mission and TAMA and a triologue among the mission, GOM, and TAMA.

89

-- attempt to bring other donors into the efforts to expand smallholder access to burley by encouraging continued World Bank involvement and by briefing local donors on progress and problems implementing the program.

-- move quickly to resolve issues and initiate mechanisms to organize farmers for smallholder burley production, e.g., for inputs as well as output marketing.

-- commit itself to an on-going high-level dialogue on these issues with the GOM, involving senior mission management as well as senior Bureau management.

-- advise the GOM that USAID is committed to an honest and continual appraisal of progress under ASAP and that USAID will be prepared to cancel the program, even before the end of Phase One, if Government is not evidencing sufficient commitment to the principles of the program.

C. Economic Analysis

The economic analysis of ASAP is not so much a benefit-cost analysis as it is an assessment of the putative impacts of ASAP on a group of target beneficiaries -- the smallholder sector. The definition of this smallholder group is understood to include not only those currently cultivating their own customary fields, but also estate tenant and laborers because such labor is provided by the smallholder sector. The stream of benefits accruing as a result of the program is compared not just to the NPA activity currently authorized, but rather to the anticipated value of Phases 1 and 2 of the entire program, \$50 million. The analysis shows that the expected benefits from ASAP for the smallholder sector are considerable: approximately 2.5 times as great as the combined program costs. The complete economic analysis is attached as an annex to this document.

One economic objective of ASAP is to introduce greater equity into Malawi's agricultural sector, a sector where the bulk of income is currently skewed heavily in favor of a small group of owners of large estates. Instead of operating to increase agriculture's contribution to value added as a whole, ASAP contains four elements designed to spread projected increases in agriculturally based income somewhat more fairly among those depending on the sector for a livelihood.

First, the Government will commit to providing roughly one-third of the annual increase in burley tobacco quotas to the smallholder sector, with the result that by 2000 about 15% of the expected burley quota will be in smallholder hands. In connection with this move, marketing channels will be broadened to expand competition and improve prices. Second, the Government will commit to expanding competition among marketing channels for smallholder-produced cash crops other than burley, thereby putting upward pressure on prices of other cash crops. Third, extension services and the systems for the provision of inputs, including credit, will be refocused to better support smallholder requirements. Fourth, information on tenancy terms and commodity prices will be publicized in an effort to improve the bargaining power of poorer members of the agricultural sector.

Given the complexity of the program, and the profundity of the changes it requires in Malawi's agricultural sector, the task is daunting. This nature of the program means that, despite the significant analysis already carried out with A.I.D. funding to this point, considerable additional research and analysis will be required over the life of the program. As a consequence, at this stage it is possible to quantify only a portion of the intended impacts of the program; other impacts can only be described in qualitative terms. Those most readily quantifiable now are those related to providing the smallholder sector with a portion of the burley tobacco quota. Those less easy to quantify as of this writing are those related to smallholder remuneration for production of other cash crops and those relating to improvements in the welfare of tenants and other workers in the estate sector. The following discussion proceeds from the more quantifiable to the less so and draws some general conclusions on the economic merits of ASAP from the standpoint of the Malawian economy.

1. Impacts of Smallholder Burley Quota

The provision of a portion of the expansion in the national burley quota to the smallholder sector is a direct attempt to improve the distribution of income in the agricultural sector. The value of this income assumes that smallholders enjoy access to auction floor prices, that they follow all recommended procedures in all aspects of producing the crop, thereby bearing substantial costs of production, and that they bear the full cost of transporting and marketing the crop. In addition, given the intensity of agricultural production in Malawi, devoting land to burley instead of other crops involves an opportunity cost to the production of burley. Taking all costs and prices into account, the annual value of the income transfer is estimated to be MK22 million in 1995 and MK33 million by 2000.

2. Impacts of Increased Cash Crop Production

In a manner similar to the analysis used to derive the value of smallholder burley production, the value of increased cash crop production can be estimated. Unlike the other categories of benefits, however, this value derives from a real increase in agricultural production, not a transfer. Assuming that a new ten percent of Malawi's smallholder engage in the production of cash crops as a result of this program, that one-fifth of their land is devoted to production of these crops, that the value of the crop is roughly consistent with current crops, and that the costs described above are deducted, the annual value of total remuneration is expected to be MK15 million by 1995 and MK30 million by 2000.

3. Impact on Estate Worker Welfare

Estate workers are expected to benefit in two ways from the changes wrought by ASAP. First, better information will put them in a better bargaining position vis-s-vis estate owners. Second, pressure on prices, both direct tenant prices and from improved smallholder opportunities, will improve their welfare. One factor which may mitigate the value of these flows is the sheer abundance of labor in Malawi's rural sector -- the increased opportunities for smallholders may not affect a sufficient number to put overall pressure on returns to labor. Off-setting this is the technical nature of certain aspects of burley production which implies that some tenant

labor is drawn from a more select, and possibly more competitive, sub-set of the agricultural labor pool. Estimates of the value of the benefits flowing from this change are, therefore, more difficult to quantify. Looking just at labor inputs, and estimating the pressure which opportunities may exert on the value of this existent labor, annual incremental benefits of MK11 million by 1995 and MK14 million by 2000 are estimated.

4. Second Round Marketing Benefits

Finally, it is highly likely that if all the foregoing occurs, a certain proportion of smallholders involved with burley production will attempt to capture a portion of the marketing margins which currently fall between the producer and the auction floors. While difficult to estimate with any certainty, it is not likely that any more than ten percent of the smallholders involved with burley production will be able to capture such margins. Thus, the estimated annual value of this benefit is not great: MK0.3 million by 1995 and MK1.5 million by 2000.

5. Relative Magnitudes

Before pulling all these estimates together over time, discounting them and comparing the numbers to costs, it is useful to reflect on the global impact of the proposed changes. First, it is clear that the number of hectares which will move into smallholder burley production is relatively small compared to the total size of the smallholder sector (appx. 0.5% by 2000).

Second, and despite the relatively small shift of smallholder land to burley, the very high relative returns to burley imply that the burley alone will increase value-added in the smallholder sector by some five percent over what would otherwise exist. Third, the relative impact is limited by the total volume of burley expected to be grown by the smallholder sector. As a result, even with small allotments within the smallholder sector, only three to four percent of the smallholder sector will benefit directly from the production of burley. While this number is low, it is not insignificant: current growth rates would require over a decade to achieve even the increases in direct value added described above, and the changes represent an important move by Government in alleviating rural poverty in Malawi.

6. General Conclusions

ASAP is an ambitious attempt to rectify long-standing and deteriorating welfare conditions in Malawi's agricultural sector. The program is ambitious in that it calls for a distinct structural change in regulatory arrangements that for years have exploited the smallholder sector to the benefit of the estate sector. It is also ambitious in that the Government of Malawi has within the past few years already initiated a scheme of estate expansion to absorb the more technically competent (and politically powerful) elements of the smallholder sector, and regards those changes as already farsighted and ambitious.

The conclusion of the foregoing analysis, however, is that the net present value of the benefit stream accruing as a result of the program is well in excess of the costs of the program, assuming the quantified improvements noted above occur.

92

One way of interpreting the foregoing analysis, which is more an analysis of the equity implications of the program rather than a traditional benefit/cost analysis, is to consider that an externally funded Government subsidy to the smallholder sector of approximately 2.5 times the value of ASAP would be required, in the absence of the policy reform agenda, to bring the smallholder sector to the same result. The use of burley policy changes are, therefore, clearly a less costly means of arriving at the same improvement in smallholder welfare, viewed from the smallholder sector itself. Future productivity benefits accruing to a healthier smallholder sector have not been estimated. Also, it is important to remember that the economy as a whole benefits from the "free" access to foreign exchange made available under the program. Thus, in addition to a projected net improvement in smallholder welfare (at the admitted expense of the estate sector, leaving the agriculture as a whole unchanged in terms of incremental increases in value added), the program will provide the economy with an incremental volume of external resources, and that on a grant basis.

D. Institutional Analysis

1. Introduction

Implementation of ASAP involves a broad set of policy reform actions, studies of agricultural development issues and identification of specific interventions, and management of project activities. Within the GOM, implementation responsibilities will rest with at least five different ministries, offices and organizations: Ministry of Finance (MOF), Ministry of Agriculture (MOA), Department of Economic Planning and Development (EP&D), Department of Research and Environmental Affairs (DREA), and University of Malawi Bunda College of Agriculture. An analysis of the capabilities of these institutions to implement ASAP indicates that while the technical expertise exists, the time demands of program implementation will be substantial, resulting in the need for the GOM and USAID to pay particular attention to ensuring that program activities are implemented expeditiously. Each concerned ministry and department must devote time to dealing with sometimes complex and sensitive policy these matters. By including funds for major studies, ASAP has reduced the level of effort required of the GOM generally to research issues, but this does not reduce the level of effort required to consider the issues and their resolution, all of which will involve defining study agendas and scopes of work, reviewing recommendations, and developing action plans. In addition, the human, technical and financial resources required for providing and sustaining expanded extension services and delivery of credit and inputs, must be available for farmers to take advantage of newly opened opportunities.

2. Ministry of Finance

a. Organization and Function

The Ministry of Finance is well suited to serve as the GOM implementing agency and overall coordinating ministry for ASAP. It has the requisite stature to guide high level decision making in achievement of the policy changes which are the focus of the program, and can influence budget decisions that will be critical to implementation and achievement of

93

policy objectives. The Ministry is involved in all major policy considerations, and has primary responsibility for preparation and presentation of Government's annual budget, as well as for maintenance of government accounts. It also is the primary contact for multilateral and bilateral donor agencies operating in Malawi. The Mission's experience with nonproject assistance in Malawi has shown that the necessary internal GOM approvals for reform actions, and consequently for meeting prerequisites for disbursements, can take time. In its design, ASAP must incorporate both the time required for this process as well as procedures to expedite the required actions and approvals.

With respect to ASAP, the principal actors in the Ministry will be the Secretary to the Treasury, the Senior Deputy Secretary, and staff who deal with donor assistance and policy matters.

b. Role in ASAP Program Implementation

The MOF will be the implementing agency and overall coordinating ministry for ASAP. It will have the following specific responsibilities: certification of GOM satisfaction of conditionality and consequent request for disbursement by A.I.D. of nonproject assistance funds; chairmanship of the PIC and PMC; and coordination within the GOM of resolution of issues arising in particular from study recommendations and the development of action plans. While the MOF will not have direct responsibility for the implementation of any specific project activities, its role as chair of the PIC and as overall coordinating ministry will require substantial amounts of time and effort. In addition, as the GOM entity responsible for certifying conditionality satisfaction, the MOF will have to work both with the line ministries responsible for implementation of specific actions and with USAID, to see that conditions are met in a way which is acceptable to all concerned parties.

c. Capacity to Execute Role

The MOF has substantial responsibility within the GOM, and commensurate demands on the time of staff members, in particular those at a senior level. While the qualifications of staff are appropriate for the tasks envisioned under ASAP, the level of effort which will be required will impose an additional burden on those staff. Nonproject assistance, as opposed to project assistance which involves primarily a technical ministry, tends to require greater involvement of MOF senior staff, who must keep abreast of movement towards satisfaction of specific conditions, intervening when necessary with the technical ministries and negotiating when necessary with the donor. Because both the GOM and the donor want to see disbursements in a timely fashion, the MOF's job is a fulltime one, a combination of monitoring, intervention and negotiation, which requires the efforts of various staff members, including the Secretary and Deputy Secretary themselves.

To reduce the management burden of both the MOF and the GOM more generally in the implementation of ASAP, the number of conditions have been reduced to the minimum possible. The complexity and breadth of ASAP, however, set limits to the reduction of conditionality. In addition, although the MOF will chair the two major program committees (PIC and PMC), subcommittees of the PIC should be able to perform many of the tasks required of the PIC, and these subcommittees should require MOF participation not always at a senior level.

The MOF is fully prepared substantively to assume its responsibilities under ASAP. Its understanding of the policy issues is comprehensive. During the course of negotiations for the design of ASAP, the Ministry chaired the meetings in which the policy agenda was discussed. In addition, the Ministry has had primary responsibility for preparing and submitting to USAID the letter of intent in which the program's overall objectives are defined and the GOM's commitment to those objectives and the program's major actions is presented.

2. Ministry of Agriculture

a. Organization and Functions

Of particular importance to ASAP will be the following MOA units: MOA headquarter staff, the Department of Agriculture, SACA, and the ADDs. The program does not necessarily involve specific activities with each of these entities, but in terms of achievement of overall ASAP objectives each of these will be important.

Ministry headquarter staff are involved with both policy issues and the implementation of agricultural programs. The Principal Secretary (PS), Controller of Agricultural Services for the National Rural Development Plan (CAS/NRDP), and the Chief Planning Officer (CPO) all have key roles to play in the areas of agricultural policy planning and development which are relevant to ASAP. In addition, the CAS/NRDP has significant supervisory responsibility for all programs of the Department of Agriculture (DOA), the eight ADDs, and SACA.

The Department of Agriculture provides extension and training services to the smallholder sector. Below the management structure are Subject Matter Specialists (SMS), who are extension agents for training, extension, tobacco, credit, fertilizer, crops, and women's programs. In the field, the Department's staff report for administrative purposes through the ADD structure. On technical issues, they report directly to the Department of Agriculture at MOA headquarters.

The function of the ADDs is to organize the provision of extension services, and to manage the agents who provide the services. Technical staff in the ADDs come under one of the technical departments within the MOA in their respective area of expertise. However, in the day-to-day provision of extension services in the field, the technical staff are physically located and managed within the ADD structure, and come under the supervision of the ADD Program Officer who is the Chief Operational Officer of an ADD. In addition, for budget purposes, all the support mechanisms required for extension services, e.g. vehicles and maintenance, subsistence, etc., are the responsibility of the ADDs.

SACA's function is to provide credit to smallholders for the procurement of agricultural inputs, and it is virtually the only formal sector source of such credit. The procurement of inputs, in particular fertilizer, by smallholders often is dependent on acquiring credit through SACA. SACA is managed by a headquarter staff, and operates through extension staff at the ADD, RDP and EPA levels. Credit is administered through farmers' clubs, which are formed for that purpose. As of 1990, there were 10,700 clubs with a total membership

as

of about 315,000. Over the past three years, SACA's loan portfolio has grown from MK23 million to MK65 million, and is expected to reach MK70 million during the 1991/92 crop year. Loan repayment performance has declined in the last two years, and in 1990 the recovery rate was 85%. Lower repayment rates have been attributed to the incorporation into the program of poorer farmers and those with smaller landholdings. Default on credit disbursement renders a club ineligible for new borrowing.

b. Role in ASAP Implementation

While the MOF is the implementing agency for ASAP because of its overarching role with respect to policy determination and financial management for the GOM, the MOA will have a major role in the day-to-day management of program activities and in the achievement of program objectives concerning the development of smallholder agriculture. The CAS/NRDP, the CPO and the PS all are involved with policy decisions, and their involvement with policy-related issues during the course of the implementation of ASAP will be substantial, including senior level participation in PMC and PIC meetings, in the definition of scopes of work for the various planned studies and review of the findings and recommendations of those studies, and in the preparation and approval of action plans which result from the studies. Senior level staff also will be involved with the design and implementation of the burley-specific program activities, i.e. the smallholder registration scheme, design of alternative marketing channels, and evaluations of the overall scheme's performance.

Two specific project activities located in the Ministry are the agroforestry extension project and the food security survey project. The Department of Agriculture will implement the agroforestry activity, and the Planning Division will implement the food security surveys. Both activities will involve substantial ADD participation. In addition, given that the development of smallholder agriculture will depend to some extent on efficient and effective extension services as well as sufficient provision of credit and inputs, the MOA will be closely involved with determining how services and inputs will be provided, and how the supply of credit and inputs can be restructured to place less of a burden on the central government and to improve farmer accessibility. This will include the participation of the Department of Agriculture, the ADDs, and SACA, as well as Ministry senior level staff. Other donors, most notably the World Bank, already are assisting the GOM with improving extension and credit services.

c. Capacity to Execute Role

(i) Policy Reform

During the design of ASAP, both the PS and CAS/NRDP, along with support staff, have been involved heavily with program definition. The CAS/NRDP has represented the MOA at meetings where design and policy issues have been discussed. As a result, substantively the MOA has a comprehensive understanding of the program's objectives and areas of activity.

The MOA's capacity to deal with policy reform will be strengthened through a proposed link program funded by ODA with the overall objective being to establish sustainable capacity for effective agricultural planning and policy formulation. This link program will be implemented through the Ministry's Planning Division. As with the Ministry of Finance, the MOA has technical and managerial expertise, but the demands which ASAP will place on senior level management as policy issues are raised, studied, analyzed and resolved will be substantial. Overall, program implementation will be management intensive, and a concerted effort will be required by MOA along with other GOM entities and USAID to accomplish program objectives. The strengthening of the Planning Division will be important to the successful achievement of the MOA's functions under ASAP.

(ii) ASAP Project Activities

For specific project activities under ASAP which require the provision of services by ADD staff and extension agents, a management structure has been designed and funds provided which will ensure that sufficient resources are available on a timely basis for implementation of project planned activities. In addition, the technical skills required for activity implementation are available either through expatriate technical assistance, or through local expertise. Where expatriate TA is now being used, a plan exists to phase out that long-term TA during the life of the project.

(iii) Achievement of Overall ASAP Objectives

Achievement of overall ASAP objectives will require in particular the provision of technical services to smallholders so that they can adopt profitable and "food-secure" crop mixes appropriate to their physical and socio-economic environments and to the availability of resources and inputs. In terms of provision of extension services, the MOA has experienced problems providing adequate resources to its field staff. One budget study conducted during the design of ASAP indicated that real operating expenditures per person for the ADDS have dropped substantially since 1987. Using 1986-87 as the base year, 1987/88 operating expenditure per person for the ADDs was MK 896, but dropped to MK 618 by 1990/91. This same problem has been identified in the Department of Agriculture's "Five Year Extension Strategy Plan," which states, "Supportive supervision visits of Field Assistants by the Development Officer, Assistant Development Officer and Subject Matter Specialists are infrequent and inadequate. This is often the result of a shortage of vehicles, fuel or subsistence allowances which prevent regular visiting schedules." (p. 14)

The underlying problem may be insufficient resources and/or inadequate planning and management. The strengthening activity of the Planning Division will help improve the planning and management aspect, as will the establishment of an agricultural policy research unit at Bunda College. In addition, under ASAP, various studies will look at different aspects credit and input delivery systems, and will identify constraints to providing adequate services to smallholders and ways of alleviating those constraints. Other problems identified in the "Five Year Extension Strategy Plan" which have reduced the effectiveness of extension services are also the subject of analyses which will be conducted under ASAP, such as the involvement of the

91

Field Assistants in activities, particularly involving credit clubs, which has reduced time available for providing extension services, and lack of relevance of extension messages to smallholders.

The MOA, along with other GOM ministries and the donor community, will have to review study results carefully to determine what additional policy reform measures or project activities are required to promote smallholder development through improved provision of technical and other services.

3. Department of Economic Planning and Development

a. Organization and Function

EP&D is a department within the Office of the President and Cabinet. It is responsible for central planning and the coordination of activities of the GOM's sectoral ministries. Given its planning function, it will be involved with discussions and decisions concerning policy reform and major activities in the agricultural sector. EP&D's civil service head, the Principal Secretary, his deputies, the Chief Economist and the Deputy Chief Economist, and staff of divisions which deal with macroeconomic planning, agriculture, and food security all will be involved with the implementation of ASAP.

One of ASAP's project activities involves assistance to one specific unit within EP&D, the Food Security and Nutrition Unit (FSNU). The FSNU coordinates the development of GOM food security and nutrition policy, and monitors related activities. It is the secretariat for the Interministerial Food Security and Nutrition Advisory Committee, which includes six ministries plus three branches of the University of Malawi.

b. Role in ASAP Program Implementation

EP&D will be involved with ASAP implementation on two levels. First, as with the Ministries of Finance and Agriculture, senior level staff, including the PS, Chief Economist and Deputy Chief Economist, all will participate at one time or another in discussions and decisions about policy matters. In addition, either the Chief Economist or his deputy, plus other staff members, will be involved in the deliberations and operations of the PIC and its subcommittees, in particular those which define study agendas, analyze study results and prepare action plans. EP&D's second level of involvement with ASAP's implementation concerns the FSNU's role as coordinator of GOM's food security activities. Under ASAP a long-term advisor will be located within the FSNU to assist with policy development and coordination in the area of food security.

c. Capacity to Execute Role

As with the Ministries of Finance and Agriculture, EP&D has the expertise to deal with policy matters.

EP&D's role with respect to the food security activity and its capacity to execute that role is well established. The A.I.D. activity will contribute to an ongoing project.

4. Bunda College of Agriculture, University of Malawi

a. Organization and Function

Bunda College is one of five constituent colleges of the University of Malawi system. The head of the college is a principal, assisted by a vice-principal. The college has five academic departments, each of which is managed by a Head of Department: Agricultural Engineering, Animal Science, Crop Production, Home Economics and Human Nutrition, and Rural Development. The Dean of the Faculty of Agriculture has responsibility for managing academic affairs. The college has approval to establish a new department-level unit, the Center for Agricultural Research and Development.

The Chancellor and Vice-Chancellor of the University of Malawi are responsible for the affairs of all colleges. The University is a statutory body, and as such has control over its own budget. It works with the Ministry of Education, but is not technically part of the Ministry. Various functions are centralized at the University level, including overall accounting responsibility and physical development responsibility. Bunda College has responsibility for some accounting functions, and is allocated monthly disbursements from the University to make direct payments in specific areas.

b. Role in ASAP Program Implementation

Under ASAP, an agricultural policy research unit will be established which will provide the capability within the College to conduct research on policy matters, and assist with identification and resolution of issues and development of proposals for implementing recommended actions. It is intended that while this unit will be based at Bunda, it will institute close working relationships with relevant GOM offices and private and public firms so that the work of the unit involves as broad participation as possible. In support of the establishment and operations of this unit, the College will organize staff recruitment (both for unit operations and research projects) and construction of facilities. ASAP funds will be used to finance a cooperative agreement with a U.S. university (or consortium) to assist the College in this activity, as well as for operational support of the unit and for construction of facilities. In addition, College staff may be involved in other studies under ASAP which are conducted prior to the establishment of the research unit. Finally, College staff will be involved in annual evaluations of the ASAP program.

c. Capacity to Execute Role

College staff have participated in studies used for the design of ASAP, and their work was considered to be of high quality. With the assistance of a U.S. university experienced in agricultural policy research and in the organizational requirements, Bunda has the capability to undertake the institutional development activity planned under ASAP. In addition, a preliminary analysis of Bunda's contracting procedures indicates that it is qualified to undertake a host country contract for the construction of the unit's facilities. A formal analysis by the RESSO/ESA Regional Contracting Office will be conducted prior to any earmarking of funds for that activity.

99'

5. Department of Research and Environmental Affairs

a. Organization and Function

The Department of Research and Environmental Affairs (DREA) is the primary coordination body on issues concerning the environment. Headed by a Principal Secretary, it is part of the Office of the President and Cabinet (OPC) and acts as the focal point in environmental monitoring activities capturing input from the relevant line ministries, namely Ministries of Forestry, Agriculture and Works. Constituted to a full department in 1991, DREA consists of five divisions, one of which is relevant to ASAP, the Division of Natural Resources and Environment. This division is mandated to assess the current state and forecasted trends in the quality of natural resources. It is also responsible for review of policies and programs related to sustainable development and enhancement of environmental quality. This division consists of 18 staff positions, and is headed by a Principal Environmental Officer. Once operational, it will collect data from the various line ministries for analysis and use in its monitoring and advisory role.

b. Role in ASAP Program Implementation

The DREA will play the major coordinating role in ensuring that the ASAP reform policies do not adversely affect the environment. The DREA will rely on line ministries and departments for soil erosion, deforestation, and related information. It will work with Ministries to improve data collection, compile available data, conduct analysis, prepare reports, identify problem areas and recommend corrective actions.

c. Capacity to Execute Role

The DREA is a new department, so it is not possible to assess its capacity in terms of existing personnel and past performance. Its terms of reference are comprehensive, and its location within the OPC indicates that the GOM is serious about establishing an environmental monitoring system. Two issues remain unanswered. First, how quickly can the department be staffed to begin performing its functions? While project funding will be available shortly, the necessary personnel must be located and must establish themselves in their respective areas of expertise. Second, what quantity and quality of data collected by line ministries will be available and relevant to the Department is not fully known. Project funds are available to assist both DREA and line ministries to establish data collection and monitoring systems.

6. USAID

a. Organization and Function

Within USAID, program implementation will be the responsibility of the Agriculture and Food Security (AFS) Division, which currently has two A.I.D. direct hire professionals (one division chief and one deputy) and two foreign service national professionals who will be involved with the program. Implementation will involve also the Program, Evaluation

100

and Analysis (PAE) Office and the Project Implementation and Development (PID) Office, as well as the Controller's Office on financial matters. Discussion of major policy issues and review of achievement of program objectives will involve the Director's Office.

b. Role in ASAP Program Implementation

In terms of program administration, USAID, as the funding agency, must ensure that the appropriate funding mechanisms are in place for proper disbursement so that program activities can take place without disruption. It must approve satisfaction of conditionality requirements prior to tranche releases. In addition, USAID will be responsible for the procurement of various commodities for those activities, and for the negotiation of various service contracts and cooperative agreements. In a more substantive sense, USAID must work to see that progress toward the accomplishment of ASAP objectives is being achieved. This will require a high level of effort working with GOM ministries, both individually and through the Project Implementation Committee and its subcommittees. Progress toward meeting both short-term and long-term objectives must be monitored, and a working relationship with key GOM officials must be established to promote effective collaboration in all areas. In addition, within USAID, regular monitoring of program implementation must be done to ensure that all activities, including reform initiatives as well as project activities, are progressing in accordance with a planned schedule.

c. Capacity to Execute Role

Managing the implementation of ASAP within USAID will require drawing on the resources of various offices. While day-to-day implementation responsibility will rest with the AFS Division, the participation of other offices will be necessary given the combination nonproject/project assistance, the complexity of the policy reform issues and related studies, and the variety of project activities. In particular the PAE Office and PID Office will be involved with assisting with discussion and resolution of policy reform issues, with implementation of the Bunda College project activity, and with the design of studies and identification of follow-on activities. An internal program committee will be formed consisting of the AFS, PAE, PID and Controller's offices, and regular (initially monthly) progress reports will be prepared and submitted to the Director's Office in addition to committee members.

7. Joint GOM-USAID Coordination

As is discussed in more detail in the PAAD section on implementation, GOM-USAID coordination in the implementation of this program is essential to the eventual achievement of program objectives. Formal coordination will take place through the Program Implementation Committee and its subcommittees, and through the Program Management Committee. Informal coordination will involve frequent meetings between GOM and USAID project managers, and joint participation in the execution of the studies and reviews/evaluations of the program. In addition, funds will be provided for seminars and workshops at which study results and policy issues can be discussed in an open forum with representatives of the GOM, other public sector entities, the private sector, and the donor community.

E. Environmental Analysis

1. Environmental Background

As the result of inappropriate policies and minimal emphasis on environmental controls in the areas of agriculture, soil conservation and forestry, Malawi's natural resource base is vulnerable.

a. Soil

With 27% of Malawi's arable land on steep slopes and with a population density exceeding 225 persons per square kilometer of cropped land, soil erosion, especially in the Southern and Central Regions is a serious, and growing problem. This heavy erosion is primarily the direct result of increased cultivation, deforestation, and overgrazing. A recent World Bank study (1990/91), based on various modeling techniques but limited field data, concluded that Malawi as a whole suffers an aggregate soil loss of nearly 20 tons/ha/year on gross arable land - a relatively high figure compared to other African countries where actual field data exists. The Land Husbandry Branch of the Ministry of Agriculture is charged with the monitoring of soil erosion rates and in response to the problem, has recently increased emphasis on soil conservation practices. However, the Branch has very limited funds to provide assistance, and soil erosion continues to worsen. While soil fertility also continues to decline, it is probable that if erosion can be limited and/or controlled the decline in fertility can be arrested through increased use of fertilizers, organic manure, and crop rotations.

b. Forest

As is the case in most of the third world, Malawian forests are being rapidly depleted. As the demand for firewood and poles increases, and as land is cleared for agricultural purposes, the rate of deforestation also increases. While specific data are limited, a 1985-86 study estimated Malawi's rate of deforestation at 3.5% per annum, one of the highest rates in the third world. At this rate, some 150,000 hectares of forest are denuded each year. This destruction of forests leads to increased degradation of soil and water resources, loss of plant and animal habitat and could ultimately lead to deterioration of local climates. While the Department of Forestry and Natural Resources is responsible for monitoring and controlling deforestation, they, like most other GOM departments, lack sufficient funds to properly manage their responsibilities.

c. Water

Pollution of rural water supplies, is, for the most part, currently not a problem in Malawi. The National Water Resources Master Plan indicates that nitrate concentrations, from faecal or agro-chemical pollution in ground water supplies, are generally less than 5 mg/liter - well below the World Health Organization (WHO) standard of 45 mg/liter. While some isolated bore holes have registered significantly higher levels of nitrates, these findings have been exceptionally rare, and overall, ground water remains free from pollution. However, if current trends in soil erosion and deforestation continue, both surface and groundwater degradation could become a major problem in the near future.

2. Concerns of the ASAP Program and Mitigation

The ASAP program is focussed on policy reform, rather than on specific activities which would impact the environment. As a result, direct environmental impacts are difficult to assess and although certain of these policies will likely intensify the development and utilization of agricultural land, the overall program will help to reduce environmental degradation. Regardless, it must be noted that successful implementation of this program may increase the probability of Malawi's soil, water, and forest resources becoming negatively impacted. For example, improved prices and increased levels of income could lead to the increased desire by many Malawians to place more land under cultivation and/or increase the intensity of farming on existing land. Since most of Malawi's best arable lands are already under cultivation, the pressure to increase cultivation on steep, highly erodible, and more marginal lands could increase. This in turn would increase the probability for increased soil erosion, deforestation, and deterioration of water quality. Similarly, intensified farming practices, including increased use of fertilizers, may increase the level of nitrates and phosphates in water supplies and result in eutrophication of surface waters. The probable increased level of agricultural activity could also increase the demand for firewood and construction timbers and as a result increase pressures for forest resources.

However, successful implementation of the ASAP program will also create a significant number of positive impacts, most of which will be aimed at mitigating the above concerns. For example, increased income and improved food crop yields will provide the average Malawian with increased nutrition and cash per unit of land area to purchase food, health services, shelter and other amenities which should improve his/her quality of life. Similarly, agricultural extension will focus on improving agricultural practices which decrease erosion, decrease deforestation, and minimize the degradation of water quality. For example, increased use of agro-forestry programs to improve soil fertility and stability, combined with the emphasis on adjusting land tenure to find ways to give individuals improved land security and define their responsibility for land husbandry, will create important positive environmental impacts.

The most significant contribution toward environmental improvement resulting from implementation of ASAP, however, will be funding the establishment and initial operation (e.g., monitoring the impact of agricultural policy reform on the natural resource base) of the Department of Research and Environmental Affairs (DREA), within the Office of the President and Cabinet. This Department, established by Presidential Decree in April 1991, is charged with, among other things:

- formulating and facilitating the effective implementation of, national science and technology;
- identification of problems and constraints in agricultural sciences research and determining both their significance and the resources for their solution;

- performing a catalytic role in the initiation, formulation, and development of policies and administrative devices related to conservation, protection and management of the natural and man-made environment;
- monitoring and assessment of the current state and the foreseeable trends in the quantity and quality of the natural resource base in the country and the preparation of periodic reports on the state of the environment; and
- Ensuring the inclusion of environmental parameters and criteria in the development planning exercise, and in the design and implementation of projects and programs, through suitable inputs in the development plan in both its policy and programmatic aspects, and in annual budgetary allocations.

Once operational, the DREA will be able to effectively utilize and enforce Malawi's already impressive body of environmental legislation (some 40 statutes already in place), directed at land and forestry management, and water and agro-chemical use.

The specific environmental impacts of ASAP (both positive and negative) will be one of the routine output monitoring elements of ASAP. It is anticipated that while ASAP, in collaboration with other donors, will fund the gathering and interpretation of data related to ASAP environmental issues, the actual responsibility for performing these tasks will be organized under the relevant GOM department (primarily the DREA) and will become a part of Government's routine environmental reporting systems. ASAP will support DREA environmental monitoring activities through a multi-donor working group which will formulate an environmental action plan to satisfy all donor reporting requirements, rather than overburden the GOM with several donor reporting requirements.

3. Environmental Determination

Based upon 22 CFR 216.2 (c) (2) (i), a Categorical Exclusion has been approved for the technical assistance to be undertaken during this program.

Based upon 22 CFR 216.2 (c) (2) (iii), a Categorical Exclusion has been approved for policy studies.

Based upon 22 CFR 216.3 (2) (iii), a Negative Determination has been approved for the construction of the agriculture policy research headquarters and staff housing on the existing grounds of Bunda College since appropriate water and sewage will be included in the design of these facilities and because there are no known biologically diverse natural resources that could be impacted by placing these facilities on this already altered site.

Based upon 22 CFR 216.3 (2) (iii), a Negative Determination has been approved for the policy implementation portion of this program since a series of checks and balances are being initiated through funding institutions which will determine agricultural policy (e.g., Agriculture Policy Research Unit, Food Security Unit), as well as the new Department of Research and Environmental

Affairs (DREA) which will monitor the effects of implementing these policy reforms on the man-made and natural environments. Through these checks and balances, increased opportunities will be created for environmental mitigation and mid-course changes in policies that are found to have adverse impacts on the environment.

105

**AGRICULTURAL SECTOR ASSISTANCE
PROGRAM
(ASAP)**

**VOLUME II: ANNEXES:
SUPPLEMENTARY APPROVAL DOCUMENTATION**

NPA Number: 612-0239

USAID/MALAWI

Project Number: 612-0235

September 1991

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM

VOLUME II: ANNEXES - Supplementary Approval Documentation

- A. Letter of Intent
- B. Logical Framework
- C. Project Component Descriptions and Illustrative Budgets, including studies.
- D. Justification for Noncompetitive Award for Agroforestry Activity
- E. PAIP Approval Cable
- F. Initial Environmental Examination
- G. Statutory Checklists
- H. Determination on Compliance with FAA Sections 521(a) and 521(b)
- I. Determination on Interest-bearing Local Currency Account
- J. Congressional Notification Release Cable



REF. NO. USA/34/16

19th September, 1991

The Mission Director,
USAID,
P.O. Box 30455,
LILONGWE 3

Dear Madam,

**RE : STATEMENT OF THE GOVERNMENT
OF MALAWI AND USAID AGREEMENT REGARDING
THE AGRICULTURAL SECTOR ASSISTANCE PROGRAM**

The objective of the Government of Malawi in requesting the Agricultural Sector Assistance Program is to acquire the financial and technical resources to identify and eliminate any policy, institutional or financial constraints to improved agricultural production and productivity in Malawi.

After years of research into food security and agricultural sector linkages, the conclusion is that customary sector farmers must be free to grow an unrestricted variety of food and cash crops in order to generate additional income to produce or acquire sufficient food for their households.

However, the linkages between successful cash crop production and increased food production depend on improvements in the many interrelated aspects of the agricultural production and marketing system. Legal authority to grow cash crops and increased resources to produce food crops must be accompanied by: (1) knowledge of how to grow the crops; (2) availability of inputs (3) financial resources to buy inputs; and, (4) options for marketing. The challenge facing us is to address each of these areas, as it relates to more effective production and marketing, without jeopardizing Malawi's agricultural export sales.

The Government of Malawi is therefore requesting that the United States Government, through the Agricultural Sector Assistance Program (ASAP), provide the financial and technical resources to identify and change the conditions that inhibit the achievement of the above objectives. We recognize that this is a commitment to a liberalized agricultural economy in which there is equal access to the means of production and where there are no barriers to market entry or other

practices that discriminate against or reward any category of farmer.

We recognize that we must proceed steadily, but thoughtfully, with an informed research and reform agenda. In this regard, we propose that the ASAP program be divided into two phases. The first phase, commencing with the signing of this agreement, will provide \$30 million of assistance which will be split into two tranches. Tranche one will have a policy element valued at \$10 million and a project support element valued at \$10 million. Tranche two would have another policy element valued at \$10 million. Phase two would constitute an amendment to the ASAP Program and would take into consideration the findings of the analysis conducted in phase one. Phase two would make available an additional \$20 million of assistance. Under phase one of the Agricultural Sector Assistance Program, the following list of activities will be undertaken. Unless otherwise indicated, these actions will be accomplished prior to a tranche one disbursement of funds.

I. Marketing of Export Crops

Consistent with the World Bank's ASAC objectives, we agree that burley tobacco can be grown by the customary sector according to the following minimum production targets: 3.5 million kg in 1991, 7 million kg in 1992, 8.5 million kg in 1993, 9.2 million kg in 1994, and 10.7 million kg in 1995. To the extent that there are now or may be other export crops for which there is an international quota, we agree that customary as well as leasehold farmers will be free to produce and market these commodities, in any way they choose.

Given the concern to know who is growing export crops, we will announce and implement a customary sector registration scheme which will specify the requirements for becoming a customary sector producer. The registration scheme will permit customary sector farmers to be assigned quotas in their own name and to market their crop through any channel, not just ADMARC or the Smallholder Authorities. At the same time, we will legalize and announce that registered customary farmers are immediately free to market their crops to leasehold estates as well as ADMARC or the Smallholder Authorities.

In anticipation of announcing (prior to a tranche two disbursement) that registered farmers are free to market through private traders or marketing groups, we agree that an independent study should be conducted to structure how these marketing arrangements would best be implemented. Prior to instituting this arrangement, the Government shall, where necessary, provide a legal framework and facilitate access to credit

facilities of commercial banks and non-bank financial institutions. These measures will assist in smooth marketing operations of farmers and private traders.

We will hire an external consultant to review legislation and administrative procedures to ensure that there is no legal impediment to the production and marketing of any kind of crop by any category of farmer.

II. Efficiency of Input Delivery

Increasing the supply of food crops in Malawi, given the decrease in land per capita and the declining nutrient level of that land, will require increased utilization of high yielding varieties of seed and fertilizer. Increased use is linked to many factors including: the availability of seed and fertilizer at both the national and local level; the price structure for seeds and fertilizer; knowledge of how to effectively use the inputs; the availability of storage and transport; and, the availability of credit. We have not sufficiently analyzed these interrelationships in order to determine the sequencing and magnitude of changes which are required to effect increased food crop production. We would, therefore, propose that the following list of studies be agreed to prior to a tranche one disbursement and carried out prior to a tranche two disbursement, so that the results could be implemented later in the program.

A. Development and delivery of technological messages for the agricultural extension system to present to the targeted customary sector farmers so that they know how to produce cash crops and high yielding varieties of food crops, including the appropriate mix of chemical and organic fertilizers for these new crops.

B. Determination of a method whereby customary sector farmers in the target group can access credit in order to procure agricultural inputs from any supplier that they choose.

C. Determine the constraints to the distribution of seed and fertilizer supplies through the private sector and make recommendations regarding the removal of the current de facto transportation subsidy.

D. Prepare recommendations for expediting the delivery of successful seed varieties to seed markets through the reduction of trial times and the decontrol of imports of approved seeds from other countries, providing that they comply with phytosanitary regulations.

E. Evaluate the impact of the maize marketing liberalization program and recommend further actions required to make the private sector the primary channel for maize supply and distribution.

F. Study the effect of the ASAC and ASAP programs on the desire for leasehold registration and on the area of leasehold land under cultivation in order to recommend further analysis of equitable land use and land tenure issues.

G. Study the current marketing system for smallholder crops and prepare recommendations to restructure the marketing system to permit registered farmers to market their farm produce, including burley tobacco through private traders, marketing groups, ADMARC and the leasehold estates.

III. Equity in the Agricultural Sector

In order to encourage fair labour practices, we will require that the leasehold sector publicize the terms and conditions of tenancy and the terms and conditions of labour for both permanent and casual labourers. Since we do not wish to introduce administrative controls, we will not specify what these conditions should be. Prior to a tranche two disbursement, we will clarify an adjudication system whereby disputes between tenants, labourers and leaseholders can be resolved.

In this same regard, prior to a tranche two disbursement, we will formally specify the criteria which is used to establish the national export crop target as well as the criteria used to distribute that as quotas among the leasehold and customary sector.

In order to improve producer awareness, we will support the design and implementation of a timely program which publicizes commodity prices in major market areas. The services of the radio media shall be employed to effect the publicity.

IV. Crop Diversification

The Government is very interested in diversifying its export crop base away from traditional products toward non-traditional exports. However, we have limited understanding of the requirements of this endeavor. We are therefore requesting that this program sponsor a series of studies aimed at the following:

A. Identifying diversification opportunities;

B. Identifying legal, administrative or policy constraints to profitable diversification;

C. Identifying technical constraints to successful diversification;

D. Recommend actions to implement a diversification program; and,

E. Identify and finance a specified number of projects especially in the line of processing agricultural produce, which will be agreed upon between USAID and the Government.

V. Agricultural Policy Development

In order to accomplish the objectives of the Agricultural Sector Assistance Program, as they have been elaborated in items I through IV above, the Government requests that USAID provide project assistance for the following activities:

A. The establishment of an agricultural policy research unit at Bunda College that will have responsibility for designing and implementing the specified studies.

B. The continuation of funding for the Ministry of Agriculture and Economic Planning and Development's Food Security Units in order to monitor and evaluate whether or not this program is actually improving the availability of food within individual households. This needs to be supplemented by funding for a data collection effort to supply raw data for the Food Security Unit's Analysis.

C. The establishment, in conjunction with other donors, of a Natural Resource Management Unit to monitor and evaluate the impact of program activities upon the environment.

D. The continuation of funding which was initiated under the MARE Project for furthering the use of agro-forestry techniques.

Yours sincerely,



G. B. Chiwaula
SECRETARY TO THE TREASURY

PROJECT LOGFRAMEAGRICULTURAL SECTOR ASSISTANCE PROGRAM

(NPA No: 612-0239; Project No: 612-0235)

NARRATIVE SUMMARYOBJECTIVELY VERIFIABLE INDICATORSMEANS OF VERIFICATIONIMPORTANT ASSUMPTIONSPROGRAM/PROJECT GOAL

Increase agricultural productivity, employment and incomes.

Food availability increases from 1750 calories per capita daily to 1950 calories per capita daily by 1995, and to 2200 calories per capita daily by the year 2000 through increased production and/or imports.

Real value of per capita smallholder agricultural production increases by 3% per annum, or 24% by the year 2000.

Average real per capita tenant wages increase by 2% per annum, or 16% by the year 2000.

GOM Statistics
EP&D - Food and
Nutrition Unit

GOM Statistics

Mission API

Government of Malawi continues implementation of stabilization and adjustment programs.

No further disruptions to or increases in the real costs of transportation.

Increased incomes in the agricultural sector are reinvested by farmers in agricultural production.

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

PROGRAM/PROJECT PURPOSE

Increase smallholder access to agricultural inputs, output markets, crop production alternatives, and labor market information.

The value of smallholder cash crops marketed by the private sector increases from nil to 10% by 1995, and to 25% by the year 2000.

Overall credit flows and sales of fertilizer and seed to smallholders increase by 5% per year in real terms.

Farmers with less than 1.5ha of land receive 15% of all smallholder seed, fertilizer and credit by 1995, and 25% by the year 2000.

Private sector delivery of inputs to smallholders increases from nil to 10% of seed and fertilizer sales to smallholders in 1995, and to 25% by the year 2000.

Two new extension aides modules for farmers with less than 1.5ha of land in use by 1995, and 50% of extension aids modules developed for farmers with less than 1.5ha of land by the year 2000.

Estate tenancy and labor terms and conditions of employment publicly posted on estates.

GOM Statistics & Project Evaluation

"

"

World market for burley tobacco remains stable.

No major droughts or natural disasters occur which effect tobacco and maize production.

Smallholders willing to adopt improved practices and new crops.

Sufficient resources are available to meet the needs of smallholders.

1/4

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

PROGRAM OUTPUTS

1. Liberalize production and marketing of crops.

a) smallholders receive burley tobacco quotas in their own name.

GOM Statistics
Project records

Establishment of multiple marketing channels will not adversely effect household and national food security.

b) smallholders sell tobacco directly on the auction floor with 5% marketed by organized smallholder groups, 25% by estates, and 25% through other private marketing channels by the year 2000.

"

No legal impediments to the establishment of grower associations.

c) alternative smallholder marketing mechanisms established, with 5 smallholder owned marketing units operating by 1995, and 30 operating by the year 2000.

"

Private sector capacity to expand crop marketing activities will develop.

2. Improve efficiency of agricultural input and service delivery.

a) 10% of all seed and fertilizers provided to smallholders by the private sector by the year 1995.

"

Private sector capacity to expand seed and activities will develop.

b) 25% of seed and fertilizers provided to smallholders by the private sector by the year 2000.

"

Sufficient resources are made available to meet increased smallholder credit requirements.

c) Credit disbursements to smallholders increase by 5% in real terms per year by the year 2000.

"

Sufficient resources are made available to the MOA to expand extension service delivery.

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

3. Increased equity in the agricultural sector.

a) 15% of seed and fertilizer provided to smallholders goes to farmers with less than 1.5ha. of land by 1995.

GOM statistics
Project Evaluation

Smallholders with less than 1.5ha. have access to sufficient resources.

b) 25% of seed and fertilizer provided to smallholders goes to farmers with less than 1.5ha. of land by the year 2000.

"

c) 15% of credit available to the smallholder sector goes to farmers with less than 1.5ha. of land by the 1995; 25% by the year 2000.

"

Financial system able to deliver credit resources effectively to smallholders.

d) 50% of extension modules designed for and delivered to smallholders with less than 1.5ha. of land by the year 2000.

GOM Statistics
Project Evaluation

Extension system able to deliver extension services effectively to smallholders.

e) terms and conditions of tenancy and employment posted by estates.

"

f) Prices paid to tenants for burley tobacco analyzed.

"

4. Expanded crop diversification opportunities.

a) Value of smallholder production of cash crops increases by 10% per annum in real terms.

Project records
and evaluation

Viable diversification opportunities exist.

b) Prices paid to smallholders for export crops averages no less than 50% of the export parity price.

"

Individuals willing and able to undertake the production and marketing of new crops and products.

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
<u>PROGRAM INPUTS</u>			
Cash grant to support sectoral policy reform.	\$20 million	AID Records	
<u>PROJECT OUTPUTS</u>			
Bunda College: Research Unit	Unit established, staff recruited, buildings constructed, research undertaken and seminars held.	"	
Food & Nutrition Unit (EP&D)	Staff recruited, research undertaken, policy development/analysis conducted.	"	
Agroforestry Extension	Staff recruited, extension modules developed and disseminated.	"	
Food Security Unit (MDA)	Surveys undertaken, analysis undertaken, and results disseminated.	"	
Environmental Resource Unit capability.	Staff recruited, monitoring system developed and in use, reports issued. developed and implemented, reports issued.	"	
Special Studies	Studies completed, results disseminated, seminars held, recommendations for action plans proposed, and action plans implemented.	"	

117

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICATORS</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
PROJECT INPUTS			
Bunda College: Research Unit	<ul style="list-style-type: none">- technical assistance recruited- construction funds available- commodities provided- study tours and training provided	AID records	
Food & Nutrition Unit (EP&D)	<ul style="list-style-type: none">- technical assistance recruited	"	
Agroforestry Extension	<ul style="list-style-type: none">- technical assistance recruited- commodity procurement financed- operating funds available	"	
Food Security Unit (MOA)	<ul style="list-style-type: none">- research funds available	"	
Environmental Resource Unit	<ul style="list-style-type: none">- technical assistance recruited	"	
Special Studies	<ul style="list-style-type: none">- technical assistance recruited	"	

doc0769E

1/2

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM

DESCRIPTION OF PROJECT ACTIVITIES

This annex includes descriptions and illustrative budgets for the following project activities:

- C1: Agroforestry Extension Activity
- C2: Agricultural Policy Research Activity
- C3: Environmental Monitoring Activity
- C4: Food Security Activity
- C5: Studies and Action Plan Implementation

C1: AGROFORESTRY EXTENSION ACTIVITY

1. INTRODUCTION

Research and development in agroforestry was recently instituted in Malawi to improve food security, agricultural sustainability, and the conservation of the natural resource base by addressing common problems faced by smallholder farmers. These problems include:

- smaller farm holdings;
- low or declining soil fertility and crop yields;
- increasing soil erosion and water runoff;
- animal nutrition and fodder deficiencies;
- shortages of fuelwood and building material;
- accelerated deforestation and overgrazing; and
- rising costs of inputs and limited credit opportunities.

Agroforestry systems offer opportunities to realize higher productivity, more dependable economic returns, and a greater diversity of outputs and social benefits. In addition to providing service functions such as shade and improved soil structure and fertility, trees yield a variety of products, notably food, fodder, fuelwood, and building materials.

This five-year project component will focus on extension of agroforestry techniques developed for the most part over a five year period under the Malawi Agricultural Research and Extension (MARE) Project. The project will involve extension agents in all eight ADDs, and will include as specific activities the establishment of village nurseries and seed/grass orchards, provision of extension services, and demonstration-cum-research plots in field conditions. The project will be managed by an expatriate technical assistant (for two years) and, at least two Malawian agroforestry specialists.

2. HIGHLIGHTS OF AGROFORESTRY RESEARCH TO DATE

Agroforestry research activities under the MARE Project have laid a sound foundation for making a significant impact on agricultural productivity and food security in Malawi. Specific research areas which have produced particularly positive results include alley cropping, farm integration of *Acacia albida*, fodder banks, contour grass strips and hedgerows to control erosion and runoff, and multi-purpose tree species for homestead/boundary planting.

Alley cropping is the cultivation of annual crops between hedgerows of woody perennials that are pruned periodically to prevent shading of the alley crop and to supply manure/mulch, fodder and fuelwood. Until the MARE Project, there was no sound basis on which to make recommendations to farmers. Research has identified six tree species which may be suitable for alley cropping, and management practices for cropping hybrid maize have been finalized with two species and have been organized into extension messages with personnel from the Extension Aids Branch and Department of Agriculture.

Research has shown that a 100 - 300% improvement over average smallholder yields is possible under alley cropping with leucaena on relatively infertile or depleted soils in the absence of inorganic fertilizers. When used with supplementary N fertilizer at a third or half the recommended rate, alley cropping can approach or exceed yields with the full N fertilizer rate. Foliage from alley cropping also provides excellent livestock feed.

Acacia albida is a large, fast-growing leguminous tree indigenous to much of Africa. Its unusual characteristic of growth during the dry season and leaf fall at the start of the rains enriches the soil at planting time and allows adequate light penetration to crops beneath the canopy for normal photosynthesis. Yields of sorghum, pearl millet and maize are commonly 50 - 250% higher under this species than adjacent areas away from the canopy. The tree also provides shade and high quality fodder during the dry season, as well as fuelwood and building material.

Currently research is evaluating the fodder potential of *Acacia albida* pods to improve the nutrition and productivity of ruminant livestock, and is developing propagation techniques to improve the rate of growth and reduce the costs of tree establishment. Also, management practices have been developed to systematically integrate the tree on smallholder farms in a manner that will greatly improve the productivity and sustainability of crops and livestock, while reducing the need for expensive fossil fuel-based fertilizers.

In addition to the above, species of grass and shrubs have been identified which are particularly suitable for use on marginal land to alleviate problems of soil erosion and surface runoff. Grass species include *Vetiveria Zizanioides* and *Pennisetum purpureum*, and shrubs include *Gliricidia sepium* and *Cassia spectabilis*. Grass strips planted on the contour with suitable hedges of leguminous shrubs and/or fruit trees have been shown to alleviate these problems. Additional products available when using these technologies include mulching material, thatching grass, fuelwood, fodder, and fruit.

Boundary and homestead planting of multi-purpose tree species have been found to have the potential for generating important sources of food, shelter, fuelwood, poles and income in a manner that will complement farming activities. Most households in Malawi show considerable potential for integrating greater densities of trees in or around their farms and homesteads. Recommended fast-growing species include *Acacia albida*, *A. polyacantha*, *Albizia leffek*, *Azadirachta indica*, *Khaya nyasica*, *Melia azaderach*, *Cassia* spp., *Prosopis juliflora*, *Trichilia emetica*, and *Toona ciliata*. Several multi-purpose tree species also are being recommended for live fencing to protect homesteads, farms and dimba gardens against trespassing people and animals. Apart from sisal, these include *Acacia nilotica*, *Caesalpinia decapetala*, *Pyracantha coccinea*, *Ziziphus abyssinica*, *Z. nauritiana*, *Z. mucronata*, and *Z. spinachristi* for the Medium-Altitude Plateau, and *Acacia nigrescens*, *Acacia polyacantha*, *Caesalpinia decapetala*, *Prosopis juliflora*, and *Ziziphus mauritiana* for the Lakeshore Plain and Shire Valley. Methods of propagating, planting, spacing and managing all these tree species with crops have been developed, and this information is available for extension use.

3. OPERATIONAL STRATEGY FOR AGROFORESTRY EXTENSION

The strategy for agroforestry extension, as for any extension work, must be flexible, practical and responsive to carefully determined needs, and must center on the targeted farming community in a dynamic, iterative manner. While extension will be the focus of this ASAP activity, research will continue to play a role. In particular, research will be continually guided and updated in response to the problems and priorities of farmers within the context of their resource constraints. Linkages and feedback mechanisms between research and extension will be key to improving or modifying interventions in the face of changing circumstances and location-specific conditions. It is expected that research will focus on the following: identifying better adapted and faster-growing tree species or varieties; improving management practices of various agroforestry technologies with different crops and inter-crops; and developing improved and cheaper techniques for propagating trees.

The extension approach which will be used is the integration of agroforestry techniques with existing practices in a manner that addresses farmer needs and problems. Planting trees in home and dimba gardens, as well as on boundaries and around the homestead, will be encouraged and supported. These areas are important sources of income, food, wood, fodder and shelter, and can be intensively managed due to their small size and proximity to the household. They also diversify farm activities, reduce risk, provide relatively high returns to labor, and improve soils.

Extension agents will be trained in the techniques of agroforestry, and will advise farmers on agroforestry management techniques which are currently available. They also will assist with the establishment of village nurseries and orchards. For technologies which are not fully developed for extension but are ready for on-farm testing, pilot project areas will be identified initially in each of four ADDs, and projects will be initiated which lead to full-scale extension efforts once proved technologies are available. Expansion of the pilot project schemes to all eight ADDs will be considered once sufficient experience has been gained and an evaluation of the activity conducted after approximately 18 months.

4. PROJECT INPUTS AND OUTPUTS

Project inputs include long-term and short-term technical assistance, commodities, in-country training, and operating costs. Project outputs include the establishment of an agroforestry extension services system, including the development of appropriate modules and the placement of necessary staff.

In addition to the provision of long-term TA, extension agents will be trained in agroforestry techniques. ASAP funds will be used to train the agents, and provide them with transport. Vehicle operating costs and subsistence/accommodation costs will also be financed. The project will also provide funds for the procurement of various commodities, including vehicles, research and demonstration equipment, communications equipment, and nursery and orchard development equipment and supplies.

Vehicles, scientific equipment, and communications equipment will be direct A.I.D. procurement. Other procurement will be by the GOM. A budget is attached. A procurement plan is included in the PAAD.

5. PROJECT MANAGEMENT

This project will be implemented by the Ministry of Agriculture. For two years an ASAP-financed technical assistant will be the GOM project manager. A justification for less than full and open competition is included in the PAAD to allow a contract with Washington State University for this activity. The TA will be assisted by at least two GOM-financed counterparts who will be responsible for individual regions. One of these counterparts will assume GOM management responsibilities upon the departure of the TA. Within USAID, the Agricultural Development Officer will be responsible for project management.

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

AGROFORESTRY EXTENSION

ITEM	FY 92	FY 93	FY 94	FY 95	FY 96	TOTAL
1. Technical Assistance						
a. Long-term	208792	229370				438161
2. Training						
a. Workshops						
- Regional	5000	5350	5725	6125	6554	28754
- ADD	8000	8560	7159	9800	10486	46006
- National	10000		11000			21000
b. Demonstrations	7500	8025	2200	2300	2400	22425
Subtotal	30500	21935	28084	18226	19440	118185
3. Commodities						
a. R&D	20000					20000
b. Extension Comm.	29000	28000	8000	8500	9000	82500
c. Vehicles (9 FWDs)	100000	84000				184000
Subtotal	149000	112000	8000	8500	9000	286500
4. Operations						
a. Room/Board (1/2)	8400	8988	9617	10290	11011	48306
b. Veh. Op/Main .75	47985	48844	49763	50746	51799	249137
Subtotal	56385	57832	59380	61037	62809	297443
5. Nursery/Orchard Prep. & Main.						
a. Village Nurseries	59400	95016	56496	60451	64682	336045
b. Seed/Grass Orch.	48000	51520				99520
Subtotal	107400	146536	56496	60451	64682	435565
TOTAL	552077	567673	151960	148213	155932	1575854

124

Summary			
TA	208792	229370	0
Ext. Support	86885	79767	87464
Commodities	149000	112000	8000

ITEM	YR 1	YR 2	TOTAL
Wages			
Salary	64200	66126	130326
B'stop (20%)	12840	13225	26065
Subtotal	77040	79351	156391
Fringe (33%)	25423	26186	51609
Allowances			
Differential (10%)	6420	6613	13033
Education	7800	8346	16146
Ed. Travel			0
Housing	13000	13000	26000
Subtotal	27220	27959	55179
Travel/Trans			
PD Coordinator (1 trip)	1850		1850
Coord travel	5500		5500
R&R	15000		15000
Depart post		15000	15000
HHE		20000	20000
Subtotal	22350	35000	57350
Commodities	5000	5000	10000
Other Direct (inc. DBA)	10000	10000	20000
Total Direct Costs	167033	183496	350529
Indirect Costs (25%)	41758	45874	87632
Grand Total	208792	229370	438161

125

C2: AGRICULTURAL POLICY RESEARCH ACTIVITY

1. INTRODUCTION

Malawi faces an increasingly complex set of agricultural policy choices as it looks towards the new century. The interrelated issues of food security, export diversification, land tenure, and land conservation are but the tip of the analytic iceberg of issues that will demand high quality research and policy-oriented analysis. While Malawi has invested considerable resources in agricultural research, and continues to support an ambitious program of variety and seed diversification and production and farming systems, there is a need to increase the attention given to economic policy-related agricultural research.

The development of an indigenous institutional capacity is necessary to undertake policy-relevant research, both in direct support to Government agencies such as the Ministry of Agriculture and in support of more general agricultural development goals. Experience has shown that policy analysis is generally most credible if it is undertaken by qualified researchers in an independent research unit without direct association or control by a particular ministry or interest group.

2. BUNDA COLLEGE FACILITY

Bunda College of Agriculture is the appropriate location for this activity because of its role in training agricultural managers, its proximity to the Ministry of Agriculture in Lilongwe, and the presence of a substantial number of well trained faculty and other personnel.

The College has the necessary approval to establish a Center for Agricultural Research and Development (CARD). While the proposed scope of CARD is far broader than what is envisaged as being required to meet the objectives of ASAP, CARD's general structure and location are appropriate, and it should be possible to work within the CARD concept to establish the intended policy-related analytical capability at Bunda. Specifically, under ASAP an Agricultural Policy Research Unit will be established, which in fact will be the first operational unit of CARD. This unit will have a Bunda College staff member as unit manager, who could also act as CARD director if that is found to be desirable.

The creation of the unit will support the expansion of local capacity in policy-based agricultural research and encourage expanded ties between Government and Bunda College and between the private sector and academia. The unit will receive direct budgetary support from ASAP resources, and will be encouraged and empowered to perform research and consulting services for other donors and the public and private sectors. Whenever appropriate, it will work with the Chancellor College's Center for Social Research.

3. RESEARCH ISSUES

Specific studies which are planned for the first couple years are the following:

- impediments to private sector maize marketing;
- improved extension services to small customary landholders;
- smallholder/tenant farmer interface study;
- crop diversification opportunities and constraints; and
- land tenure, land use and commercial crop production.

Future research issues may include the following:

- the size and structure of rural labor markets, taking into account wages, seasonality, the influence on smallholder incomes, and the effects of refugee communities;
- input pricing and marketing, addressing the costs and effects of subsidies, and the possibilities for pluralism and choice in input marketing institutions;
- output pricing and marketing, addressing pricing and marketing mechanisms and transport issues; and
- food security, including the relationships between food security and cash crop production by smallholders.

In addition, the research unit will participate in annual evaluations of ASAP.

A detailed research plan will be formulated once the participating institution has been selected and has worked with Bunda staff to determine needs and priorities.

4. PROJECT ACTIVITIES

a. Overview

Under ASAP, a cooperative agreement will be executed with a U.S. institution (or consortium) experienced in agricultural policy analysis. The agreement will include provision for technical collaboration between the institution and Bunda College, in particular with the Agricultural Policy Research Unit. Collaboration will take the form of: two long-term positions, one for a statistician and the other for an agricultural economist; short-term visits by U.S. academic staff and researchers to Bunda; and visits by Bunda academic staff to the collaborating institution and to other locations as appropriate. In addition, funds will be provided for construction of facilities for the research unit and for commodity procurement. The overall activity will be five years in length.

b. Activity Description

(1) Technical Assistance

Long-term TA will include a specialist in statistics and research methodology, and an agricultural economist, both for a period of 36 months. The long-term technical assistants will be responsible for providing assistance with surveys and policy analysis, as well as for advising Bunda staff about statistical design and analysis, and research methodology. The services of a statistician have been found to be essential during the implementation of the two surveys conducted to date as preparation for the ASAP design. If Bunda College is to develop the capability to conduct the research envisaged as part of the ASAP Program, its specific capability for survey design, execution and analysis must be strengthened. It is intended that this position also be a teaching position to strengthen Bunda's capability for research methodology and statistical training. The agricultural economist position will provide the unit with a resident advisor on policy-related research, and will serve as a resident project manager for the participating institution. The positions will be supported with computers and other commodities as detailed below, in the "Commodity" section.

It is expected that Bunda College will provide a manager for the research unit. This individual could come from any social science discipline represented at Bunda. While the resident technical assistants can assist the manager on an informal basis with developing and managing the unit, the contractor institution will provide more formal assistance on a short-term basis from its institutional base. The technical assistants are resident primarily as researchers and technical advisors, and to a limited extent lecturers.

(2) Professional Collaboration

Professional collaboration will be of two types, from the U.S. to Malawi, and from Malawi to the U.S. It is expected that during the first year, nine person months (p.m.) will be provided from the U.S. to Malawi; during the second year, 15 p.m.; and during the third year, four p.m. One p.m. has been budgeted for years four and five, subject to amendment once activities for those years have been more precisely defined. From Malawi to the U.S., it is expected that there will be four p.m. per year for the first three years, and then two per month thereafter, again subject to amendment.

The U.S. professional collaboration to Malawi will include assistance with the establishment and operations of the policy analysis unit, and assistance with specific studies undertaken by the unit. The Malawi professional collaboration to the U.S. will be for the purpose of allowing Bunda academic staff the opportunity to consult with the U.S. institution's staff and to do research on matters related to the work of the unit. This would allow staff members to travel to the U.S., either on separate business, or perhaps from different disciplines traveling together and looking at the same issue.

(3) Local Research Costs

Local research costs will be of two types, those associated with the work of the College, and those associated with special projects undertaken by the unit. Some of the costs of the first type, e.g. costs of student researchers and college staff per diems and travel expenses, could be included under the project. Staff salaries will be covered by the College. Costs of the second type, including consulting fees, University overhead, per diems, travel, etc. related to project activities would be included under the project if the study is being conducted as a project activity.

(4) Research Unit Operating Costs

The project will provide funds to cover the costs of personnel required to operate the research unit for a period of two years. After this two year period, it is expected that the College will assume responsibility for operating the unit, and that the unit will be generating revenue through the charge of an overhead rate as part of client contract costs. The personnel costs included within the project include those for a unit manager, economist, two secretaries, one technician and one driver.

(5) Training

The long-term training for a statistician is included to provide a replacement for the long-term TA position identified above. A permanent statistician position is a requirement for the unit if it is to perform surveys on a regular basis. It is intended that the statistician degree candidate have a Masters degree prior to beginning Ph.D. training, and conduct field research in Malawi, under the supervision of the TA statistician.

Short-term training (up to ten months during the life of project) will be provided to Bunda academic staff in statistical analysis and in other fields as appropriate. Provision for short-term training is included to allow Bunda staff to upgrade skills in specific areas, and to acquaint themselves with new skills which may be necessary for research of specific topics.

(6) Study Tours

Policy issues which are part of the unit's research agenda may be similar to issues which have arisen in other countries. Where this is the case, Bunda staff would benefit by study visits to those countries to better understand how similar issues have been handled and resolved in different environments. A total of ten months has been included in the budget for this purpose, estimated at two one-month tours during each of the five years.

(7) Commodities

A modest amount of commodity procurement will be included to support the activities of the policy research unit of the Center. Commodities for four positions will be funded. Two of these will be the TA positions. One will be the unit manager's position (a member of the Bunda College staff). One will be a visiting researcher position. Bunda already has some computer equipment which was provided under USAID funding for earlier surveys, and it is expected

that this equipment will continue to be used for the unit's work. Expected equipment includes the following:

<u>Type</u>	<u>Item</u>
Computers plus accessories	4 PCs, LAN, Printers
Audio-visual equipment	Video camera, player and monitor
Communications equipment	1 fax machine
Vehicles	4 FWDs/Pickups
Journals/periodicals	To be determined
Furniture	Sufficient for facilities identified below

(8) Facilities

While it is not intended to provide facilities for the entire CARD institution, it will be necessary to provide facilities for the policy research unit. Facilities will include housing for the TA; office space (plus secretarial space) for the TA positions, a manager, and a visiting researcher; computer room; conference room; storage room; and reception area. A computer room will be necessary, in particular for security for the equipment and as a workplace for data input. A conference room will provide the necessary space for conferences required to discuss research topics and findings.

c. Project Inputs and Outputs

Project inputs include technical assistance, commodity and budget support for the unit, study tours, training, and construction funds. Project outputs include the establishment of a policy research unit, including the required staff and facilities, research undertaken, and seminars held. Details concerning the monitoring and evaluation of this activity are included in the PAAD.

5. PROJECT MANAGEMENT

The above activity will be a five-year activity. A cooperative agreement with a university or consortium will be competed, and negotiated directly with USAID. The GOM, including Bunda College, and USAID will jointly produce the RFP and assess bids received. Bunda College will be the host country institution responsible for project implementation. However, all financial transactions, with the exception of payments under the construction contract, will be managed under the cooperative agreement. Payments under the construction contract will be made directly by A.I.D., upon receipt of necessary certificates. Project manager will be the manager of the Agricultural Policy Research Unit. Within USAID, the project will be managed by the Agricultural Development Office. A budget is attached. A procurement plan is included in the PAAD.

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

Bunda College Agricultural Policy Research Unit

ITEM	FY 92	FY 93	FY 94	FY 95	FY 96	TOTAL
1. Technical Assistance						
a. Long-term	124729	275987	297367	256445		954328
b. Short-term, US-Mal	173470	315366	95958	31230	32527	648551
c. Short-term, Mal-US	52913	55285	57767	30183	31542	227691
Subtotal	351112	646638	451092	317858	64069	1830769
2. Training						
a. Long-term	30000	30000	30000	30000		120000
b. Short-term	8000	8400	8820	9261	9724	44205
c. Study tours	14000	14700	15435	16207	17017	77359
Subtotal	52000	53100	54255	55468	26741	241564
3. Commodities						
e. Computers	40000					40000
b. Audio-visual	3000					3000
c. Communications	5000					5000
d. Vehicles	100000			50000		150000
Subtotal	148000			50000		198000
4. Construction						
a. Office	320000					320000
b. Housing	180000					180000
c. Furniture		71429				71429
d. Arch./mgt.	75000					75000
Subtotal	575000	71429				646429
5. Other						
a. Research Support	65000	69550	74412	64900	48500	322362
b. Unit Support	15000	61250	48750			125000
c. Periodicals/Ref.	10000	10500	11025	11576	12155	55256
Subtotal	90000	141300	134187	76476	60655	502618
6. Contingency (5%)	60806	45623	31977	24990	7573	170969
TOTAL	1276918	958090	671510	524792	159038	3590349
COOP. AG. TOTAL	423268	734725	530614	391992	95351	2175949

131

NOTES:

1. 27% overhead is included in individual TA and Training budgets.
2. Training
 - LT, 4 yrs @ \$30,000 pa
 - ST, 5 2-month courses, @ \$8000
 - Study tours, 2 1-month tours, p.a., @ \$7000
3. LT TA for 3 years:
 - 3 mos. in FY 92
 - 12 mos. in FY 93
 - 12 mos. in FY 94
 - 9 mos. in FY 95
4. ST TA for 5 years:
 - 4 pm for FY 92, 93 & 94
 - 5 pm for FY 95 & 96

132

C3: ENVIRONMENTAL MONITORING ACTIVITY

DEPARTMENT OF RESEARCH AND ENVIRONMENTAL AFFAIRS

1. INTRODUCTION

Malawi's development during the past 20 years, especially in the areas of agriculture, education, communication, health, industry and water resources, has been achieved through increasing utilization of its natural resources. This utilization has had a significant impact on Malawi's environment, especially with regard to soils, vegetation and water resources. Given the environmental degradation which has occurred the impact of future development activities on the environment requires careful monitoring.

During the past three decades, Malawi's rate of population growth has increased from an annual rate of over 2.0% in the sixties, to 3.2% in the seventies and eighties. During this time, the population of Malawi has doubled from roughly 4 million in the sixties to over 8 million people at present. This has produced considerable pressure on available land in many parts of the country. Agricultural expansion has led to excessive deforestation and increased cultivation of marginal lands, particularly steep hill slopes and escarpments. This expansion has also been accompanied by an increased use of agro-chemicals such as fertilizers and pesticides. Many of these chemicals are ultimately washed into the surface waters or accumulate in the soil and underground waters. Livestock production has also been greatly affected due to increased scarcity of grazing land.

As a result serious soil erosion, deforestation, and general land and water resources degradation are taking place without being properly monitored. This lack of monitoring threatens areas suffering such degradation with severe or total destruction.

Urban areas have also been growing over the past two decades. Increased human activity and industrial growth has increased the amount of waste generated in urban areas. Lack of proper waste management facilities is also causing serious pollution in urban and rural areas. Waste from urban areas is often dumped in rural areas, where it poses serious dangers to the rural community.

Inadequately treated urban effluent discharged into water courses threatens the health of rural communities who depend on such river courses for their domestic water.

A number of wildlife and important ecosystems are rapidly being destroyed by increased human activity. The full potential of some of these areas has not been determined.

2. ESTABLISHMENT OF AN ENVIRONMENTAL MONITORING UNIT

There is an urgent need to carry out environmental monitoring in the country. Monitoring activities would generate much needed information for use in

planning future development activities and taking corrective actions where appropriate. The Department of Research and Environmental Affairs does not currently have the capacity to carry out monitoring since it lacks the personnel and facilities required to carry out such work. Additional staff, laboratory and equipment are needed to establish an effective environmental monitoring unit in the Department.

The major focus during the next five years is to establish a functional unit with sufficient personnel and laboratory resources to:

- (i) monitor land use and water quality, and measure soil erosion, deforestation, and water resources degradation;
- (ii) initiate monitoring of the impact of agro-chemical use (pesticides and fertilizers) in selected rural areas and urban areas as well as from drinking water wells, rivers and Lakes Malawi and Chilwa;
- (iii) monitor urban pollution in water courses of major cities to safeguard rural communities.

This Project will specifically address (i) above and it is hoped that other donors will come forward and fund activities (ii) and (iii).

3. PROJECT ACTIVITIES

a. Overview

The population of Malawi is currently about 8.4 million, with population density highest in the southern region and lowest in the northern region. The total land area of Malawi is 92,276 km² with an addition of 24,208 km² of water. About 46% of the total land area is arable, the rest being slopes and escarpments. Forests, game reserves and national parks take up approximately 22% of the total land area.

Malawi's growing population is putting increasing pressure on its land resources. Most suitable land is already under cultivation. Also, since Malawi is an agricultural country, population pressures are increasingly forcing people to cultivate more marginal lands. The lack of alternative sources for fuelwood is accelerating deforestation and population pressure is reducing the land available for grazing livestock, leading to overgrazing.

The increasing population pressure necessitates the institution of mechanisms to monitor land use activities to ensure that environmental degradation is redressed in some parts of the country. It is proposed that action be taken to strengthen the Environmental Unit to enable it to carry out environmental monitoring activities which will enable the development of policies for protection of degraded areas and ensure promotion of sustainable development.

Under ASAP, a cooperative agreement will be reached with a U.S. institution (or consortium) experienced in environmental monitoring issues. This agreement will include provision for short-term 8 months technical assistance to the Department of Research and Environmental Affairs. Funds will cover the establishment of the Environmental unit and operating expenses thereof.

b. Objectives

The main objectives of the project will be to:

- (1) Develop the capacity to carry out regular monitoring of land use changes.
- (2) Measure and monitor deforestation and soil erosion on customary land.
- (3) Monitor the encroachment of cultivation into steep escarpments, marginal areas and hills, and develop appropriate land use policies for such areas in consultation with the District Development Committees.
- (4) Monitor changes in grazing patterns to identify areas with severe grazing problems, and develop appropriate policies and programs to alleviate grazing pressure.

c. Issues and Constraints

- (1) Population pressure is increasingly forcing people to cultivate marginal areas (hills, steep slopes, escarpments and the rift valley scarp) causing serious land degradation and soil erosion.
- (2) Dependence on fuelwood is causing severe deforestation and land degradation throughout the country. Deforestation of escarpments and hills also causes serious soil erosion and destroys water catchments. Continued deforestation could lead to desertification, and further affect the country's development.
- (3) The expansion of crop production is limiting the land available for grazing and other uses. Malawi currently has about one million cattle and one million sheep, pigs and goats. Grazing land is becoming increasingly limited, causing severe overgrazing and soil erosion.

d. Activities and Strategies

The following activities will be undertaken to achieve project objectives:

- (1) Recruitment of staff
- (2) Determine the land use practices of selected districts under the heaviest land pressure, such as Chikwawa, Nsanje, Ntcheu, Dedza, Ntchisi, Nkhata Bay, Rumphu, Mzimba, Karonga, Chitipa, Mangochi, Chiradzulu and Machinga.
- (3) Assess land use changes over the past ten years and the degree of land degradation using aerial photographs and on the ground surveys, especially in the hills, escarpments and catchment areas of the above districts.

- (4) Identify main pressure areas and assess rates of encroachment of cultivation into escarpments, hills and catchment areas.
- (5) Measure and monitor rates of (a) deforestation and (b) soil erosion.
- (6) Liaise with the District Development Committee and local leaders regarding land use problems to develop improvement programs.
- (7) Liaise with Ministries of Agriculture, Forestry and Natural Resources and Department of Lands on measures to control soil erosion and deforestation.
- (8) Develop appropriate land use policies for rehabilitation of specific areas in liaison with the District Development Committee, local leaders and relevant Ministries.
- (9) Assess grazing pressures in districts with high livestock densities such as Nsanje, Chikwawa, Lilongwe, Mzimba, Chitipa, Karonga, Ntcheu and Dedza.
- (10) Develop policies compatible with other land use practices that can enhance grazing and environmental preservation.
- (11) Develop legislation to protect fragile and marginal lands, water catchments and important eco-systems.

e. Data Collection and Analysis

	<u>Data to be Collected</u>	<u>How analyzed</u>	<u>Who Will Collect</u>	<u>When</u>
Activity 2	Land use practices, cultivated area and livestock numbers.	Using ALES	DREA and MOA	Annually, initially using data collected by FAO Project.
Activity 3	Aerial photography analysis.	Programs at Aerial Photo Unit (MOA).	DREA and MOA	1992
Activity 4	Land use practices.	Pick erosion hazard areas using ALES.	DREA and MOA	1992
Activity 5(a)	Changes in land use.	Using ALES	DREA and Dept. Forestry	Annually
(b)	Soil loss.	Using ALES	DREA and MOA	Annually
Activity 9	Livestock data.	Time series	DREA and Dept. of Animal Health and Industries	Annually

ALES: Automated Land Evaluation System being used by the FAO Land Resources Evaluation Project and the Ministry of Agriculture Land Husbandry Branch

f. Commodities

In order to support the activities, some procurement of commodities is necessary. Equipment to be procured includes the following:

<u>Type</u>	<u>Item</u>
Vehicle	Twin cab 6 seater (4x4)
Computer plus accessories	2 PC's, LAN, printer
Printing equipment	Map printing equipment
Duplicating	Duplicating machine
Word processing	Word processor
Furniture/equipment	9 sets for the unit sufficient for staff
Map storage	Map cabinet

4. PROJECT INPUTS AND OUTPUTS

The inputs will consist of funds for the unit's operational costs, technical assistance, salaries, subsistence allowance, office rental, and commodities which include the purchase of a vehicle, two personal computers, map printing equipment, duplicating machine, word processor, furniture/equipment and a map cabinet.

The outputs will be the establishment of the Environmental Unit in terms of staff recruitment, reports on land use practices and changes, identification of pressure areas and rates of encroachment of cultivation into escarpments, hills, and catchment areas, measurements and monitoring of rates of soil erosion and deforestation, liaison with local leaders and district development committees regarding land use problems, liaison with Ministries of Agriculture, Forestry and Natural Resources and the Department of Lands on measures to control soil erosion and deforestation, develop land use policies in order to rehabilitate specific areas, assess grazing pressure in districts with high livestock densities, develop policies to enhance grazing and environmental preservation and develop legislation to protect fragile and marginal lands, water catchment and important eco- systems.

5. PROJECT MANAGEMENT

The Project is planned for an initial period of two and half years. At the moment, the Government of Malawi does not have adequate staff in the Environmental Unit, and it is proposed to initially fund all additional posts on development account. This project will fund GOM's operating costs for the remaining half of financial year 1991/92 and all operating costs for financial years 1992/93 and 1993/94 after which GOM will take over all operating costs of the unit. The reimbursement system will be employed whereby the GOM will spend its own money and USAID will reimburse on provision of expenses incurred.

131

Commodities will be procured directly by USAID, except for furniture/equipment which will be contracted locally and procured by the Department of Research and Environmental Affairs.

A total of eight months short term technical assistance will also be provided under the project. A cooperative agreement with a U.S. institution will be competed and negotiated directly with USAID.

The Department of Research and Environmental Affairs will be the implementing institution of the project. The project manager will be the Principal Secretary for the Department of Research and Environmental Affairs of OPC with close collaboration with line ministries and departments. Within USAID, the project will be managed by the Agriculture and Food Security Division. A procurement plan is included in the PAAD.

DEPARTMENT OF RESEARCH AND ENVIRONMENTAL AFFAIRS BUDGET FOR ENVIRONMENTAL UNIT

DESCRIPTION	UNIT	1992	1993	1994	TOTAL
I. TECHNICAL ASSISTANCE (8 months)	US\$	75,000	75,000	50,000	200,000
II. OPERATIONAL SUPPORT (Malawi Kwacha)					
- Salaries					
Principal Environmental Officer	1	4,850	9,800	9,900	24,550
Senior Environmental Officer	2	4,450	18,000	18,200	40,650
Environmental Officer	2	3,000	12,200	12,400	27,600
Economist	1	3,000	6,100	6,200	15,300
Draftsman	1		2,600	2,700	5,300
Tracer	2	2,500	5,200	5,400	13,100
Stenographer	1	2,400	5,800	6,000	14,200
Copy Typist	1		2,600	2,700	5,300
Laborer	5	2,400	2,400	2,400	7,200
Messenger	1	840	860	880	2,580
SUBTOTAL Salaries		23,440	65,560	66,780	155,780
- Subsistence Allowance					
SUBTOTAL Subsistence Allowance		15,000	15,000	15,000	45,000
- Office Rental					
SUBTOTAL Office Rental		30,000	60,000	30,000	120,000
- Miscellaneous					
Vehicle Running Costs (Fuel and Maintenance)		20,000	40,000	40,000	100,000
Stationery and Printing		10,000	20,000	25,000	55,000
Seminars and Visits		10,000	20,000	20,000	50,000
Electricity, Water, Postal & Phone Charges		5,000	10,000	10,000	25,000
SUBTOTAL Miscellaneous		45,000	90,000	95,000	230,000
SUBTOTAL OPERATIONAL SUPPORT		113,440	230,560	208,780	550,780
III. COMMODITIES (Malawi Kwacha)					
- Equipment and Supplies					
Twin-Cab 6 Seater (4X4)-Japan	1	100,000			100,000
Computer & Accessories-USA	2	50,000			50,000
Map Printing Equipment-USA	1		7,000		7,000
Duplicating Machine-USA	1		20,000		20,000
Word Processors-USA	1	5,000			5,000
Furniture/Equipment-Malawi	9	75,000			75,000
Map Cabinet-USA	3	10,000			10,000
SUBTOTAL COMMODITIES		240,000	27,000		267,000
SUMMARY TOTALS (US\$) (\$1=MK2.7)					
I. TECHNICAL ASSISTANCE		75,000	75,000	50,000	200,000
II. OPERATIONAL SUPPORT		42,015	85,393	76,585	203,993
III. COMMODITIES		88,889	10,000		98,889
GRAND TOTAL (US\$)		205,904	170,393	126,585	502,881
GRAND TOTAL (MK)		555,940	460,060	341,780	1,357,780

C4: FOOD SECURITY MONITORING AND POLICY DEVELOPMENT ACTIVITY

1. INTRODUCTION

The Agricultural Sector Assistance Program (ASAP) focuses on increasing agricultural production and productivity through improved access to cash crop production opportunities by smallholder farmers and through improved access to agricultural inputs for cash and food crop production. It is intended that the program will have a positive impact on food security, by increasing the resources available to rural families for either purchase of foodstuffs or purchase of inputs for greater food crop productivity. However, there is always an unknown element concerning the outcomes of policy reforms.

To monitor the program's impact on food security, and to assist the GOM generally in its effort to monitor food security in the country and to develop and implement appropriate policies and interventions, the program will include provision for a full-time resident food security advisor and short-term consultancy visits, over a five-year period. This activity will be located in the Food Security and Nutrition Unit (FSNU) of the Department of Economic Planning and Development (EP&D). ASAP also will provide funds over a five-year period to the Ministry of Agriculture (MOA) to implement the household Food Security and Nutrition Monitoring Surveys (FSNMS), the new crops estimates methodology, and to disseminate survey findings and resulting recommendations. These activities are coordinated with complementary work financed by UNICEF and FAO.

2. NATIONAL FOOD SECURITY AND GOM POLICY DEVELOPMENT

During the mid-1980's, there was an increasing recognition of significant nutrition problems and a growing food shortage in Malawi. A Nutrition Symposium for Principal Secretaries was held in 1986, with a major outcome being the establishment of the FSNU in 1987. Also in 1987, a combination of drought, reduced hybrid maize plantings and the continued in-migration of displaced persons from Mozambique precipitated a serious national food shortage. The situation was further exacerbated by the destruction of the cassava crop by the mealy bug pest. When the GOM appealed to the international community for food aid, it faced a major difficulty collecting accurate information about the numbers of Malawians affected by the drought and cassava crop destruction, and therefore about estimates of emergency food aid required.

The experiences of 1987 and thereafter have heightened the need to move ahead rapidly to strengthen the capacity of the FSNU in both policy analysis and food and nutritional surveillance. Policy reforms already implemented, e.g. liberalization of grain marketing, may in the short run adversely affect food security of poorer households in certain areas. Without a monitoring system in place, including regular surveys, the GOM would have insufficient information to know what is happening and to act to correct adverse outcomes.

In light of recent experiences, it has become apparent that the country's national food situation needs constant monitoring, surveillance, and analysis so that policy-makers can make sound decisions on agricultural and macro-economic policies, producer and consumer price policies, and food imports and exports. Such information will be critical for the achievement of the intended impact of ASAP.

3. FOOD SECURITY POLICY DEVELOPMENT AND ANALYSIS

This project activity will be implemented by the Food Security and Nutrition Unit in the Department of Economic Planning and Development.

The overall responsibilities of the FSNU include the following:

- To maintain an overview and continuing analysis of policies and programs most relevant for food security and nutrition;
- To estimate the food security and nutrition effects of selected existing or potential policies and programs and identify new policies and programs or changes in existing ones which are likely to result in more desirable effects;
- To develop a national food and nutritional surveillance system by regularly synthesizing available and new information to improve its utility for policy making and to facilitate its use in deliberations and decisions regarding existing and future Government policies and programs;
- To identify areas where additional information is needed, and to coordinate the collection and analysis of such information; and
- To ensure that information is disseminated in a timely fashion via preparation and distribution of regular bulletins and policy papers.

The FSNU is the secretariat for the Inter-ministerial Committee on Food Security and Nutrition Surveillance.

Since its inception in 1987, the FSNU has been part of the Agricultural Section of EP&D, but the intention is that eventually it will become a separate entity within EP&D. In the past, external financial and technical support has been given to the FSNU by its programs of cooperation with the World Bank through Harvard University, and with UNICEF through Cornell University. The unit has five established posts, but as of this date only two are filled, those of Senior Nutritionist and Economist. The position of Head of Unit had been filled, but the individual was reassigned.

The following positions are unfilled, largely because of GOM budgetary constraints: the Principal Economist and Head of Unit, Senior Economist, and Nutritionist. In response to a GOM request, UNICEF has agreed to provide funding for these three unfilled positions. However, without the GOM undertaking responsibility for filling these positions on a permanent basis, the work of the FSNU is not fully sustainable. Since reliance on donor support can be only temporary, a Condition Precedent to disbursement of funds

for this activity which states that the GOM will submit a plan acceptable to USAID in which it specifies how these positions will be filled on a permanent basis has been included in the Grant Agreement.

Over the next five years, the broad objectives of the FSNU will continue to be assisting the GOM to direct resources more effectively to improve the food security of the country both at the national and household levels. The FSNU will work with other related GOM departments to achieve these objectives. Activities to accomplish these objectives are as follows:

- analyses (by FSNU and others) of key aspects of national and household food security;
- institutional development of the food and nutritional surveillance system, including carrying out an effective information dissemination program;
- coordinating policies, programs and activities which affect food security;
- sponsoring and promoting appropriate training activities and policy level workshops; and
- supporting data collection activities related to policy analysis and food and nutrition surveillance.

The long-term (four years) technical advisor who will be recruited using ASAP funds will work with the FSNU to achieve these objectives. The advisor will report to the FSNU Head of Unit. It is expected that the Head of Unit position will be filled by January, 1992, using UNICEF funds. The ASAP-supported advisor will be responsible for the following:

- identifying new data needs and methods of data collection;
- identifying and/or developing analytical methodology appropriate for understanding food security issues and for informing policy makers and others about those issues;
- advising on policy-related matters; and
- designing appropriate training activities, including workshops, and information dissemination methods.

Funds for short-term consultancies, totaling five person months, will also be included to provide assistance on specific topics as they arise. This activity will take the form of a cooperative agreement between USAID and a U.S. university which has expertise in food security monitoring, policy development and project implementation. A budget is attached.

4. FOOD SECURITY AND NUTRITIONAL MONITORING SURVEY AND THE NEW CROP ESTIMATES METHODOLOGY

Related to the work of the FSNU, the development of the National Food and Nutritional Surveillance System has been worked within the Ministry of Agriculture (MOA) to develop food and nutritional surveillance through the establishment of a Food and Nutrition Information System whose major

components are the Food Security and Nutrition Monitoring Survey System (FSNMS) and the Early Warning System. The primary objective of the FSNMS has been to develop the institutional capacity of the MOA to implement the FSNMS system in order to establish a simple and sustainable information collection system throughout the country. To date, assistance for the MOA work has been channeled through a joint program between UNICEF and the Cornell University Food and Nutrition Project. A new five-year program has been designed for 1992-96, and as part of this new program A.I.D. will provide financing under ASAP for survey implementation, analysis, supervision, reporting and training of field staff.

The primary objective of the Early Warning System is to develop and operate a monitoring system of field crop conditions in order to forecast national and regional food security status. This includes providing the GOM with accurate and timely crop yields, production, stocks, imports, and export statistics. A major focus has been the testing of a new crop estimates methodology in two ADDs for two years. An inter-ministerial task force composed of OPC, National Statistics Office, MOA, determined this new methodology was statistically reliable, verifiable economically and practically. This new methodology has been fully endorsed and will be implemented in four ADDs in 1991-92 and the entire country. The "Smallholder Crop Estimates" are produced three times each year, under the direction of the inter-ministerial Crop Estimates Committee, chaired by the Office of the President and Cabinet. These estimates are highly important as they serve as early season forecasts of area, yield and production, as well as expected ADMARC purchases. As the major source of national level crop statistic, the estimates are widely used for such purposes as elaborating agricultural import and export policies, measuring agriculture's contribution to the gross domestic product, formulating pricing policies, designing cultivation plans, and in agricultural planning in general.

The FSNU relies on outside sources for data about food security in Malawi. One major source of data is the MOA, which is responsible for the Early Warning System and collecting household-level data on food security, nutrition, and income and expenditure. Data collection is accomplished through the FSNMS system. Three nation-wide surveys will be conducted each year, with each survey managed by the respective ADD with assistance from MOA's Monitoring and Evaluation Unit of the Planning Division. The first survey, conducted in February, will have a food security module and a nutrition module to measure the nutritional status of children. The second, in June, will have a food security module only. The third, in November, will have a food security module plus an income and expenditure module. Each survey will be conducted by trained enumerators, and the data will be analyzed by ADD personnel, with some assistance by Monitoring and Evaluation Unit staff. From initiation of survey to completion of reports will require about two months.

A Principal Economist is the head of the Monitoring and Evaluation Unit, and will be responsible for implementation of this activity. That individual will oversee survey implementation, will supervise workshop and training

activities, and will monitor accounting for project expenditures. He/she will be assisted by an expatriate technical assistant funded by UNICEF. A Senior Economist will be responsible for the analytical work. Within each ADD, Evaluation Officers, all economists, will be responsible for survey implementation and data analysis.

Because this is a relatively new activity, much of the organization and management has been accomplished through technical assistance. It is expected that within two years MOA staff will have assumed all management responsibility, with the possible need for short-term TA for specific tasks. Within the ADDs, much of the fieldwork is done by MOA staff, but still some Evaluation Officer economist positions are occupied by expatriates. This situation exists in part because Malawian staff are being trained overseas.

However, it is essential that Malawian staff occupy all the required positions for this activity to be sustainable. As with the EP&D activity discussed above, reliance on donor support can be only temporary. Included in the Grant Agreement Condition Precedent to disbursement of funds for this activity will be that the GOM will submit a plan acceptable to USAID in which it specifies how all required positions will be filled on a permanent basis.

These activities with the Monitoring and Evaluation Unit of the MOA's Planning Division will be financed through a cost reimbursement system. A separate account for the activities will be maintained by an identified accountant within the MOA Accounts Section, and the MOA project manager will approve and monitor all project expenditures, and be responsible for all required reporting. All expenditures are expected to be local expenditures. A budget is attached.

5. PROJECT INPUTS AND OUTPUTS

The project input for the EP&D activity is technical assistance only. Project inputs for the MOA activity include training survey, travel/supervision, scales, calculators and stationery. Project outputs include a strengthened Early Warning System and Food Security and Nutrition Units, and policy analysis and development based on research undertaken and input from other related activities. For the MOA activity, project inputs are support for survey execution and analysis, and for dissemination of results. Project outputs include completed surveys, and an improved data base and policy-making environment.

6. PROJECT MANAGEMENT

As described above, within the GOM, management of the EP&D activity will rest with the Principal Economist and Head of Unit of the FSNU. In the event that that position is unfilled upon the commencement of the ASAP-funded activity, another officer appointed with EP&D will assume management of the activity.

The project-funded TA also will assist with the development of the organization, and will advise on management issues. Management of the MOA activity will rest with the Principal Economist of the Monitoring and Evaluation Unit. That individual will receive assistance from the UNICEF and FAO-funded TA currently in place.

Within USAID, management responsibility will rest with the Agricultural Development Officer (ADO). In the implementation of ASAP, she will be assisted primarily by her deputy, and also by project assistants within her division. Disbursement of funds will be managed by the Mission's Controller's Office. The EP&D activity will be financed through a cooperative agreement directly managed by USAID. The MOA activity will be financed through the Program Grant Agreement with the GOM, using a cost reimbursement system as described above. No major procurement is expected under this activity. Scales and calculators will be procured by A.I.D. Minor procurement under the EP&D activity (a project vehicle and office equipment) will be managed under the cooperative agreement, and under the MOA activity (stationery and workshop/training supplies) by MOA. A budget is attached. A procurement plan is included in the PAAD.

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

FOOD SECURITY MONITORING, POLICY DEVELOPMENT AND IMPLEMENTATION

PROJECT BUDGET (US\$ '000)

MOA Activity: Food Security and Nutritional Surveillance

Item	1992	1993	1994	1995	1996	TOTAL
Surveys	210000	117700	125939	134755	144188	732581
W/shops & field staff training	25000	26750	28623	30626	32770	143768
Travel/supervision	15000	16050	17174	18376	19662	86261
TOTAL	250000	160500	171735	183756	196619	962611

EP&D Activity: Food Security and Nutritional Unit

Item	1992	1993	1994	1995	1996	TOTAL
Technical Asst.						
Long-term	99710	202683	216190	215288	153272	887143
Short-term		23441	24366	25331	26336	99474
Operating Expend.	7620	22860	23495	24130	15875	93980
Commodities	25000	1000	1000	1000		28000
Contingency	6617	12500	13253	13287	9774	55431
TOTAL	138947	262484	278304	279036	205257	1164028
GRAND TOTAL	388947	422984	450039	462792	401876	2126639

EP&D Activity: Food Security and Nutritional Unit

Item	1992	1993	1994	1995	1996	TOTAL	
Tech. Assistance							1.1 local inflation
Long-Term							1.05 international inflation
Salary	77000	79310	81689	84140	86664	408803	1.03 3% increase each year
B'stop & support	12320	12690	13070	13462	13866	65409	0.16
Subtotal	89320	92000	94760	97602	100530	474212	
Fringe	17864	18400	18952	19520	20106	94842	0.2
Differential	7700	7931	8169	8414	8666	40880	0.1
Housing	17500	18375	19294	20258	21271	96699	1.05 annual inflation
COL	1155	1190	1225	1262	1300	6132	0.015
Nov. & stor.	11500	3000	3000	3000	9000	29500	
Furn. Allow.	8000					8000	
Settling-in					10000	10000	
School	8000	8560	9159	9800	10486	46006	1.07 two primary school children,
Subtotal	53855	39056	40847	42735	60724	237217	
DBA	2649	2728	2810	2894	2981	14063	0.0344
Travel	8000	12600	17640	13892	24310	76442	see below
Subtotal w/O/H	218044	209275	222261	224337	264988	1138905	
Short-term							\$307/day, 22 workdays
Salary	6754	6957	7165	7380	7602	35858	16%
B'stop & support	1081	1113	1146	1181	1216	5737	20%
Fringe	1351	1391	1433	1476	1520	7172	\$140, 5% pa increase
Per diem	4340	4557	4785	5024	5275	23981	
Subtotal	13525	14018	14530	15061	15614	72748	0.0344
DBA	232	239	246	254	261	1234	
Travel	4000	4200	4410	4631	4862	22103	
Overhead	4795	4983	5180	5385	5599	25943	
ST TA Total	22552	23441	24366	25331	26336	122027	
Other							
Comm. & Suppl.	6000	6300	6615	6946	7293	33154	
Printing	8000	8400	8820	9261	9724	44205	
Veh. Operation	2700	2835	2977	3126	3292	14919	
Overhead	4509	4734	4971	5220	5481	25943	
Subtotal	21209	22269	23383	24552	25780	117193	
Equipment							
Computer	5000	1000	1000	1000	1000	9000	
Vehicle	20000			20000		40000	
Subtotal	25000	1000	1000	21000	1000	49000	
Contingency (5%)	14340	12799	13551	14761	15905	71356	
TOTAL	301145	268784	284561	309982	334009	1498481	

147

C5: DESCRIPTION OF PROJECT ACTIVITIES: STUDIES

1. INTRODUCTION

Within the Agricultural Sector Assistance Program, several important studies will be undertaken with the objective of identifying key constituent steps to the achievement of the Program's four themes and specifying the policy reform agenda for the second phase of the program. The planned studies include:

Theme 1: Production and Marketing of Crops

- (1) Alternative Marketing Channels for Smallholders
- (2) Review of Legislative and Administrative Barriers to Smallholder Crop Production and Marketing
- (3) Impediments to Private Sector Maize Marketing
- (4) Smallholder - Estate Interface Study
- (5) Development of Timely Commodity Price Information System

Theme 2: Efficiency of Input Delivery

- (6) Development of Credit and Input Access Plan for Smallholders (less than 1.5 ha)
- (7) Analysis of Constraints to Private Sector Distribution of Seeds and Fertilizer
- (8) Development of Extension Modules for Smallholders (less than 1.5 ha)
- (9) Examination of Land Use and Tenure Issues

Theme 3: Equity in the Agricultural Sector

- (10) Evaluation of Tobacco Prices Paid to Burley Tenants

Theme 4: Crop Diversification

- (11) Identification of Crop Diversification Opportunities and Constraints

2. STUDY DESCRIPTIONS

A description of the objective of each study is presented below:

(1) Alternative Marketing Channels for Smallholder Producers

This study will identify possible alternative marketing channels for smallholder producers, in particular for burley tobacco producers but also for producers of other crops as well. The study will identify options, research

the advantages and disadvantages of individual options, provide details (including cost estimates, human resource requirements, and timing) of implementing each option, and make recommendations.

(2) Legislative and Administrative Barriers to Smallholder Crop Production and Marketing

A variety of major and minor impediments to crop production and marketing remain in either legislative or administrative form. This study will identify those impediments and recommend corrective action.

(3) Impediments to Private Sector Maize Marketing

Although private sector traders can market maize, only a very small proportion of production is marketed through the private sector. This study will identify impediments to private sector maize marketing, and recommend an action plan whereby these impediments can be removed.

(4) Smallholder-Estate Interface Study

The smallholder-estate interface study will follow-on from two studies undertaken during the design phase of ASAP: Beyond Dualism and the Tenant-Laborer Study. The objective of the Interface study is to develop further Mission and GOM understanding of the close employment, land use, production, and marketing arrangements which exist between the customary and leasehold sectors. The research, analysis, and report writing for this study will take place with the close participation of Bunda College of Agriculture, with personnel present at the college through the Bunda College CARD strengthening project activity. The empirical work is estimated to take approximately one year; a further three months are allowed for report preparation and dissemination of results.

(5) Study and Devise System for Timely Commodity Price Reports

The GOM and USAID will develop a Scope of Work and undertake to devise a system for the dissemination of market price information on an ADD basis for a mutually agreed-to list of agricultural commodities. This plan will include the mechanism whereby the information will be collected and publicly disseminated in a timely fashion. It is intended that information will be collected and disseminated on a weekly basis, however it is agreed that the frequency of collection and dissemination will be determined during the design of the plan. Project support will be provided to prepare this plan.

(6) Credit Access Plan for Smallholders

The availability of credit in a timely and efficient manner is a problem particularly for smaller landholders, i.e. those with holdings less 1.5 ha. This study will identify specific constraints to the provision of credit and inputs to these smallholders, and recommend ways in which these constraints can be overcome. Emphasis will be placed on a more liberalized system of input delivery, e.g. encouraging private traders in rural areas to market inputs.

(7) Private Sector Distribution of Seed and Fertilizer

The study in section (2) above concerns smallholders in particular. The study called for in this section concerns all agricultural producers. In implementation, the two may be conducted simultaneously. This study will identify the means whereby the distribution of seeds and fertilizer can be organized through private sector channels.

(8) Improved Extension Services to Small Customary Landholders

Historically extension services have not been readily available to small customary landholders. This study will identify impediments to providing services to those farmers, and will recommend, along with an action plan, ways in which production modules can be developed and delivered in areas such as burley tobacco, HYV maize, and chemical and organic fertilizer use.

(9) Land Tenure, Land Use and Commercial Crop Production

The intent of the ASAP program is to assist in particular customary landholders with less than 1.5 ha. to increase crop production and productivity. Clarification is required concerning the relationship in Malawi of land tenure to land use, in particular with respect to commercial crops production. One specific issue which will be included in this study is that of leasehold registration for the purpose of establishing an estate. Some action must be taken about the large registration backlog, but broader land tenure issues must be better understood before decisions are made. The study will result in recommendations, along with an action plan, concerning land tenure and land use issues.

(10) Evaluate Tobacco Prices Paid to Burley Tenants and Smallholders

The GOM and A.I.D. will jointly approve a scope of work to evaluate the method of establishing prices paid to tenants for burley tobacco. The study will include an assessment of the price determination method. The GOM will implement the study recommendations, as mutually agreed to by the GOM and A.I.D.

(11) Crop Diversification Opportunities

Much work has been done to identify crop diversification opportunities, but existing studies have not been collected and reviewed in a comprehensive and organized manner. The purpose of this activity will be to review existing work and conduct additional work in order to identify viable crop diversification opportunities and constraints which must be overcome, and to recommend required actions.

3. REQUIRED SKILLS

- (1) Market Channels: 3 people: tobacco, smallholder crop, and marketing specialists
- (2) Legal Barriers: 1 person: local legal expert

- (3) Maize Trade: 2 people: food crop marketing and finance specialists
- (4) Interface Study: 2 people: 1 ag economist, 1 statistician (Bunda long-term TA)
- (5) Price Information: 2 people: 1 communications, 1 ag economist
- (6) Credit/Inputs: 2 people: 1 credit specialist, 1 input specialist: Demand/Need perspective.
- (7) Private Inputs: 2 people: 1 fertilizer specialist, 1 input supply specialist: supply perspective,
- (8) Extension Modules: 3 people: 1 communication specialist, 1 extension specialist, 1 Ag. Economist (working with Ministry of Agriculture and Bunda Agronomists)
- (9) Land Tenure: 2 people: 1 anthropologist, 1 rural soc/economist
- (10) Tenant Prices: 2 people: 1 tobacco specialist, 1 production marketing economist
- (11) Crop Diver'n: 2 people: 1 ag economist, 1 agro-industrialist (strong private sector background)

4. PROJECT IMPLICATIONS OF SPECIAL STUDIES

Special studies undertaken over the course of the ASAP program will each conclude in a series of recommendations and an action plan. Thus, the intent of the special studies program is to highlight the mode and direction of interventions which are expected to follow the studies. At this point, two studies are expected to conclude early enough in the implementation of Phase 1 of ASAP to warrant budgeting for the follow-on implementation activity. Under "Alternative Marketing Channels for Smallholders", the Mission expects the researchers will identify one or more pilot marketing organizations for smallholder cash crop production. As a result, we have included an illustrative funding level for the development of such a pilot effort in the project budget. In addition, since the study of price information systems will result in the design of an information system, assistance for developing the system is also included in budget.

151

ILLUSTRATIVE BUDGET: STUDIES/IMPLEMENTATION

<u>Study Title</u>	<u>Technical Assistance</u>	<u>Per Diem</u>	<u>Travel</u>	<u>Overhead</u>	<u>Total Cost</u>
Market Channels	54,000	37,800	18,000	32,940	142,740
Legislative Barriers	4,800	-	500	-	5,300
Maize Marketing	24,000	16,800	12,000	15,840	68,640
Estate Interface*	-	-	-	-	-
Credit/Seed/Fertilizer	36,000	25,200	18,000	23,760	102,960
Private Inputs	24,000	16,800	12,000	15,840	68,640
Extension Modules*	-	-	-	-	-
Land Tenure*	-	-	-	-	-
Price Information	12,000	8,400	12,000	9,720	42,120
Tenant Prices*	-	-	-	-	-
Crop Divers'n	-	-	-	-	-
Subtotal	154,800	105,000	72,500	82,260	430,400
<u>Implementation**</u>					
Market Channels (24 person months)	144,000	102,200	30,000	82,860	359,060
Price Information (2 person months)	<u>12,000</u>	<u>8,400</u>	<u>12,000</u>	<u>9,720</u>	<u>42,120</u>
Subtotal	156,000	110,600	42,000	92,580	401,180
TOTAL COSTS	310,800 -----	215,600 -----	117,500 -----	174,840 -----	831,580 -----

* Indicates costs to be covered by short-term and long-term technical assistance to Bunda College of Agriculture.

** Only TA costs are presented here. Additional costs required to fully implement these activities are included in the overall project component budget within the appropriate line items.

ASAP IMPLEMENTATION PLAN

FOR 3 RFPs : FOOD SECURITY, BUNDA and CREDIT/SEEDS & FERTILIZER/NON-BURLEY ALTERNATIVE MARKETS

	RFP draft	RFP issued	Proposals due	Contract awarded	Contract issued	TA arrived
1. Food Security (Co-op Agreement)	Nov. 91	Dec. 91	March 92	April 92	May 92	July 92
2. Bunda (Co-op Agreement)	Nov. 91	Dec. 91	March 92	May 92	May 92	July 92
3. Credit/Seeds & Fertilizer/Alt. Mkt (Co-op Agreement)	Nov. 91	Dec. 91	March 92	April 92	May 92	July 92

183

ASAP IMPLEMENTATION PLAN FOR AGRO-FORESTRY AND ESTATE ACTIVITIES

	PIO/T	Contract issued	TA Starts start	MOA Activities
1. Agroforestry	Dec. 91	Jan. 92	Sept. 92	April 92
	Require Posting Terms & Conditions	SOW Tenant Price Study	Tenant Price Start Study	Tenant Price Study Completed
2. Estate Activities	Jan 92	Jan 92	April 92	June 92
				Nov. 92
				Clarify Adjudication Procedures

ASAP IMPLEMENTATION PLAN FOR 2 MONITORING ACTIVITIES

	REDSO/TA Indicators established	REDSO/TA Review line Ministry input	Baseline data established	1st Annual Report submitted	Report Assessed	2nd Annual Report	3rd Annual Report
1. Environ. Monitoring	Oct. 91	Feb. 92	June 92	May 93	June 93	May 94	May 95
	1st Eval. submitted	Mid-Term submitted	3rd Eval. submitted	4th Eval. submitted	Final		
2. S/H burley Evaluation	Sept. 92	April 93	Sept. 94	Sept. 95	June 1996		

154

ASAP IMPLEMENTATION PLAN FOR 3 STUDIES DELIVERY ORDERS

	SOW	PIO/T issued	Delivery Order Signed	Start	Completed
1. Private Maize Mkt Sector (IQC)	Nov. 91	Dec. 91	Jan. 92	Feb. 92	----March 92 2 months
	SOW	PIO/T issued	Delivery Order Signed	Start	Completed
2. Alternative Mkt (Buy-In)	Nov. 91	Dec. 91	Jan. 92	Feb. 92	----- March 93 13 months
	SOW	PIO/T issued	Delivery Order Signed	Start Study	Study Completed
3. Tenant Price Study (Buy-In)	Jan. 91	Feb. 91	March 92	April 92	----- June 92 2 months

155

ASAP IMPLEMENTATION PLAN FOR 6 STUDIES UNDER BUNDA

	SOW	Start	Completed
1. Price Info System (Bunda)	April 92	June 92----- 1 month	Sept. 92
	SOW	Start	Completed
2. Estate Interface Study (Bunda)	May. 92	July 92----- 14 months	Sept. 93
	SOW	Start	Completed
3. Land Tenure (Bunda)	Aug. 92	Oct. 92----- 2 months	Dec. 92

	SOW	Start	Completed
4. Crop Diversification Study (Bunda)	Nov. 92	Jan. 93-----	March 93 2 months
	SOW	Start	Completed
5. Extension Module (Bunda)	May 93	July 93	July 94
	SOW	Study Starts	Study Completed
6. Leg/admin* Barriers Study (Bunda)	July 94	Sept. 94-----	Oct. 94 1 month

* This study may not be necessary; earlier studies will determine the need for this study

156

JUSTIFICATION FOR NONCOMPETITIVE AWARD

To: Carol A. Peasley, DIR
From: Kurt A. Rockeman, AFS *KAR*
Thru: Joanne Hale, AFS *JH*
Subject: Malawi Agricultural Sector Assistance Program (ASAP)

Action Requested: Your approval is required to authorize a noncompetitive award under the subject program for the following:

A. Activity	:	Agroforestry Extension
B. Type of Award	:	Cooperative Agreement
C. Source	:	Washington State University
D. Estimated Amount	:	\$873,726

Discussion: Agroforestry research activities in Malawi during the past five years have been intensely supported through a contract with the Consortium for International Development (CID) financed under the Malawi Agricultural Research and Extension (MARE) Project 612-0215. Long-term technical assistance to agroforestry research under the CID contract at the Chitedze Agricultural Research Station has been provided by Washington State University (WSU) in the person of Dr. W. T. Bunderson, in addition to short-term assistance in research design.

The agroforestry research activities supported by WSU during this period have laid a solid foundation for making a significant impact on agricultural sustainability and food security in Malawi. In addition, the nature of these activities is consistent with maintaining or improving the existing natural resource base. As a result of the research program, management recommendations for several key agroforestry technologies have been developed. These management recommendations are currently undergoing on-farm testing, and being utilized in WSU supported pilot extension efforts in several of Malawi's distinct ecozones.

Results obtained to date with respect to alley cropping are illustrative of the fruits of these efforts. Alley cropping is the cultivation of annual crops such as maize between hedgerows of woody perennials that are pruned periodically to prevent shading of the alley crop, and to supply manure/mulch, fodder and fuelwood. Prior to this research, there was simply no sound basis for making any recommendations to farmers. However, the research program has developed and finalized management practices for alley cropping hybrid maize with leucaena. Research shows that the use of these practices on relatively infertile or depleted soils

157

in the absence of inorganic fertilizers can improve average smallholder yields from 100-300%. The potential impact of broadly disseminating these technologies is a significant reduction in the use of or need for expensive, imported fertilizers while substantially increasing smallholder maize production and incomes. Malawi has one of the highest fertilizer nutrient prices in Africa, and this factor in combination with population pressures on a limited arable land base has resulted in an estimated decline of 30% in soil fertility levels since Independence.

Research results on farm integration of Acacia albida, a fast-growing indigenous leguminous tree, are also impressive. Research has shown that yields of sorghum, pearl millet and maize under an acacia canopy are from 50-250% higher than average smallholder yields. Ongoing research is attempting to determine how best to optimize crop production with acacia on a sustainable basis. Meanwhile, management practices have been developed to systematically integrate the tree on smallholder farms, and are currently being field tested and promoted in pilot areas.

The impressive results achieved as a result of Dr. Bunderson's and WSU's support to agroforestry research during the past five years have yielded technology packages which are ready for broader dissemination to smallholders. As such they represent the potential for a rapid and significant impact on smallholder production and incomes through transfer of the technologies discussed above. Current estimates are that only 30% of smallholders apply any chemical fertilizer. The balance of the smallholder population could substantially boost their food production and income utilizing agroforestry techniques.

These results have been achieved as a result of several factors. The continuity of WSU and Dr. Bunderson's technical support during research design, implementation and evaluation, and the extension of results in a pilot manner has been instrumental in establishing the currently existing basis for expansion of these technologies. Dr. Bunderson has also established the important professional and field working relationships with counterparts which are critical for a rapid spread of this technology.

Dr. Bunderson brings an impressive knowledge base to the effort. His 31 years of experience in African countries, combined with his comprehensive understanding of the research program and his unique understanding of the Malawi agroforestry experience, have been of invaluable assistance in moving the research program ahead to its current phase. In addition, Dr. Bunderson's ability to establish and nurture important contacts with GOM counterparts has led to a high degree of acceptance for WSU's efforts. His high degree of personal credibility with GOM counterparts has helped him gain access to and establish a network of contacts at decision making levels. As a result there is currently a great deal of interest in, and considerable high level support for, agroforestry research and extension.

In summary, the potential short-term impact on smallholder agriculture from continuing and expanding agroforestry research and extension activities is possible only through continued access to the WSU's agroforestry experience in Malawi, supported by the excellent relationships already established by WSU and Dr. Bunderson with GOM counterparts, extension agents, and smallholder farmers. The agroforestry extension activity will build on this relationship through Dr. Bunderson's continued presence as a long-term technical advisor, a presence which is only available through his relationship with WSU. The agroforestry extension activity will also rely upon WSU's continued backstopping, support, and provision of short-term technical assistance familiar with the activity during, and subsequent to the completion of, Dr. Bunderson's assignment in Malawi.

Justification: Handbook 13, Chapter 2B.3.b states that competition is not required for "Assistance awards for which one recipient is considered to have exclusive or predominant capability, based on experience, specialized facilities or technical competence, or based on an existing relationship with the cooperating country or beneficiaries."

Authority: Handbook 13, Chapter 2B.4 states that "noncompetitive awards must be justified in writing by the technical office", and that "the justification shall be submitted to the cognizant grant officer for review."

Recommendation: That you approve the Noncompetitive Award of a Cooperative Agreement to Washington State University to support the continued expansion of Malawi's agroforestry research and extension program.

Approved: Carol G. Pearley

Disapproved: _____

Date: 26 Sept. 1991

Drafted by: AFS:KRockeman:9/20/91

Clearance: PID:DMcCloud
PAE:RMahoney
FMO:RAmin
RLA:CBrown (draft)

UNCLASSIFIED

STATE 3922/01

ACTION: AID-3 INFO: AMB DCM/ECON

VZCZCLO644
RR RUEHLG
BT RUEHC #3922/01 0590332
ZNR UUUUU ZZH
R 28 330Z FEB 91
FM SECSTATF WASHDC
TO RUEHLG/AMEMBASSY LILONGWE 4069
INFO RUEHNR/AMEMBASSY NAIROBI 946A
BT
UNCL S SECTION 01 OF 04

LOC: 106 080
28 FEB 91 0534
CN: 38060
CHRG: AID
DIST: AID

AIDAC NAIROBI FOR REDSO PLA

E.O. 12356: N/A

TAGS:

SUBJECT: MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM
PAIP REVIEW AND PAAD GUIDANCE CABLE

1. SUMMARY: THE ECPR MET ON JANUARY 24 1991, TO REVIEW THE SUBJECT PAIP. DAA/AFR, SAJERS CHAIRED THE MEETING AND REPRESENTATIVES OF AFR/SA, GC/AFR AFR/TR AFR/DP, PPC/PB AND AFR/PD ATTENDED. ADO JOANN HALE AND PROGRAM OFFICER, ROBERTA MAHONEY REPRESENTED THE MISSION. DAA/AFR, SAJERS PRAISED THE PAIP FOR SO CLEARLY IDENTIFYING THE CONSTRAINTS TO IMPROVING THE LIVES OF THE POOR MAJORITY IN MALAWI. THE SUBJECT PAIP WAS APPROVED FOR FURTHER DEVELOPMENT SUBJECT TO THE FOLLOWING GUIDANCE. END SUMMARY.

2. THE ECPR DISCUSSION CENTERED AROUND THE FOLLOWING MAJOR ISSUE: IS THE ESTABLISHMENT OF A LEVEL PLAYING FIELD FOR SMALL HOLDERS SO CRITICAL TO DEVELOPMENT IN MALAWI, THAT A.I.D.'S FUTURE ATTITUDE TOWARD MALAWI (INC UDING CONTINUING TO VIEW IT AS A CATEGORY I COUNTRY) IS DEPENDENT UPON IT? DISCUSSION OF THIS ISSUE INCLUDED THE FOLLOWING POINTS:

. DESPITE MALAWI'S PROGRESS DURING THE LAST SEVERAL YEARS IN IMPLEMENTING SERIOUS MACRO-ECONOMIC POLICY REFORMS WITH RESULTANT IMPROVED MACRO-ECONOMIC INDICATORS, IMPROVEMENT IN SOCIAL INDICATORS HAS LAGGED. MALNUTRITION AMONG THE POOR MAJORITY HAS INCREASED. INCOMES AND GROWTH IN AGRICULTURE HAVE STAGNATED. WE CONGRATULATE THE MISSION FOR CLEARLY IDENTIFYING THE UNDERLYING REASONS FOR THE DECLINING INCOMES OF THE AVERAGE MALAWIAN AND OUTLINING A PROGRAM WHICH PROMISES TO HELP ALLEVIATE THE PROBLEM. THE ECPR AGREED THAT WHAT IS REALLY REQUIRED IS ENHANCING THE POSITION OF THE SMALLHOLDER BY ELIMINATING DISCRIMINATORY PRACTICES, AND THIS MUST BE DONE COMPREHENSIVELY TO BE SUCCESSFUL. THIS ENTAILS ELIMINATING SUBSIDIES, LICENSING, PRICE CONTROLS, QUOTA SYSTEMS AND OPENING ACCESS TO ALL MARKETING INSTITUTIONS. FOR EXAMPLE, IN MARKETING, THE SMALLHOLDER SHOULD HAVE COMPLETE ACCESS TO THE TOBACCO AUCTION FLOOR AND BE ALLOWED TO PURCHASE SEED AND

DATE: 02/28/91
ACTION TO:
11-CC
AFS
INFO:
D
02/07/91

E

UNCLASSIFIED

STATE 363922/01

160

FERTILIZER AT THE SAME RATES AS LARGE ESTATE HOLDERS. HE/SHE SHOULD HAVE THE FREEDOM TO GROW ANY MIX OF CROPS, INCLUDING BURLEY TOBACCO.

B. IT IS UP TO THE MISSION TO ESTABLISH A TIME FRAME FOR ACCOMPLISHING THIS BROADER SET OF OBJECTIVES, AND THE LIST OF REFORMS TO BE ACCOMPLISHED SHOULD BE FURTHER REFINED DURING PAAD PREPARATION. HOWEVER, THE TIME FRAME FOR COMPLETING ALL THE NECESSARY REFORMS SHOULD NOT EXCEED EIGHT YEARS. THE ECPP RECOGNIZED THAT THIS MEANS NO LESS THAN A MAJOR RESTRUCTURING OF THE AGRICULTURAL SECTOR. IT WAS AGREED BY THE ECPR THAT IF THE REFORMS NEEDED TO GIVE THE SMALLHOLDER A BETTER SHARE OF INCOME IN MALAWI ARE NOT IMPLEMENTED BY THE GOVERNMENT OF MALAWI (GOM), OUR ENTIRE ASSISTANCE PROGRAM TO THE GOM SHOULD BE RE THOUGHT. THE GOM MUST UNDERSTAND HOW SERIOUSLY WE VIEW THE OVERARCHING OBJECTIVE OF SMALLHOLDER WELLBEING; FUTURE LEVELS OF A.I.D. SUPPORT TO MALAWI HINGE UPON THE GOM WILLINGNESS TO IMPLEMENT A COMPREHENSIVE PROGRAM.

C. THE PAAD SHOULD BE DESIGNED IN THE CONTEXT OF AN AGREEMENT WITH THE GOM ABOUT THE ULTIMATE OBJECTIVE OF A LEVEL PLAYING FIELD FOR ALL MALAWIAN AGRICULTURAL PRODUCERS. IT SHOULD THEN SET OUT AN AGREEMENT THAT, WHILE SPECIFYING THE REMOVAL OF THE MOST BINDING CONSTRAINTS, ALSO PREMISES CONTINUED DISBURSEMENT ON

PROGRESS TOWARD THE BROAD OBJECTIVE RATHER THAN SIMPLY ON SPECIFIED REFORMS. THUS THE MISSION IN ITS PROGRESS REVIEWS PRIOR TO-SUBSEQUENT AUTHORIZATION/OBLIGATION OF FUNDS WILL HAVE TO DETERMINE WHETHER GOM ACTIONS ARE CONSISTENT WITH ACHIEVEMENT OF THE ULTIMATE OBJECTIVE. IT IS EXPECTED THAT, AFTER THE FIRST YEAR CONSTRAINTS MAY ARISE THAT MAY BE THE SUBJECT OF CONDITIONALITY IN SUBSEQUENT YEARS. THEREFORE, A POLICY MATRIX LISTING ULTIMATE OBJECTIVES AND PROPOSED CONDITIONALITY TOWARD THOSE OBJECTIVES, AS WELL AS RELATED GOM ACTIONS, WAS RECOMMENDED AS A MEANS OF TRACKING THE PROGRESS OF THE AGRICULTURAL SECTOR ASSISTANCE PROGRAM (ASAP). WE HAVE DISCUSSED THE NEED OF A REVIEW WITH MRS. MAHONEY AND MS. HALE, AND PROVIDED THEM COPIES OF POLICY MATRICES FROM OTHER COUNTRIES WHOSE FORMAT SHOULD BE APPLICABLE FOR MALAWI. WE EXPECT TO RECEIVE A MALAWI MATRIX PRIOR TO THE COMPLETION OF THE PAAD WHICH WOULD INCLUDE THE FOLLOWING: A STATEMENT OF THE OBJECTIVE(S) AN OUTLINE OF THE REFORMS TO BE ACCOMPLISHED, PRIORITIES AND CONDITIONALITY LINKED TO DISBURSEMENTS.

BT
#3922

2. THE ECPR UNDERSTOOD THAT GOM COMPLIANCE WITH ALL THE REFORMS THAT MAY BE REQUIRED WILL BE DEPENDENT, IN MANY INSTANCES, UPON ALL DONORS BEING IN SUBSTANTIAL AGREEMENT UPON THE REFORMS NEEDED (SIMILAR TO THE MALI CEREALS REFORM OF THE EARLY 1980S). IT RECOGNIZED THAT CURRENTLY, ESPECIALLY AS IT SUPPORTS PRICE CONTROLS AND TARGETED CREDIT, THE WORLD BANK POSITION IS INCONSISTENT WITH A.I.D.'S POLICIES AND PROGRAMS. THE AFRICA BUREAU, INCLUDING THE DAA/AFR. WILL DIALOGUE WITH THE MISSION TO DEFINE A.I.D.'S POSITION VIS-A-VIS THE WORLD BANK AND OTHER DONORS IN MALAWI AND THEN WORK WITH USAID/MALAWI TO OUTLINE A STRATEGY FOR ACHIEVING BROAD DONOR AGREEMENT, INCLUDING MEETING WITH THE WORLD BANK IN WASHINGTON, AS REQUIRED. IT IS UNDERSTOOD THAT THIS DIALOGUE AND SUBSEQUENT AGREEMENT ON BROAD OBJECTIVES WILL PRECEED ANY WORK CARRIED OUT IN FULFILLMENT OF THE TERMS OF REFERENCE IN PARA. 2(B) OF LILONGWE 787.

3. ISSUE NO. 2: THE QUESTION OF THE POLITICAL WILL OF THE GOM TO IMPLEMENT A BROAD AGRICULTURAL PROGRAM TO BENEFIT SMALLHOLDERS WAS RAISED AT THE ECPR. WHAT IS THE REAL COMMITMENT OF THE GOVERNMENT TO LIBERALIZE THE AGRICULTURAL SECTOR/ THIS GOES BEYOND THE WILLINGNESS OF THE GOM TO ACQUIESCE TO OUTSIDE PRESSURE TO MAKE SEVERAL REFORMS AS A QUID PRO QUO FOR LARGE DONATIONS.

THE MISSION NEEDS TO MEASURE THE WILLINGNESS OF THE GOM TO BETTER THE INCOME OF THE SMALLHOLDER EVEN IF IT MEANS A SLIGHT REDUCTION IN THE INCOMES OF THE LARGE ESTATE HOLDERS AT LEAST IN THE NEAR TERM. THE ECPR UNDERSTOOD THAT THE MISSION INTENDS TO UNDERTAKE A POLITICAL ANALYSIS WHICH SHOULD PROVIDE A BETTER UNDERSTANDING OF WHO WILL BE NEGATIVELY AFFECTED BY THE PROPOSED REFORM PROGRAM. IN ADDITION, SUCH AN ANALYSIS SHOULD ATTEMPT TO QUANTIFY THE IMPACT OF THE REFORMS ON THE LARGE ESTATE HOLDERS, PRESUMABLY THE GROUP MOST LIKELY TO BE AFFECTED NEGATIVELY TO THE REFORM PROGRAM. FURTHER THE ANALYSIS SHOULD IDENTIFY THE SUPPORTERS OF THE REFORMS WITHIN AND OUTSIDE THE GOM. WHAT CAN BE DONE TO STRENGTHEN THE INFLUENCE OF THOSE MALAWIANS THAT SUPPORT SMALLHOLDER REFORMS/ WHAT CAN BE DONE TO ORGANIZE OR OTHERWISE EMPOWER SHAREHOLDERS SO THAT THEY CAN PUSH FOR GREATER EQUITY/ THE MISSION MIGHT CONSIDER FINANCING SEMINARS AND SHORT-TERM TRAINING, ATTEMPTING TO FORM SMALLHOLDER COOPERATIVES, AND FINANCING STUDIES TO BOLSTER THE ARGUMENTS OF THOSE MALAWIANS IN GOVERNMENT WHO SUPPORT SMALLHOLDER REFORM. PRIOR TO AUTHORIZATION/OBLIGATION THE MISSION SHOULD RECEIVE A LETTER OF INTENT FROM THE GOM WHICH SPILLS OUT IN SOME DETAIL ITS OBJECTIVES FOR THE SMALLHOLDER SECTOR OVER THE LOP. WE WOULD EXPECT THAT THERE WOULD BE COMPLETE CONGRUENCY BETWEEN THE OBJECTIVE OF THE A.I.D. PROGRAM AND THE GOM'S LETTER.

4. ISSUES NO. 3 AND 4: THE REFORMS RELATED TO MINIMUM WAGE AND ENFORCING LAND RENTAL FEES WERE CONSIDERED TO HAVE MUCH LESS POTENTIAL IMPACT ON THE POOR MAJORITY. THE ECPR QUESTIONED IF THE PROPOSED MINIMUM WAGE OR LAND

411

UNCLASSIFIED

STATE 063922/02

167

RENTAL FEE HAS A SOLID ECONOMIC BASIS. THE MISSION REPRESENTATIVES AGREED THAT AN INCREASED MINIMUM WAGE AND IMPROVED COLLECTION OF LAND RENTS WERE OF LESSER IMPORTANCE AMONG THE CONSTRAINTS ANALYZED, AND, WHILE IMPORTANT TO TRACK AS INDICATORS OF REFORM EFFECTIVENESS IN LEVELING THE PLAYING FIELD, SHOULD NOT BE PART OF CONDITIONALITY.

5. ISSUE NO. 5: THE MISSION REPRESENTATIVES AGREED TO PREPARE A MONITORING AND EVALUATION PLAN WHICH WOULD BE ABLE TO DEMONSTRATE THE LINKAGES BETWEEN PROGRAM ACTIVITIES AND ACHIEVEMENT OF STRATEGIC OBJECTIVES. IMPACT ASSESSMENT WOULD INCLUDE INTER ALIA USING SUBSAMPLES OF ONGOING HOUSEHOLD LEVEL STUDIES (HHD).

6. ISSUE NO. 6 CONCERNED THE MISSION'S PROPOSED INVOLVEMENT IN RESTRUCTURING THE PRODUCTION AND MARKETING OF TOBACCO AND IF SUCH INVOLVEMENT WAS PROHIBITED BY SECTIONS 521 (A) AND (B) (BUMPERS) OF THE FY 91 FOREIGN ASSISTANCE APPROPRIATIONS ACT. SECTION 521 (A) PROHIBITS ANY ASSISTANCE (WHICH INCLUDES MPA CONDITIONALITY AS HERE) FOR EXPANDING PRODUCTION OF ANY COMMODITY FOR EXPORT, IF THE COMMODITY IS LIKELY TO BE IN SURPLUS ON THE WORLD MARKET AT THE TIME THE RESULTING CAPACITY IS EXPECTED TO BECOME OPERATIVE AND IF THE ASSISTANCE WILL CAUSE SUBSTANTIAL INJURY TO U.S. PRODUCERS OF THE SAME, SIMILAR OR COMPETING COMMODITY. IF THE PAAD ANALYSIS INDICATES ANY POSSIBILITY THAT THE CONDITIONALITY (ESPECIALLY OPENING BURLEY TO SMALLHOLDERS) COULD RESULT IN INCREASED PRODUCTION, RATHER THAN SIMPLY SHIFTING THE SAME LEVEL OF PRODUCTION FROM ESTATES TO SMALLHOLDERS, THE MISSION SHOULD INFORM AFR/SA TOGETHER WITH ANY ESTIMATES OF THE POSSIBLE INCREASE IN EXPORTS AND ANY AVAILABLE DATA ON MALAWI
BT
03922

NNNN

BURLEY EXPORT PATTERNS. AFR/SA WOULD THEN EXAMINE WORLD MARKET AND U S EXPORT FACTORS. THIS ISSUE MUST BE RESOLVED PRIOR TO PAAD APPROVAL

SECTION 521 (B) (BUMPERS) PROHIBITS ASSISTANCE FOR CERTAIN SPECIFIC INTERVENTIONS (CONSULTANCY, PUBLICATION, CONFERENCE OR TRAINING AS WELL AS TESTING OR BREEDING FEASIBILITY STUDY OR VARIETY IMPROVEMENT OR INTRODUCTION) IN CONNECTION WITH THE GROWTH OR PRODUCTION OF AN AGRICULTURAL COMMODITY FOR EXPORT IF IT WOULD CAUSE SUBSTANTIAL INJURY TO A U.S. PRODUCER OF A SIMILAR OR COMPETING COMMODITY. WHILE FROM THE FACT OF THE PAIP IT DOES NOT APPEAR THAT EITHER THE PROGRAM OR PROJECT COMPONENTS WOULD FINANCE THE SPECIFIC INTERVENTIONS IN THE ENUMERATED AREAS, THE PAAD SHOULD REVIEW THIS WHEN DETAILS ARE DEVELOPED AND PROVIDE THE SAME INFORMATION TO AFR/SA AS INDICATED FOR SECTION 521 (A).

7. THE FOLLOWING CONCERNS WERE MENTIONED AND SHOULD BE ADDRESSED BY THE MISSION DURING PAAD PREPARATION:

A. THE NEW DFA STATUTE CONTAINS SEVERAL REQUIREMENTS WHICH THE PAAD MUST ADDRESS:

I. LOCAL INVOLVEMENT - NEW FAA SECTION 496 (F) REQUIRES THAT LOCAL PEOPLE INCLUDING WOMEN SHALL BE CLOSELY

CONSULTED AND INVOLVED IN THE IMPLEMENTATION OF EVERY DFA-FUNDED ACTIVITY WHICH HAS A LOCAL FOCUS, AS WITH THIS PROGRAM. THE MISSION REPRESENTATIVE STATED THAT LOCAL PEOPLE HAVE BEEN CONSULTED ABOUT PROGRAM DESIGN THUS FAR. THE PAAD SHOULD DOCUMENT HOW THIS REQUIREMENT IS BEING SATISFIED.

II. IMPACT ON VULNERABLE GROUPS - NEW SECTION 496 (2) (B) REQUIRES THAT POLICY REFORM PROGRAMS INCLUDE PROVISIONS TO PROTECT VULNERABLE GROUPS, ESPECIALLY POOR ISOLATED, AND FEMALE FARMERS, THE URBAN POOR, AND CHILDREN FROM POSSIBLE NEGATIVE EFFECTS OF THE REFORMS. FOR INSTANCE, IN ASAP WILL FERTILIZER PRICE INCREASES ADVERSELY AFFECT POOR FARMERS, OR WILL A SMALLHOLDER SHIFT FROM FOOD TO TOBACCO DECREASE FOOD AVAILABILITY HARMING THE POOR/ THE PAAD SHOULD EXAMINE THE EFFECT OF THE PROPOSED REFORMS ON VULNERABLE GROUP AND INCLUDE ADEQUATE PROTECTIVE MEASURES.

III. NATURAL RESOURCES CONCERNS - NEW SECTION 496 (E) (2) (B) ALSO REQUIRES THAT POLICY REFORM PROGRAMS INCLUDE MEASURES TO PROTECT LONG-TERM ENVIRONMENTAL INTERESTS FROM POSSIBLE NEGATIVE CONSEQUENCES OF THE REFORMS. THE PAAD DESIGN AND THE IEE SHOULD ADDRESS THIS.

F. REEXAMINE USE OF LOCAL CURRENCY: THE MISSION SHOULD THINK THROUGH ITS REASONS FOR PROGRAMMING LOCAL CURRENCY. IN DOING SO THE MISSION SHOULD CONSIDER THE OPPORTUNITY COSTS OF MONITORING L/C, REEXAMINE THE GOM'S

②

UNCLASSIFIED

STATE 263922/03

164

BUDGETING ACCOUNTING AND CONTROL PROCESS AND MAKE ITS BEST JUDGEMENT AS TO THE DESIRABILITY OF FORMAL GENERATION OF LOCAL CURRENCY. WHETHER THERE IS A FORMAL GENERATION MAY DEPEND IN PART UPON THE DOLLAR USE AND WHETHER THEY ARE TRACKED. IF THERE IS LOCAL CURRENCY WHATEVER THE SPECIFICITY OF ITS USE THE PAAD SHOULD EXPLAIN THE NEXUS BETWEEN THAT USE AND SUPPORT OF THE PROGRAM'S OBJECTIVES. WE EXPECT THAT REVISED GUIDANCE ON THIS POINT WILL BE APPROVED PRIOR TO PAAD AUTHORIZATION.

9. THE ECFR UNDERSTOOD THE FOLLOWING CONCERNS WERE AGREED TO BY THE MISSION PRIOR TO THE ECFR:

A. DOLLAR TRACKING: THE LEGISLATIVE REQUIREMENT FOR SEPARATE ACCOUNTS AND DOLLAR TRACKING MUST BE ADDRESSED

PRIOR TO SUBMISSION OF THE CONGRESSIONAL NOTIFICATION AS WELL AS IN THE PAAD. IF THE MISSION INTENDS TO REQUEST A WAIVER AS IT DID FOR THE FINAL TRANCHE OF THE MED PROGRAM, THE WAIVER MUST BE PREPARED AND APPROVED PRIOR TO DRAFTING THE CN.

B. IFE MUST BE COMPLETED AND APPROVED BY BEO PRIOR TO AUTHORIZATION.

C. G NDER IMPACTS: THE MISSION HAS BEEN ASKED TO PRIORITIZE ITS PROPOSED POLICY CONDITIONALITY. BECAUSE OF THE DIFFERENT IMPACT OF THE PROPOSED REFORMS ON MEN AND WOMEN THE ANALYSIS CONDUCTED IN PREPARATION FOR THE PAAD SHOULD EXAMINE THE HYPOTHESIZED DIFFERENTIALS SO AS TO SELECT THAT SET OF CONDITIONALITIES THAT WILL PROMOTE AS MUCH EQUITY IN BENEFITS AS POSSIBLE.

BT
#3922

NNNN

SUBJECT TO THE GUIDANCE CONTAINED HEREIN AA/APR
HEREBY DELEGATES AUTHORITY TO THE MISSION DIRECTOR
USAID/MALAWI OR TO THE PERSON ACTING IN THAT CAPACITY
TO APPROVE THE PAAD FOR THE SUBJECT PROGRAM IN AN AMOUNT
NOT TO EXCEED 36 MILLION DOLLARS. THE AD HOC D.O.A. IS
SUBJECT TO THE FOLLOWING CONDITIONS:

A. THAT SENIOR A.I.D. WASHINGTON OFFICIALS SHALL
PARTICIPATE IN A SATISFACTORY DIALOGUE CONCERNING
PROGRAM CONDITIONALITY WITH GOM OFFICIALS AND IN THE
MISSION'S REVIEW OF THE PAAD.

B. THAT ALL THE TERMS AND CONDITIONS OF D.O.A. 551 BE
MET EXCEPT THE DOLLAR AMOUNT LIMITATION.

C. THAT SUBMISSION TO APR/YD/SA OF AN ILLUSTRATIVE
BUDGET FOR PROJECTIZED ACTIVITIES, A DETAILED POLICY
MATRIX AND THE LETTER OF INTENT FROM THE GOM BE
COMPLETED PRIOR TO AUTHORIZATION.

11. IF TRAVEL RESTRICTIONS PROHIBIT AID/W PARTICIPATION
IN THE FIELD REVIEW OF THE PAAD, THEN THE PAAD WILL BE
REVIEWED IN AID/W.

12. IN CONCLUSION WE CONGRATULATE THE MISSION ON
PRESENTING AN EXCELLENT CONSTRAINTS ANALYSIS IN THE
PAIP. WE ARE CONSIDERING USING IT AS A MODEL OF THE
TYPE OF ANALYSIS WE EXPECT FOR A DFA PROGRAM AND THE
REASONS WHY POLICY REFORMS ARE NECESSARY IN AFRICA.

BAKER

BT

#3922

NNNN

INITIAL ENVIRONMENTAL EXAMINATION

I. PROGRAM DATA

Program Location : Malawi
Program Title : Agricultural Sector Assistance Program (ASAP)
Funding : \$US 50,000,000
Life Of Project : Six Years
IEE Prepared by : Kenneth R. Rikard *Kenneth Rikard*
Deputy Director, USAID/Malawi

ENVIRONMENTAL ACTION : Categorical Exclusion for
RECOMMENDED Policy Studies and Technical Assistance
: Negative Determination for
Construction and Policy Reform

Approval : *C. Peasley*
Carol A. Peasley, Director
USAID/Lilongwe

Date : 16 July, 1991

Clearances:

Paul Andre DeGeorges, *P. DeGeorges* USAID/REDSO/ESA/REA

Date: 19 July 91

Joanne T. Hale, USAID/Malawi *J. Hale*

Date: 20 July 91

II. PROGRAM GOAL AND PURPOSE

THE goal is to increase agricultural productivity, employment, and income. The purpose of ASAP is to broaden and equalize access to agricultural resources.

III. PROGRAM PROBLEMS

As the result of inappropriate policies and minimal emphasis on environmental controls in the areas of agriculture, soil conservation and forestry, Malawi's natural resource base has been seriously impacted.

Soil: With 27% of Malawi's arable land on steep slopes and with a population density exceeding 225 persons per square kilometer of cropped land, soil erosion, especially in the Southern and Central Regions is a serious, and growing problem. This heavy erosion is primarily the direct result of increased cultivation, deforestation, and overgrazing. A recent World Bank study (1990/91), based on various modeling techniques but limited field data, concluded that Malawi as a whole suffers an aggregate soil loss of nearly 20 tons/ha/year on gross arable land - a relatively high figure compared to other African countries where actual field data exists. The Land Husbandry Branch of the Ministry of Agriculture is charged with the monitoring of soil erosion rates and in response to the problem, has recently increased emphasis on soil conservation practices; however, the Branch has very limited funds to provide assistance, and soil erosion continues to worsen. While soil fertility also continues to decline, it is probable that if erosion can be limited and/or controlled the decline in fertility can be arrested through increased use of fertilizers, organic manure, and crop rotations.

Forest: As is the case in most of the third world, Malawian forests are also being rapidly depleted. As the demand for firewood and poles increases, and as land is cleared for agricultural purposes, the rate of deforestation also increases. While specific data are limited, a 1985-86 study estimated Malawi's rate of deforestation at 3.5% per annum, one of the highest rates in the third world. At this rate, some 150,000 hectares of forest are denuded each year. This destruction of forests leads to increased degradation of soil and water resources, loss of plant and animal habitat and could ultimately lead to deterioration of local climates. While the Department of Forestry and Natural Resources is responsible for monitoring and controlling deforestation, they, like most other GOM departments, lack sufficient funds to properly manage their responsibilities.

Water: Pollution of rural water supplies, is, for the most part, currently not a problem in Malawi. The National Water Resources Master Plan indicates that nitrate concentrations, from faecal or agro-chemical pollution in ground water supplies, are generally less than 5 mg/liter - well below the World Health Organization (WHO) standard of 45 mg/liter. While some isolated bore holes have registered significantly higher levels of nitrates, these findings have been exceptionally rare, and overall, ground water remains free from pollution. However, if current trends in soil erosion and deforestation continue, both surface and groundwater degradation could become a major problem in the near future.

IV. PROGRAM OUTLINE AND STRATEGY

The Agricultural Sector Assistance Program is a \$50 million 6-year program designed to assist the Government of Malawi (GOM) in the identification and elimination of policy, institutional and/or financial constraints to improved agricultural production and productivity. It is a policy reform program committed to a liberalized agricultural economy in which there is equal access to the means of production and where there are no barriers to market entry or other practices that discriminate against or reward any category of farmer. ASAP is oriented towards the small-scale farmers to assist them by 1) increasing their access to rewarding cash crops, 2) broadening their marketing channels, 3) promoting their access to extension, credit, seed, and fertilizer inputs for food and cash crops, 4) providing timely producer commodity information, 5) improving the terms and conditions of tenancy, and 6) increasing the transparency of the quota allocation criteria.

The program is designed to be implemented in two phases. A \$30 million Phase One will provide \$20 million in non-project assistance and \$10 million in project support towards the implementation of an agreed upon set of discrete policy adjustments. Technical assistance will be included to collaborate on studies designed to explore and recommend more efficient and equitable distribution systems of credit, extension, seed, fertilizer and marketing channels for farmers on less than 1.5 hectares. Studies to assess crop diversification opportunities and constraints, land use and land tenure issues, and tenancy pricing structures will also be included.

Project assistance will also be directed towards the following components:

A. The establishment of an agricultural policy research unit at Bunda College for designing and implementing studies related to assisting small farmers improve their economic plight.

B. The continuation of funding for the Ministry of Agriculture and Economic Planning and Development's Food Security Units in order to monitor and evaluate whether this program is actually improving the availability of food within the individual households.

C. Funding in conjunction with other donors (e.g. World Bank, UNDP, among others), the establishment, and initial operation of, a Department of Research and Environmental Affairs (DREA) within the Office of the President and Cabinet (OPC) for purposes of establishing GOM environmental policies, conducting environmental research activities, and to monitor environmental impacts on human and natural resources of various activities, including agricultural activities.

Final design of a \$20 million Phase Two part of the program will not be completed until an interim evaluation in year two is completed so that impacts, both positive and negative, can be assessed and appropriate course changes can be determined. Phase Two will focus on agricultural policy reforms identified in Phase One studies.

V. ENVIRONMENTAL CONCERNS OF PROGRAM AND MITIGATION

The ASAP program is focussed on policy reform, rather than on specific activities. As a result, direct environmental impacts are difficult to assess and although certain of these policies will likely intensify the development and utilization of agricultural land, the overall program will help to reduce environmental degradation. Regardless, it must be noted that successful implementation of this program may increase the probability of Malawi's soil, water, and forest resources becoming negatively impacted. For example, improved prices and increased levels of income could lead to the increased desire by many Malawians to place more land under cultivation and/or increase the intensity of farming on existing land. Since most of Malawi's best arable lands are already under cultivation, the pressure to increase cultivation on steep, highly erodible, and more marginal lands could increase. This in turn would increase the probability for increased soil erosion, deforestation, and deterioration of water quality. Similarly, intensified farming practices, including increased use of fertilizers, may increase the level of nitrates and phosphates in water supplies and result in eutrophication of surface waters. The probable increased level of agricultural activity could also increase the demand for firewood and construction timbers and as a result increase pressures for forest resources.

However, successful implementation of the ASAP program will also create a significant number of positive impacts, most of which will be aimed at mitigating the above concerns. For example, increased income and improved food crop yields will provide the average Malawian with increased nutrition and cash per unit land area to purchase food, health services, shelter and other amenities which should improve his/her quality of life. Similarly, the emphasis on agricultural extension will focus on improving agricultural practices which decrease erosion, decrease deforestation, and minimize the degradation of water quality. For example, increased use of agro-forestry programs to improve soil fertility and stability combined with the emphasis on adjusting land tenure to find ways to give individuals improved land security and define their responsibility for land husbandry will create important positive environmental impacts.

The most significant contribution toward environmental improvement resulting from implementation of ASAP, however, will be funding the establishment and initial operation (e.g., monitoring the impact of agricultural policy reform on the natural resource base and biodiversity) of the Department of Research and Environmental Affairs (DREA), within the Office of the President and Cabinet. This Department, established by presidential decree in April 1991, is charged with, among other things:

- formulating and facilitating the effective implementation of, national science and technology;
- identification of problems and constraints in agricultural sciences research and determining both their significance and the resources for their solution;
- performing a catalytic role in the initiation, formulation, and development of policies and administrative devices related to conservation, protection and management of the natural and man-made environment;
- monitoring and assessment of the current state and the foreseeable trends in the quantity and quality of the natural resource base in the country and the preparation of periodic reports on the state of the environment; and

- Ensuring the inclusion of environmental parameters and criteria in the development planning exercise, and in the design and implementation of projects and programs, through suitable inputs in the development plan in both its policy and programmatic aspects, and in annual budgetary allocations.

Once operational the DREA will be able to effectively utilize and enforce Malawi's already impressive body of environmental legislation (some 40 statutes already in place), directed at land and forestry management, and water and agro-chemical use.

The specific environmental impacts of ASAP (both positive and negative) will be one of the routine output monitoring elements of ASAP. It is anticipated that while ASAP will fund the gathering and interpretation of data related to the ASAP environmental issues, the actual responsibility for performing these tasks will be organized under the relevant GOM department (primarily the DREA) and will become a part of Government's routine environmental reporting systems.

VI. RECOMMENDED ENVIRONMENTAL DETERMINATION

Based upon 22 CFR 216.2 (c) (2) (i), a Categorical Exclusion is recommended for the technical assistance to be undertaken during this program.

Based upon 22 CFR 216.2 (c) (2) (iii), a Categorical Exclusion is recommended for policy studies.

Based upon 22 CFR 216.3 (2) (iii), a Negative Determination is recommended for the construction of the agriculture policy research headquarters and staff housing on the existing grounds of Bunda College since appropriate water and sewage will be included in the design of these facilities and because there are no known biologically diverse natural resources that could be impacted by placing these facilities on this already altered site.

Based upon 22 CFR 216.3 (2) (iii), a Negative Determination is recommended for the policy implementation portion of this program since a series of checks and balances are being initiated through funding institutions which will determine agricultural policy (e.g., Agriculture Policy Research Unit, Food Security Unit), as well as the new Department of Research and Environmental Affairs (DREA) which will monitor the effects of implementing these policy reforms on the man-made and natural environments. Through these checks and balances, increased opportunities will be created for environmental mitigation and mid-course changes in policies that are found to have adverse impacts on the environment.

0698E

173

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

- | | |
|---|---|
| <p>1. <u>FY 1991 Appropriations Act Sec. 559(b)</u>. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?</p> | <p>No.</p> |
| <p>2. <u>FAA Sec. 481(h); FY 1991 Appropriations Act Sec. 559 (b)</u>. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs</p> | <p>Malawi has not been defined as a "major illicit drug producing country" or a "major drug transit country".</p> |

are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to

N/A. See (2) above.

Congress listing such country as one:
(a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where:
(a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?
- a. No
b. No
c. No
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?
- No.

6. FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? Recipient country is not a communist country.
7. FAA Sec. 620(i). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No.
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No.
9. FAA Sec. 620(o): Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? a. No
b. N/A

10. FAA Sec. 620(g); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment). (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? a. No
b. No
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) N/A
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) As of October 31, 1989, Malawi was not in arrears.

W

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No.
15. FY 1991 Appropriations Act Sec. 563. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? a. No
b. No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.
17. FAA Sec. 665(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.

119

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No.
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) Malawi was not represented at the meeting.
21. FY 1991 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No.
22. FY 1991 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No.
N/A

b. FY 1991 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No.

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? No.
N/A

b. FY 1991 Appropriations Act Sec. 559(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? N/A

TOTAL P. 10

181

50(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Assistance is designed: to encourage private initiative by promoting private farmer cash crop production, to encourage competition and discourage monopolistic practices by promoting establishment of private marketing channels and to improve technical efficiency of agriculture by liberalizing access to agricultural inputs.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Increased cultivation of cash crops may draw U.S. investment in area of agricultural processing. Also, technical assistance will be contracted from U.S. sources, including private organizations and universities.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

CN cleared, Sept. 25, 1991,
per State 317645.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

Yes.

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes.

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action

GOM has shown commitment by undertaking related legislative reform recently. Legislative actions required for this program are of two types, ministerial approval and parliamentary approval (according to Ministry of

183

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Justice). Both actions are expected to take place, and have been phased in the program to allow sufficient time for actions to be completed, assuming existing commitment of GOM continues.

N/A

Yes.

N/A

See Section A.1. above.

184

10. **U.S. Private Trade (FAA Sec. 601(b)):** Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

See Section A.2. above.

11. **Local Currencies**

a. **Recipient Contributions (FAA Secs. 612(b), 636(h)):** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

No project related foreign currencies are owned by the U.S. in Malawi. The host country will contribute at least 25% of the overall program cost, in particular through its support to the agricultural sector.

b. **U.S.-Owned Currency (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. **Separate Account (FY 1991 Appropriations Act Sec. 575).** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(a) Yes

(b) Yes

(c) Yes

125

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

Yes

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No. GC/AFR determination dated 4/18/91 states, "The proposed ASAP activities would not violate either section 521(a) or Bumpers, and it is not necessary to examine the other factors under those statutes."

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of

No.

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

No. However, because increased agricultural activity is expected, environmental monitoring, including that of deforestation, will be conducted throughout the program.

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

Possible participating PVOs have not been selected, but this requirement will be met when selection is done.

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

See above section 14.a.

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This action will be taken subsequent to the signing of the agreement.

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): **Yes.**
Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased? **Yes.**

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

Assistance being provided is complementary to assistance of World Bank and other bilateral donors. Program as designed is more suitable for implementation by A.I.D., given its presence in country and the project components. Assistance will encourage use of regionally developed crop varieties.

128

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No.

b. Will any funds be used to lobby for abortion? No.

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? Yes. One planned activity is to foster establishment of marketing cooperatives for smallholder farmers.

21. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. N/A

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.

22. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes. Commodities will be procured through PSA mechanism which involves U.S. small businesses.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? DFA procurement regulations will be followed.

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

Services are expected to be procured from host country firms.

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

DFA procurement regulations will be followed.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

Yes, but major contracts will be in form of cooperative agreements with U.S. universities.

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers
(International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

j. Consulting services
(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes.

k. Metric conversion
(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 . Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest

Yes.

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection

Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.

23. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

Approx. \$600,000 construction will be contracted using host country mechanism. Tenders will be advertised locally and in U.S.

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Yes.

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? N/A

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

25. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.

26. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.

30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? DFA procurement regulations will be followed.

31. **Military Personnel (FY 1991 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.
32. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes.
33. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.
34. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.
35. **Repression of Population (FY 1991 Appropriations Act Sec. 511):** Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.
36. **Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516):** Will assistance be used for publicity or propoganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? No

37. **Marine Insurance (FY 1991 Appropriations Act Sec. 563):** Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes.

38. **Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569):** Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment):** If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

While program will have activities in areas of crop production covered by this section, activities are designed to reform structure of production rather than increase aggregate production. In addition, 6C review of program stated, "The proposed ASAP activities would not violate either section 521(a) or Bumpers, and it is not necessary to examine the other factors under those statutes."

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No.

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes. In particular, agroforestry techniques will be promoted as alternative to use of chemical fertilizer.

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Program is designed to assist small farmers in increasing economic activity, and thereby increasing income and food security. The program incorporates the participation of the agricultural college. Also, it promotes local organizations of farmers who should thereby become more self-reliant.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries

See sections 3 and 4 above. Also, program will emphasize delivery of services and benefits to smallest farmers, those with landholdings less than 1.5 ha, and to female farmers. Program will support establishment of farmer organizations which will strengthen local economies and promote self-help efforts. As part of agricultural diversification, the program will support the investigation of ways regional cooperation can be used to further

and the improvement of women's status; and
(e) utilize and encourage regional
cooperation by developing countries.

can be used to further
agricultural development.

7. Recipient Country Contribution
(FAA Secs. 110, 124(d)): Will the
recipient country provide at least 25
percent of the costs of the program,
project, or activity with respect to which
the assistance is to be furnished (or is
the latter cost-sharing requirement being
waived for a "relatively least developed"
country)?

Yes.

8. Benefit to Poor Majority (FAA
Sec. 128(b)): If the activity attempts to
increase the institutional capabilities of
private organizations or the government of
the country, or if it attempts to
stimulate scientific and technological
research, has it been designed and will it
be monitored to ensure that the ultimate
beneficiaries are the poor majority?

Yes. An emphasis of the
program is to assist the
smallest landholders in the
country, those with holdings
less than 1.5 ha.

9. Abortions (FAA Sec. 104(f); FY
1991 Appropriations Act, Title II, under
heading "Population, DA," and Sec. 535):

a. Are any of the funds to be
used for the performance of abortions as a
method of family planning or to motivate
or coerce any person to practice
abortions?

No.

b. Are any of the funds to be
used to pay for the performance of
involuntary sterilization as a method of
family planning or to coerce or provide
any financial incentive to any person to
undergo sterilizations?

No.

c. Are any of the funds to be
made available to any organization or
program which, as determined by the
President, supports or participates in the
management of a program of coercive
abortion or involuntary sterilization?

No.

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

No.

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No.

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

No.

10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

With respect to commodity procurement in particular, ASAP was developed with full consideration of maximally involving minority and women-owned firms. Where this is likely to take place primarily is the use of procurement service agents, who have been selected on that basis.

12. Biological Diversity (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

Yes. (a and c) Environmental Monitoring will be conducted throughout the program. One planned project activity is to support the development of an environmental monitoring division of the GOM in conjunction with other donors. It is expected that technical assistance and training will be provided. No to b. and d.

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes.

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

Yes. See Section 12 above. Also, one project activity is designed to promote environmentally sound techniques, using technologies developed locally through a major research program and using technical assistance provided under a planned agreement with a U.S. university.

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

No.

200

forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

Yes. This goal will be encouraged through the environmental monitoring activity described above.

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes. An IEE is included with the PAAD.

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

(a) Yes. Program will focus on smallest landholders, those with less than 1.5 ha. Process to be used has been designed with DFA in mind.
(b) Yes. Liberalized marketing system will be promoted to reduce government participation, and private farmer organizations will be encouraged.
(c) Yes. Various

private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. N/A

organizations and individuals including U.S. PVOs and individual smallholders, have been consulted.

(d) Yes, in particular through planned studies and probable establishment of farmer organizations.

(e) Yes. Policy reforms are those which will support increased benefits to smallholders and increased use of private sector marketing channels.

(f) Yes. One emphasis is on assisting smallest landholders. Also, environmental monitoring will be included as a project activity.

17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. Loans

N/A

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. Long-range plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. Interest rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. Exports to United States (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

19. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, exceeding investment out from

203

cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

Program will emphasize increased provision of opportunities and services to smallest landholders, those with less than 1.5 ha.

Program includes two activities which support strengthening of food security and nutrition monitoring and policy/project development. Also, agroforestry techniques which will be promoted will substantially increase yields of important food crops without use of expensive and scarce chemical fertilizer. Both of these sets of activities will assist poor and vulnerable people.

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

See Section 20 b. above.

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Training of agriculture college researchers is planned. Training will be for purpose of developing skills useful for policy analysis and conducting field research to determine impact of policies and other actions on the rural population.

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

205

- a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N/A
- b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; U.S. PVOs are expected to participate in program activities, in particular the development of farmer organizations.
- c. research into, and evaluation of, economic development processes and techniques; A cooperative agreement with a U.S. university will support such research conducted through the agriculture college.
- d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A
- e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A
- f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

206

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

N/A

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. **Separate account**: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

201

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

208

MEMORANDUM

TO: AFR/SA Keith Brown

FROM: GC/AFR Mafy Alice Kleinjan ^{M) 71}

SUBJECT: Malawi ASAP Program - Bumpers and Section 521(a)

DATE: April 18, 1991

Problem: The ASAP program proposes to support Government of Malawi policy reforms affecting the production of burley tobacco, which is an export crop in Malawi. It also proposes to finance technical assistance, training and studies, although it was unclear at the PAIP stage as to whether they would relate to burley. The PAIP ECPR requested AID/W to examine the markets for U.S. and Malawi burley to determine whether they are the same, similar, or competing commodities such as to require an examination of the other factors involved with Bumpers and section 521(a) of the FY 1991 Foreign Assistance Appropriations Act.

Discussion: Section 521(a) of the FY 1991 Foreign Assistance Appropriations Act prohibits the use of funds appropriated by that Act to finance any assistance for establishing or expanding production of any commodity for export by any country other than the U.S. if the commodity is likely to be in surplus on world markets at the time the resulting productive capacity is expected to become operative and if the assistance will cause substantial injury to U.S. producers of the same, similar, or competing commodities.

The Bumpers Amendment [section 521(b)] prohibits the use of DA [including DFA] funds for certain interventions [including certain studies, consultancies, publications, conferences or training] in connection with the growth or production in a foreign country of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States.

A memorandum from AFR/TR/ARN Tom Hobgood to you, dated February 7, 1991, concludes that U.S.-produced and Malawi-produced burley are [1] different commodities and [2] are not competing commodities, for several reasons, including differing quality and the fact that they occupy different market niches. Since they are not the same, similar or competing commodities, the proposed ASAP activities would not violate either section 521(a) or Bumpers, and it is not necessary to examine the other factors under those statutes.

cc: AFR/TR/ARN Tom Hobgood
 ✓ AFR/SA Sydney Anderson
 AFR/PD/SAP Cynthia Rozell

201

AGENCY FOR INTERNATIONAL DEVELOPMENT
BUREAU FOR AFRICA
Office of Technical Resources
Washington, DC 20523-1515

February 7, 1991

MEMORANDUM

TO: Keith Brown, AFR/SA

FROM: Tom Hobgood, AFR/TR/ANR

SUBJ: Malawi's Burley Tobacco Production: Does it compete with
U.S. Burley Tobacco Exports?

REF:

ISSUE: Does the "Bumpers Amendment" prohibit USAID from assisting the government of Malawi make policy changes intended to increase the production of burley tobacco for export to the international market?

BACKGROUND: The "Bumpers Amendment" generally prohibits USAID from providing financial assistance aimed at increasing the production of certain agricultural commodities in countries where those commodities will be sold on world markets in competition with the same commodities produced by U.S. farmers.

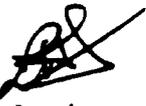
DISCUSSION: Burley tobacco is Malawi's major export crop, averaging about 30,000 metric tons annually and representing about 16 percent of the world market. It is produced on larger "estates" only, and government policy prohibits the vast majority of Malawi's poor smallholders from growing burley. The U.S. annually exports about 45,000 tons, representing about a 23 percent share of the burley market. However, USDA/ERS tobacco analysts contend that the U.S. and Malawi are not really competitors in the burley market due to very significant quality differences. U.S. burley is of such high quality that its price averages more than 200 percent that of Malawi's burley tobacco. Thus, it is essentially a different commodity and actually occupies a different market niche--and is purchased by different buyers and processed into different final products. Thus, increased burley production by Malawi does not appear to threaten the U.S. burley export market. (Attached are two figures which support this analysis.)

2/10

CONCLUSIONS: USAID efforts to encourage the government of Malawi to allow smallholders to grow burley tobacco for export does not violate the spirit of the "Bumpers Amendment". Bureau legal advisors will have to determine whether such action would violate the "letter" of the law.

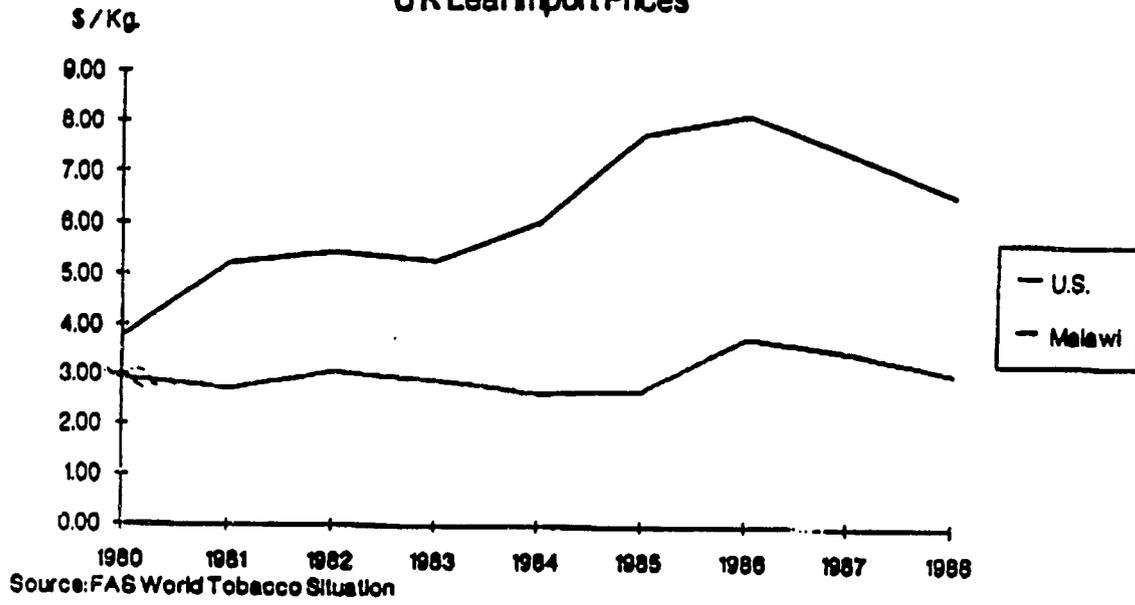
Attachments

Copy:

Lance Jepson, AFR/TR/ANR 
JoAnn Hale, ADO, USAID/Malawi

Drafted by George Gardner, AFR/TR/ANR

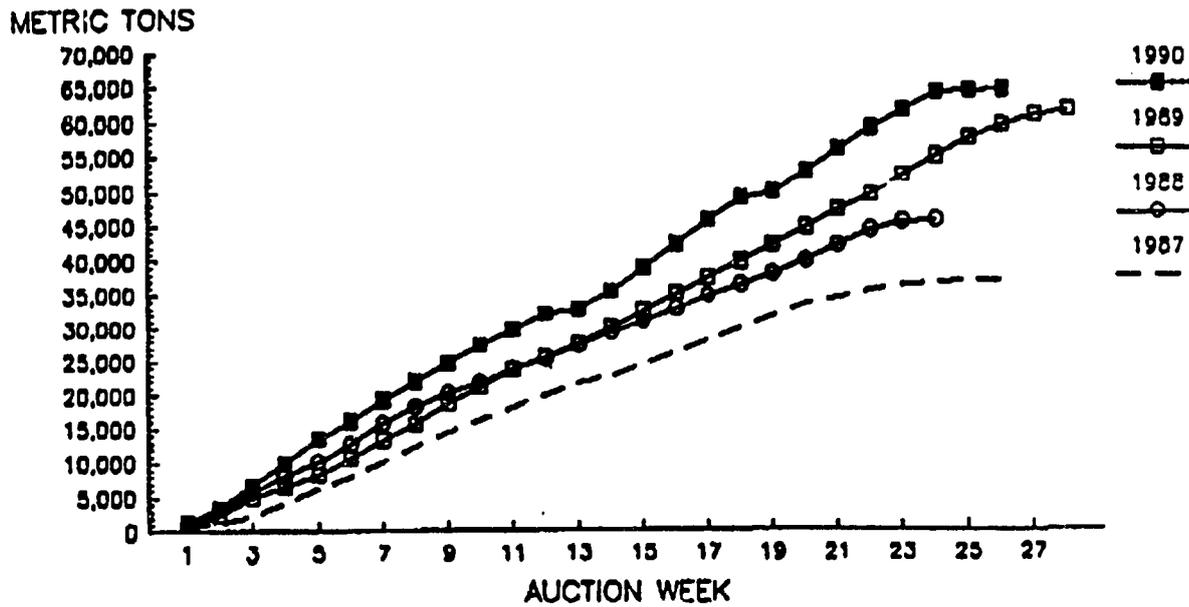
UK Leaf Import Prices



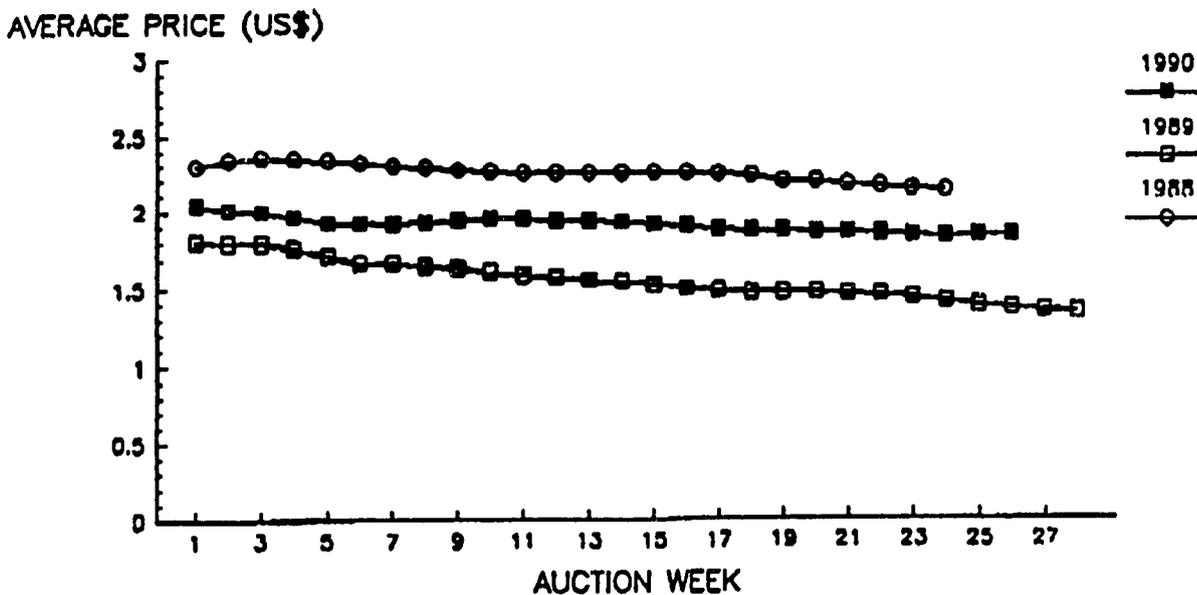
MALAWI

	A	B	C	D	E	F	G	H
1								
2								
3		Burley Leaf		Share of world burley		Fire-cured Leaf		All leaf, price
4		US	Malawi	US	Malawi	US	Malawi	US
5		Quantity (MT)	Quantity (MT)			Quantity	Quantity	Quantity
6	1983	41201	31000	21%	16%	140885	19000	
7	1984	33384	31000	18%	16%	158668	19000	
8	1985	46405	30000	26%	17%	151499	20200	
9	1986	47410	30000	27%	17%	117934	20000	
10	1987	45117	30281	23%	16%	102209	22001	
11	1988	46655	28913	22%	13%	121444	19138	
12	1989	46000	38000	20%	16%	122000	18715	
13								
14								
15			1983	192989				
16			1984	188460				
17			1985	176401				
18			1986	178072				
19			1987	192088				
20			1988	215420				
21			1989	230991				

MALAWI TOBACCO AUCTION: BURLEY TOTAL QUANTITY MARKETED



MALAWI TOBACCO AUCTION: BURLEY AVERAGE PRICE (US\$)



EXCHANGE RATES 1990: US\$1.00 = K2.815
 1989: US\$1.00 = K2.767
 1988: US\$1.00 = K2.458

214

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/MALAWI

Date: September 26, 1991
From: David E. McCloud, PID *DEM*
Subject: Agricultural Sector Assistance Program (NPA No. 612-0239) -
Local Currency Account

Problem: Your approval is requested for a determination that the special account for deposits of local currency under the Agricultural Sector Assistance Program (ASAP) will not be required to be interest-bearing nor to be placed in a deposit-taking institution.

Background: Current guidance on programming and managing host country-owned local currency, as presented in State 204855 dated 21 June 1991, states, "A.I.D. policy favors that local currency be placed into an interest-bearing account in a deposit-taking institution ... so long as such accounts are permitted under host country law and regulation." Under ASAP, a local currency special account will be required for deposits based on program dollar disbursements.

Discussion: The Mission has held talks with the Reserve Bank of Malawi and the Ministry of Finance on the issue of the establishment of the required local currency special account. Based on the provisions of the Reserve Bank of Malawi Act, the Government of Malawi (GOM) holds its central government accounts with the Reserve Bank. Other than a couple of exceptions approved by the Minister of Finance and the Governor of the Bank, e.g. for the Post Office Savings Bank, the Bank does not maintain any interest-bearing accounts, nor is the Bank a deposit-taking institution. (It holds commercial bank reserves, but does not pay interest on these.) In sum, requiring the GOM to establish an interest-bearing account in a deposit-taking institution for the ASAP local currency special account would contradict host country policy and regulation.

The alternative to the Mission is to establish a noninterest-bearing special account with the Reserve Bank, as has been done under the Malawi Enterprise Development Program. This action would conform with current GOM regulations.

In accordance with the above-mentioned guidance, a written determination not to follow A.I.D.'s preference for interest-bearing accounts may be made by the Mission Director.

215

Recommendation: That, by signing below, you approve a determination that the local currency special account which will be established under the Agricultural Sector Assistance Program (612-0239) will not be required to be an interest-bearing account in a deposit-taking institution.

Approved: Carol Q. Peasley

Disapproved: _____

Date: 27 Sept. 1991

Clearances: PID:TLOfgren: Hofner Date: 9/27/91
PAE:RMahoney: Bo Date: 9/27/91
AFS:JHale: Hille Date: 9/26/91
CONT:RBAmir: Bo Date: 9/27/91

ACTION: AID-3 INFO: AMB DCM/ECON

VZCZCLG0972
RR RUEHLG
DE RUEHC #7645 2680237
ZNR UUUUU ZZH
R 250237Z SEP 91
FM SECSTATE WASHDC
TO AMEMBASSY LILONGWE 5956
BT
UNCLAS STATE 317645

LOC: 079
25 SEP 91
CN: 05495
CHRG: AID
DIST: AID

254

OFFICIAL COPY

AIDAC

F.O. 12356: N/A

TAGS:

SUBJECT: PRE-AUTHORIZATION STEPS FOR ASAP AND GABLE
PROGRAMS

REFS: (A) LILONGWE 04430, (B) STATE 063927, (C) STATE
128033

1. THE POLICY MATRICES AND THE CONDITIONALITY PACKAGES ARE
SATISFACTORY. THE ASAP CN HAS BEEN RELEASED. ALL ACTIONS
REQUIRED BY THE ECPR PRIOR TO AUTHORIZATION HAVE BEEN
COMPLETED.

2. CONGRATULATIONS TO ALL MEMBERS OF THE MISSION WHO
ASSISTED IN PREPARING THESE TWO EXCELLENT PAADS. THANKS
FOR YOUR GOOD WORK. EAGLEBURGER

BT
#7645

NNNN

UNCLASSIFIED

STATE 317645

DATE: 09/25/91

ACTION TO: [Handwritten]

INFO: [Handwritten]

DIR	
DE	
AFS	
CONI	
EXO	
GSO	
FIN	
RAE	
PID	

DJE 10/3/91

INITIALS: [Handwritten]

DATE: [Handwritten]

217

**AGRICULTURAL SECTOR ASSISTANCE
PROGRAM
(ASAP)**

**VOLUME III: ANNEXES:
BACKGROUND AND ANALYTICAL STUDIES**

NPA Number: 612-0239

USAID/MALAWI

Project Number: 612-0235

September 1991

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM

VOLUME III: ANNEXES - Background and Analytical Studies

- K. Bibliography of Reports Contributing to ASAP Design
- L. List of Other Donor Projects in the Agricultural Sector
- M. Description of Crops Produced in Malawi
- N. Description of Tobacco Industry
- O. Social Soundness Analysis
- P. Economic Analysis
- Q. Institutional Analysis

BIBLIOGRAPHY OF REPORTS CONTRIBUTING TO ASAP DESIGN

- Ariza-Nino, Edgar, USAID/Malawi
5/91 Women Farmers and Agricultural Policies in Malawi
- Atokorala, Vimal; Batchelder; Gardener; and Wane;
4/90 Reform in Government Provision of Fertilizer to Malawian
Smallholder Farm Families, 1985-87
- Atokorala, Vimal; Batchelder; Gardener; and Wane;
12/90 The Malawi Fertilizer Subsidy Reduction Program: The
Impact of the African Economic Policy Return Program
- Berger, Louis International, Inc.
Report on Services to Promote AgroIndustrial Development
in Malawi
- Blakrishnan, Revathi Dr., USAID/Malawi
6/91 MARE Women's Income Generating Activities
- Carr, S.J.
10/88 Symposium on Agricultural Policies for Growth and
Development
- Carvalho, Joe, REDSO/ESA
6/91 Smallholder Production and Marketing of Burley Tobacco in
Malawi
- Christiensen, Robert E.
Markets, Marketing Boards and Cooperatives in Africa:
Issues in Adjustment Policy
- Christiensen, Robert; Tower; Wyeth; and Gladwine
The Impact of the Fertilizer Subsidy Removal Program of
Smallholder Agriculture in Malawi
- Christiensen, Robert and Kydd, Jonathan G
1/90 The Political Economy of Agricultural Policy Formulation
in Malawi 1960-87
- Christiensen, Robert and Southworth, Roy V.
11/88 Agricultural Pricing and Marketing Policy in Malawi:
Implications for a Development Strategy
- Deloitte Haskins & Sells Management Consultants
10/89 Northwest Mzimba Smallholders Tobacco Project Management
Study

- Deloitte Haskins & Sells Management Consultants
5/90 Review of the MOA's Project and Programme Portfolio
- Department of Agriculture
3/87 Fertilizer Responses in Maize: Yields and Returns As
Derived from the Annual Survey of Agriculture
- Dickerson, Carol W. and Block, Peter C.
10/89 Land Tenure and Agricultural Productivity in Malawi
- Duncan, A.
4/90 The Impact of Pricing Policy on Tobacco Tenancy in Malawi
- Fitch, James and Carvalho, Joe; Institute for Development
Anthropology, University of NY at Binghamton
4/91 Estate Farm Management in Malawi
- Fletcher, Michael, VOCA
7/91 Burley Marketing Structures Proposal
- FAO
12/82 Diversification of Smallholder Agriculture in Malawi
- FAO
1988 Establishment of Tobacco Research & Development
Organization, Malawi
- FAO
1989 Agricultural Produce Marketing - Malawi
- Frischtak, Claudio
10/90 Adjustment and Constrained Response : Malawi at the
Threshold of Sustained Growth
- FSNU, EP&D, GOM
10/89 Food Security & Nutrition Bulletin Vol. 1 # 2
- FSNU, EP&D, GOM
7/90 Food Security & Nutrition Bulletin Vol. 2 # 1
- FSNU, EP&D, GOM
3/91 Food Security & Nutrition Bulletin Vol. 3 # 1
- FSNU, EP&D, GOM
5/91 Enhancing Food Security & Nutrition in Malawi

- Gandhi, Vasant P. and Desai, Gunvant M.
6/89 Factors Affecting Fertilizer Consumption Levels in
Sub-Saharan Africa: A Cross-Country Prospective
- Hall, Peter A and Nankumba, John
10/88 Overview of Donor Experience and Coordination in the
Agricultural Sector in Malawi
- Henry, Bernard G., USAID/Malawi
2/91 ASAP- Financial Analysis of Public Sector
- Hourticq, Joel
3/91 The Fertilizer Subsector in Malawi: Background Paper for a
National Strategy
- International Fertilizer Development Center
8/89 Malawi Smallholder Fertilizer Marketing Study
- Jaffee, Steven M.
3/91 Agricultural Trade Diversification in SADCC Countries:
Prospects & Constraints
- Kamwendo, P.C., MOA, GOM
10/90 Brief on the Implementation Arrangements For Smallholder
Burley Tobacco
- Kandoole, B.F.
1990 Structural Adjustment in Malawi: Short-Run Gains and
Long-Run Losses.
- Kasungu ADD
1991 Proposed Marketing Procedures for the Smallholder Burley
Tobacco Under ASAC.
- Kydd, Jonathan
1/89 Maize Research in Malawi : Lessons from Failure
- Kydd, Jonathan
2/89 Building Agricultural Research Capacity
- Kydd, Jonathan, and Christiensen, Robert
1982 Structural Change in Malawi Since Independence: Large-Scale
Agriculture. World Development 10(5): 355-375

222

- Lele, Uma
10/88 Structural Adjustment, Agricultural Development and the
Poor: Lessons from the Malawian Experience
- Lele, Uma and Christiensen, Robert E.
5/88 Markets, Marketing Boards and Cooperatives: Their Role in
Agricultural Development
- Lele, Uma; Christiensen, Robert E. and Kadiresam, Kindhavi
Issues in Fertilizer Policy in Africa: Lessons from
Development Programs and Adjustment Lending, 1970-87
- Maida, J.H.A. Dr., GOM
Functions and Requirements: Department of Research and
Environmental Affairs
- Malindi, E.S. and Kainja, A.P.
10/90 AgroIndustries: Past, Present and Future
- Manson, Grasimo Bulla
1982 Input Demand and Supply Response Behavior of Malawian
Smallholder Farmers
- Mark, A.G.
3/90 Malawi: Study of Smallholder and Estate Tobacco Growing and
Marketing
- MASDAR
1/91 Strengthening the Management of the Smallholder Farmers'
Fertilizer Revolving Fund of Malawi
- Ministry of Agriculture
1/90 Five Year Extension Strategy Plan
- Ministry of Agriculture
9/89 Agrotechnology Transfer Using Biological Modelling in Malawi
- Mkandawire, Richard M. and Ferguson, Ann
6/90 Smallholder Agriculture, Food Security and Estate Expansion
in Malawi : A Case Study of Salima Agriculture Development
Division
- Mkandawire, Richard M.; Jaffee, Steven and Bertoli, Sandra,
Institute for Development Anthropology, University. of NY at
Binghamton
09/90 Beyond Dualism

- Mkandawire, Richard M.; Jaffee, Steven and Bertoli, Sandra,
Institute for Development Anthropology, University of NY at
Binghamton
4/91 The Migrant Smallholders
- Mkandawire, Richard M. and Phiri, Chimimba D.
1/87 Assessment of Land Transfer from Smallholders to Estates
- Mwinjilo, M.L., and D.H. Ng'ong'ola, Bunda College of Agriculture
University of Malawi
An Investigation of the Constraints Restricting the Uptake
of Medium-term Credit by Smallholders
- Ngwira, L.D.M.; Zambezi, B.T.; Nhlane, W.G.; E.M. Sibale; P. Ngwira
Malawi Maize Improvement and Production Research Action Plan
1989-1999
- Peters, Pauline E and Guillermo Herrera
6/89 Cash Cropping, Food Security and Nutrition: The Effects of
Agricultural Commercialization Among Smallholders in Malawi
- Poats, S.; Gearing, J. and Russo, S.
Executive Summary of Gender Issues in Farming Systems
Research
- Pryor, F.
1988 Income Distribution and Economic Development in Malawi:
Some Historical Statistics. Discussion Paper No. 36.
- Quinn, Vicky, UNICEF
5/91 Food Security and Nutrition Policy Analysis and Surveillance
Programme
- Ranade, C.G., for MADIA Project
10/86 Agricultural Policies and Performance in Malawi
- Reserve Bank of Malawi
1990 Financial and Economic Review
- Sahn, David E. and Arulpragasam, Jehan
3/90 Land Policy and Poverty in Malawi
- Sahn, David E. and Arulpragasam, Jehan
7/90 Development Through Dualism? Land Tenure Policy Poverty in
Malawi

224

- Sahn, David E. and Arulpragasam, Jehan
7/90 The Stagnation of Smallholder Agriculture in Malawi: A
Decade of Structural Adjustment
- Sahn, David E.; Arulpragasam, Jehan; and Merid, Lemma; Cornell Food &
Nutrition Policy Program
12/90 Policy Reform and Rural Poverty in Malawi: A Survey of a
Decade of Experiences
- Sahn, David E. and Frausum, Yves Van
3/91 An Economic Model for Malawi: Measuring the Effects of
External Shocks and Policies
- Saka, A.R. and Kafkati, V.
10/90 Nitrogen and Phosphorus Management of Field Crops in Malawi
- Scarborough, V., HIID
5/91 The Effects of Liberalization Policies on ADMARC, Zomba South
- Seubert, Chris
7/89 Malawi Natural Resources Management Assessment
- Shumba, Steven, and Phiri, Benson, USAID/Malawi
1991 Issues and Observations from Smallholder Burley Tobacco
Growers in Ntcheu District of Lilongwe ADD
- 1991 Some Observations and Issues from the Farm Management and
Labor/Tenant Surveys in Kasungu District
- Sijm, Joe
7/90 Food Security and Policy Interventions in Malawi
- Sinoya, J. and Nankumba, John
1/90 A Case Study of Tenancy Arrangements on Burley Tobacco
Estates in Malawi
- Smallholder Agriculture Credit Project
Smallholder Agricultural Credit Project: Inception Report
- Smallholder Credit Administration/Malawi
Smallholder Agricultural Credit Administration:
Agriculture Statement of Operating Policy
- Steel, Kobe, CTD
9/89 Preliminary Appraisal Study for Fertilizer Project in Malawi

225

- Talpaz, Katkati
3/91 Nitrogen and Phosphorus Management of Field Crops in Malawi: Phase II
- Trivedy, Ray
1987 Investigating Poverty
Action Research in Southern Malawi
- University of Malawi, Center for Social Research
1988 The Characteristics of Nutritionally Vulnerable Sub-Groups Within the Smallholder Sector of Malawi: A Report from the 1980/81 NSSA.
- University of Malawi, Center for Social Research
5/89 The Labor Market in Malawi's Estate Sub-Sector
- Weil, Ray, Dr.
7/85 More Efficient Use of Fertilizer by Smallholder Farmers in Malawi : Problems and Prospects
- World Bank
5/81 Malawi: The Development of the Agricultural Sector
- World Bank
1985 Malawi National Agricultural Research Project and Extension and Planning Support Project
- World Bank
10/88 Staff Appraisal Report - Malawi Agriculture Marketing & Estate Development Project
- World Bank
2/89 Smallholder Credit Manual
- World Bank
10/89 Malawi : Food Security Report
- World Bank
1989 Agricultural Sector Adjustment Credit Appraisal
- World Bank
1989 Malawi Country Economic Memorandum: Growth Through Poverty Reduction
- World Bank
4/90 Malawi Human Resource Development Study

226

World Bank

9/90 Aide Memoire: Malawi Agricultural Services Project

World Bank

2/91 Malawi : Financial Sector Study

World Bank

4/91 Aide Memoire, Project Supervision Mission: Smallholder
Agricultural Credit Project

World Bank

11/91 Malawi: Agricultural Diversification

World Bank

1990 Smallholder Sector Improved Performance Program

0734E

227

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM

Other Donor Programs**1. World Bank**

The World Bank agricultural portfolio includes:

The Agricultural Sector Adjustment Program (70 million). A comprehensive macro-economic policy program involving sectoral policy reforms in Maize research, fertilizer availability and subsidy, agricultural marketing and pricing policy, food security and policies to strengthen estate agriculture;

The Agriculture Extension and Planning Program (\$11 million), designed to strengthen the Ministry of Agriculture's (MOA) analytical and long-term planning capability and strengthen the material extension system;

The Smallholder Credit Program (9 million) is providing funding for Malawi's Agricultural Credit System as well as training, technical assistance, supplies and equipment;

The National Agricultural Research Project (\$24 million) provided buildings, laboratories, equipment, vehicles, training and technical assistance to strengthen the national agricultural research system; and,

Other projects in the portfolio include the Wood Energy Project (\$16 million), Agriculture Marketing and Estate Development (\$14 million), Estate Extension Service, and capital assistance to the National Rural Development Program (\$16 million).

The World Bank is proposing an Agricultural Services Project (ASP). The Government of Malawi is initiating studies which would lead to the Project Preparation Report. One of the major objectives of the project will be to increase the productivity of the marginal (less than 0.4 ha) farmers through increasing their access to means of production, technology, inputs, credit and marketing. This would imply intensifying agricultural services on these farmers without diluting the efforts to provide services to the bigger smallholders under on-going World Bank projects.

2. The European Community

The European Community's investment in the agricultural sector comprises the Smallholder Fertilizer Buffer Stock Phase I and II (\$40 million). This program provides a 70,000 MT fertilizer buffer stock stored in 3 main distribution centers.

The Agricultural Development District Support Program (\$13 million) provides capital assistance to the districts of Salima, Ntchisi, and Nkhotakota.

The Smallholder Coffee Authority Program (\$4 million) provides technical assistance to support the smallholders in the North of Malawi to extend the coffee growing area and to increase the number of registered growers. Similarly, the Smallholder Tobacco Program (\$4 million) and the Smallholder Tea Authority Project (\$9 million) provide funding for infrastructure and equipment and also credit and research.

Other European Community's programs are the Regional Tsetse and Trypanosomiasis Control Programs (\$1 million), the Central and Northern Regions Fish Farming Project (\$3 million), the Smallscale Self-help Irrigation Project (\$600,000), and SADDC Regional Projects emphasising fisheries, forestry and wildlife and regional animal disease prevention programs.

3. British Development Division

The British Overseas Development Assistance (ODA) provides support to the Forestry Research Institute of Malawi (\$1 million) and the Tea Research Foundation of Central Africa (\$350,000).

ODA also provides funding for the Estate Extension Service (\$1 million) to provide technical assistance to conserve the natural resource base and develop other farm enterprises to reduce risks in predominance of tobacco production.

Other programs in the portfolio are Macadamia Research (\$437,000), the Biological Control of Aphids (\$1 million), Artisanal Fisheries (\$450,000), Fire-fighting Equipment for the Viphya (\$300,000) and Trials on Photovoltaic Powered Furnace Fans for Flue-curing Tobacco (\$35,000).

4. Food and Agricultural Organization

An overview of the FAO Program in Malawi includes Strengthening Land Resource Evaluation Capacity (\$25 million), Strengthening of Dropout Distribution Systems for Increasing Smallholder Food Crop Production (\$200,000), Regional Early Warning System for Food Security Phase II (\$1 million), and Strengthening Fishery Chyormation Systems (\$100,000). Some projects that are in the pipeline are: On-farm Prevention of Post-harvest Losses; Conservation Sustainable Utilization of Wetlands in the SADCC Region; Mpwepe Fisheries Training Center; and, Strengthening Veterinary Laboratory and Field Services.

5. United Nations Development Program

The UNDP agricultural program includes support to tea research (\$500,000), household food security (\$550,000) and increasing women farmers productivity (\$300,000). A fuel wood supply project (\$1 million) provides direct support to the Government of Malawi through the office of the President and Cabinet. A targetted nutrition intervention (\$100,000) is a new pilot project.

6. German Aid

The German Government is providing funding for a variety of agricultural projects including over (\$3 million) in fertilizer annually for the smallholder sector. The farmers are involved in fisheries and agricultural development (\$2 million) at Lake Chilwa, beekeeping (\$1 million) in Mzuzu, Livestock development (2.5 million) nationwide and basic animal health services (1.7 million). They have an on-going National Rural Center Program which involves the construction of centers, management training and finally self-help projects for small farmers (\$2.6 million) including a women in development income generation component. Under technical cooperation, the Republic of Germany is supporting Liwonde ADD (\$2 million), and is involved in research and practical application with the Post-harvest and Biological Pest Control Program (\$1 million). The German's financial cooperation programs include the fertilizer donation, funds for the World Bank's structural adjustment program, rural water supply support and rural hydropower.

7. UNICEF

UNICEF is involved in a small (\$75,000) agricultural credit program in Mangochi, Nkhata Bay, and Ntchisi. UNICEF is also funding research studies in food and nutrition, effects of macroeconomic adjustment policies, women in development, primary health care and rural water supply with the Advocacy and Social Mobilization Program (\$250,000).

8. Japanese Aid

Japan has traditionally provided commodity assistance, including fertilizer and has indicated interest in providing approximately \$30 million to ASAC.

9. Netherlands

The Netherlands is contributing \$5 million to ASAC.

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM**DESCRIPTION OF CROPS PRODUCED IN MALAWI**

Agricultural production has always dominated the economy in Malawi, with relative shifts of importance between its two major sub-sectors: estates and smallholders. At independence in 1964, smallholders cultivating customary lands contributed 51% to Malawi's GDP, of which 10% represented marketed output and the balance derived from subsistence agriculture. At this point in time, the estate sector accounted for only 4% of GDP. Twenty years later, the smallholder contribution to GDP had dropped to 32%, and estate production had risen to approximately 7% of GDP. This was due in part to a series of preferential policy arrangements which supplied inexpensive financing and labor to the estate sector in the 1970s. Preferential access to commercial bank lending and indirect subsidies from smallholder agriculture largely fuelled the dramatic expansion of estates at the expense of growth in the smallholder sector. At the end of the 1970s smallholder production was at the same level as at the beginning of the decade -- a decline of about one third in per capita terms. Over recent years, smallholder production which was sold to ADMARC, the parastatal marketing organization, for a fraction of the market price continued to subsidize the growth in estate export agriculture at the expense of growth in the smallholder sector.

Malawi's main agricultural resources are land and labor. Forty percent of the country's land base is considered arable and nearly all of this resource is fully utilized. Land pressures are skewed: in the South 50% of the population resides on 25% of the land; approximately 40% of the population live in the Central region; and, 10% are located in the north where soil fertility levels are lowest. In a labor surplus economy, the labor use intensity requirements for various crops are important considerations: tobacco production is by far the greater labor absorber with 1300 person days/ha, followed by cotton with 300 days/ha; sunflower, 174; groundnuts, 164; beans, 164; HYV maize, 163; and local maize, 144. Use of machine power and animal power for land preparation and other field operations is extremely rare. More than 98% of the cropped area is rain-fed, with only one annual rainfall season.

Export Production

Tobacco, tea and sugar are Malawi's primary export crops, followed by arabic coffee, macadamia nuts, cashew nuts and guar beans. Tobacco is the most significant crop by far, accounting for over 30% of GDP and over 60% of total domestic export earnings. It is exported to manufacturers in 60 countries through one of four buyers, and has been processed for domestic markets since 1942 by British American Tobacco (BAT).

The tobacco estates, which until 1990 were the only legal producers of flue-cured and burley tobaccos, were owned by the Malawian political elite in the 1960s and the 1970s. However, the estate sector has dramatically altered in ownership composition and size during the 1980s. In 1980 there were 814 burley estates with an average quota of 20,000 kg each. By 1989 there were more than 9,000 burley estates with an average quota of 7,000 kg each. Today, approximately 15,500 estates produce 85 million kg of burley tobacco on 70,000 hectares, with 70% of these estates having landholding of less than 30 hectares and with 50% of the producers having average quotas of 5,000 kg each.

Burley tobacco, as an estate crop, is generally grown under a tenancy system established in 1920. Under this system the tenants live on the estates, produce the crop on estate-owned land using estate-furnished production inputs advanced on credit, are supplied with monthly maize rations, and sell tobacco to the estates at government administered prices.

Smallholders are allowed to grow four types of tobacco on customary land: northern division dark fired, southern dark fired (more lightly fired), sun-air cured, and oriental. In 1990, 73,000 smallholder growers (6% of smallholder families) produced 15,000 million kg of tobacco on 30,000 hectares. Smallholders must market all their tobacco production through the parastatal marketing corporation, ADMARC, which passes through only one fifth of auction floor prices to smallholder tobacco growers.

Until recently, Malawi dominated the export market for dark fired tobacco. But, with the relatively low purchase prices offered by ADMARC and expensive fuel requirements for processing (6 to 14 cubic meters of timber per 1,000 kg tobacco), smallholder production and exports declined from 15,000 tons in 1985 to less than 5,000 tons four years later. Malawi was once a major world exporter of dark-fired tobacco, and second only to the USA as a producer. However, Malawi's share of the dark-fired world trade fell from 60% to 33%, which caused buyers to explore other sources of supply. The sector as a whole does not look encouraging in terms of future world trade, as a result of the trend towards lighter blended cigarettes. With the added pressure of health concerns this market is expected to stagnate or decline over the next decade.

Unattractive returns on investment also prompted the decline of smallholder sun-air cured tobacco -- the most environmentally clean of all Malawi's six types of tobacco. Production fell from 1,600 metric tons in 1985 to a mere 372 metric tons in 1989. Both area and yields plunged in response to disappointing price signals. Smallholders also cut back on physical and managerial inputs, causing production to fall in an almost uninterrupted slide. Yields declined from 300 kg/ha in 1980 to 195 kg/ha in 1988. Traditionally, Malawi has been a minor contributor to sun-air cured world production of 1.5 million tons. Health concerns places a serious constraint on a resurgence of the sun-air cured market due to high tar content.

232

Malawi is also a minor actor in the world production of 800,000 tons of oriental tobacco. Malawi's production of smallholder oriental tobacco declined from a high of 600 tons in 1982 to 100 tons in 1988. The total crop is currently marketed privately to South Africa and Germany, and Malawi is unlikely to produce sufficient supplies to encourage expansion into other markets with greater demand levels.

In 1991, eight thousand smallholders registered with ADMARC to grow a total of 1.1 million kg of burley tobacco on a pilot basis under World Bank funding. Malawi is well placed to take advantage of the swing towards lighter tobacco, as exemplified in burley. Malawian burley also has excellent natural characteristics which provide a comparative advantage in world markets. Growth in Malawi's burley market could easily reach 100 million kg next year from a 70 million kg trade demand for 1990-91. Returns on burley sold directly on the auction floors are 6 to 10 times those of high yielding varieties (HYV) of maize and absorbs 8 times the amount of labor per unit land.

Tea is produced on estates owned largely by British firms. There are approximately 3,700 smallholders who grow approximately 2% of the tea on 11% of the tea area, under the supervision of the Smallholder Tea Authority which pays less than 10% of the final market value of the crop for an average smallholder income of K800. At present, the potential for expanded tea production is almost entirely dependent on yield increases, since little additional land suitable for growing tea exists. The higher and more evenly distributed rainfall and high altitude conditions found in the Southern region are not duplicated elsewhere in Malawi. Total exports of 42,000 tons in 1990, generated \$47 million in export revenue or 13% of total domestic exports.

The sugar industry is comparatively new, growing in significance from the early 1970s with joint ownership between the government and multinational firms, under Lonrho Limited management. Until 1979, Malawi was a net importer of sugar. The Sugar Corporation of Malawi (SUCOMA), established in 1970 is the larger of the two sugar estates with 9,300 hectares. The Dwangwa Sugar Corporation was established nine years later on 5,900 hectares organized under the Smallholder Sugar Authority. The smallholders are paid approximately 25% of the proceeds from the sale of their cane with average payments to farmers being K4,500. An ethanol plant was established in 1982. Approximately 25% of the current production of 200,000 tons is sold on the domestic market as refined sugar and the balance is exported as raw sugar. Malawi has a 20,000 ton quota for exports to the EEC and a 10,000 ton quota for the USA. In 1990, 60,000 tons of sugar were exported at a total value of \$30 million.

Arabica coffee is a major crop with a few hundred smallholders growing 7% of the coffee on 520 hectares in the northern area under the Smallholder Coffee Authority. There are 12 estates producing 200 tons of coffee from 869 hectares in southern highlands. Malawi will never be a major producer of coffee due to limited suitable land area with the required rainfall and temperature conditions. Coffee ranks fourth as a foreign exchange earner with 1990 receipts totaling \$12 million.

Macadamia was introduced into Malawi in 1930, and is essentially grown as an estate crop with major orchards in the south on large tea plantations and in the north at Nkhata Bay. A total of 800 hectares is registered with the Malawi Tree Nut Authority, which issues production licenses. There is limited smallholder production in Ntchisi totalling 20 hectares. The long gestation period of 5 years to first crop and 15 years to full maturity constrains smallholder production. Malawi's annual production of 17 tons is the smallest of the six world producers, dominated by Hawaii which accounts for 85% of world macadamia production.

Cashew trees are grown commercially along the central and southern lakeshore area. ADMARC's annual purchase of raw nuts from smallholders averages approximately 70 tons. Several characteristics lend themselves to smallholder production: cashew trees are drought tolerant, have minimal labor requirements, low establishment costs, high economic value, and can be grown in poor soils and rocky areas with low rainfall. These conditions apply to much of the area within 2 kilometers of the lake. There is considerable potential for expanded production as suitable areas are currently unutilized. It can be promoted in mixed cropping systems for smallholders and is suitable for villagers whose primary source of income is fishing. Malawi's small 1990 crop of 70 tons was exported to India for further processing by manual methods. Cashews exhibit a high efficiency of resource use and offer a promising role in crop diversification for Malawi.

Guar bean is produced by 25,00 smallholders on 7,500 hectares in semi-arid areas in the Lower Shire Valley. This legume fits easily into crop rotation with cotton, sorghum, and millet and does not compete with other crops for labor use. Guar is used as a thickening, binding and stabilizing agent in the oil, paper, mining and textile industries. Malawi's supplies arrive on the world market in the off-season months of April and May.

There was also a world demand for Malawian groundnuts, but exports stagnated due to supply constraints that resulted from the producer price supplied by ADMARC which was two-thirds of the export price. In the meantime, international demand for groundnut types has shifted from the traditional type of nut produced in Malawi -- the Chalimbana and the Chitembana varieties -- which was popular with the European confectionary trade due to good flavor, long shelf life and large size. The new processing equipment being used by the trade does not cope well with the irregular nut shape of Chalimbana and Chitembana. Research is exploring new varieties to meet the new trade demands.

Domestic Production

Approximately 1.3 million smallholder families cultivate customary land and produce about 85% of the country's food supply. They are critical to the production of the nation's food: maize, groundnuts, pulses, cassava, sorghum, millet, and rice. Most food crops are grown for home consumption and the state marketing board, ADMARC, only purchases about 20% of smallholder crops. Subsistence needs absorb nearly the entire land and labor resource in the smallholder sector. More than 50% of the smallholder families have plots less than one hectare, which is insufficient, at current productivity levels, to

234

supply the family's basic nutritional needs. Approximately 25% of the families live on less than one half hectare. With increasing population pressures on a fixed land base, and limited rural purchasing power for fertilizer and HYV seeds, continuous monocropping has drastically reduced soil fertility levels. Consequently, the majority of smallholder land and labor is devoted to maize with disappointing returns and the necessity to resort to off-farm employment for food supplements. The majority of households deplete their food supplies 3 to 4 months before the annual maize harvest and become net purchasers of their own staple food. Chronic malnutrition for half of all rural children and seasonal under-nutrition for many low income adults help to explain the low energy reserves available for the critical field operations by adults.

Maize production accounts for approximately 85% of the total food crop area and provides 75% of the nation's caloric requirements. Only 15% of production enters into domestic trade; the balance is consumed locally. The achievement of large marketed surpluses gives the appearance of national food security; however, low purchasing power precludes many rural householders from accessing grain reserves. The trebling of maize purchases from smallholders in the first half of the 1980s enabled ADMARC to fulfil the newly established Strategic Grain Reserves to almost full capacity (180,000 tons) and to export more than 300,000 tons of maize in 1983-86. However, ADMARC's domestic sales of maize fell during 1980-1985 from 108,000 tons to 86,000 tons, while total consumption in this period declined from 1,211,000 tons to 1,115,000 tons despite high population growth rates. Therefore, the success of generating a marketable surplus at the national level has been against a background of a worsening of food security at the household level. The volume of national maize production does not meet the requirements of the nation as a whole. Per capita production of maize is actually 20% below that of the nation's nutrient requirements.

At present, only 30% of the smallholders apply fertilizer and the vast majority of this input is directed to low yielding maize varieties. Sixty percent of all fertilizer purchases are made by smallholders: 50% of their share is used on local varieties with half to one third the return of yields; 30% of smallholder fertilizer is used on HYV maize; 17% is applied to tobacco; and the balance to other crops. Inappropriate HYV maize varieties relative to village storage and processing requirements have resulted in low adoption rates by farmers. Consequently, one million hectares of smallholder land are devoted to local maize and only 0.3 million hectares are under HYV. This situation should improve in 1991-92 with the release of 400 tons of a hard endosperm HYV variety which is suited to village storage and processing needs.

Groundnuts rank second in importance to maize and are grown with almost no purchased inputs but compete directly with maize for scarce land and labor. It is grown by over 500,000 farm families, with nearly 200,000 hectares of groundnuts traditionally cultivated by women. Smallholder groundnut production has followed a downward trend from a 1988 level of 88,000 tons to 17,000 tons in 1990. Supply is extremely price responsive, and there has been no consistent relationship between producer prices, ADMARC export earnings, or national parity prices.

775

Only 1,000 tons of wheat, or 6% of domestic consumption, are produced in Malawi due to predominantly high temperatures which promote poor tillering, early ripening and a reduced growth period. Sorghum and millet are traditionally grown in the drier areas of the Shire Valley and the southern lakeshore area and are principally used in the home brewing of traditional beer.

Current 100,000 smallholders, or less than 8% of the smallholder population, grow 25,000 tons of seed cotton on 40,000 hectares with yields of 400 kg/ha. It is especially important in the extreme southern areas which are too arid for respectable maize yields. High labor requirements make cotton production attractive, but low producer prices by ADMARC offset such advantages. Pest control accounts for 80% of cash costs and low producer prices do not motivate farmers to take adequate preventive measures.

Cotton is ginned into lint for export and for the local textile industry, and seed for the local edible oil industry and animal feed. The value of the seed is not reflected in ADMARC's purchase prices. Oil seed production does not meet local demand despite the fact that the average Malawian only consumes 10% the amount of oil which the Mozambique refugees who are resident in Malawi receive from international donors. Oil consumption in Malawi is one of the lowest in Africa and in the world at only one kg per annum per capita.

David Whitehead Ltd., with Lorhro as its majority shareholder, is Malawi's sole textile manufacturer and purchaser of domestic cotton. The company has operated at full capacity since 1981. The export cotton market is viewed as residual since domestic requirements must be fully met before lint can be sold on the international market. The anomaly is in permitting David Whitehead Ltd. to operate as a monopoly with total freedom to determine its selling price when prices at all earlier stages in the production cycle are administered or negotiated. This is inconsistent with a policy directed at putting cloth on the market at the lowest price after covering production and marketing costs.

0810E

236

TOBACCO INDUSTRY IN MALAWI

World production of tobacco averages 7.2 million tons, of which Malawi accounts for 0.4% of the flue, 14% of the burley, and 4% of the dark fired. World consumption of tobacco is approximately 6 million tons, with China in the lead at 2 million tons and the USA (0.6 million tons), USSR (0.5 million tons), and India (0.4 million tons) following. World trade totals 1.3 million tons of which Malawi accounts for nearly half in the burley trade, 11% in the dark fired trade, and 4% in the flue trade. In terms of ranking, Malawi is the second largest burley trader, the third largest dark fired trader, and the seventh largest flue trader. Whereas Malawi contributes only 1.4% to world tobacco production, its total trade market share is 7%.

Tobacco accounts for over 30% of Malawi's GDP and over 60% of its total domestic export earnings. The tobacco industry is well developed with research and estate extension financed by producer levies. Two separate mechanisms are in place for the registration of tobacco licenses and production quotas on a yearly basis: ADMARC and the MOA. ADMARC annually registers and issues licenses to approximately 73,000 smallholder tobacco growers and purchases output at 40 markets. These licenses and quotas are for dark fired, sun-air cured, and oriental tobacco only. In 1990 ADMARC issued licenses for 6,000 burley growers for the first time. The MOA annually issues licenses and production quotas to tobacco estates against an annual estimated production target issued by the the Tobacco Export Association of Malawi (TEAM) to the Tobacco Control Commission (TCC). These license and quotas are for burley and flue tobacco only.

The tobacco industry consists of buyers, growers, and related support agencies as described below:

Established in 1930, TEAM is a voluntary association of buyers, exporters, packers, and manufacturers, and is financed by contributions from its members. Established in 1963, TCC is financed by the tobacco growers through a levy on the auction floors (0.72 tambala/kg tobacco) and consists of 7 members from 4 organizations: two from the Tobacco Association of Malawi (TAMA) representing estate growers, two from TEAM, one from ADMARC representing smallholder growers, and one from MOA. TCC has established 203 grades for flue and 69 grades for burley.

TAMA was established in 1929 and is funded through producer levies (1 tambala/kg tobacco sold on the auction floors). It represents estate producer interests and guides the newly established Estate Extension System, which is also financed through estate tobacco growers (0.35% of gross sales). The Tobacco Research Institute (TRIM), established in 1980, is financed by deductions on the auction floors (0.65% of gross proceeds). Additional deductions from auction floors sales include (1) classification fees of 0.76 tambala/kg, (2) stabilization fees of 0.5 tambala/kg, (3) Auction Holdings fees of 3.75% of gross proceeds, (4) stop orders for bank loans, and (5) withholding tax of 5%.

Tobacco is exported to manufacturers in 60 countries through one of four buyers: Univeral (represented by Limbe Leaf), Standard Commercial, Central Leaf, and Intebex Dibrell. Universal, a U.S. company buys approximately half of the total tobacco crop. Standard Commercial, another U.S. company, is the second largest buyer at 27% of total production. The two remaining companies purchase the balance: (1) Central Leaf, composed of Cassale (U.K.) and A.C. Monk (USA) and (2) Intebex (Belgium) Dibrell (USA). Malawi fully satisfies its domestic requirements for cigarettes which are manufactured and marketed by British American Tobacco (BAT) in Malawi since 1942 as Benson and Hedges, State Express, 555, Filter King, Life, Ascot, and Tom Tom.

With the exception of oriental tobacco, all tobacco produced in Malawi must be sold on the auction floors administered by Auction Holdings, a private entity established in 1937 with ADMARC as the majority share holder. From 15 April to late October, Auction Holdings operates two floors in Limbe (7,000 bales a day) and in Lilongwe (10,500 bales a day --- the largest tobacco floor in the world). A farmer's sales sheet is available within one hour of the tobacco sale and deposits are made directly to the grower's bank account the following day. To ensure orderly throughput and lack of congestion, Auction Holdings, in collaboration with TCC, issues delivery quotas to all growers. A typical delivery quota for a grower of a 2,500 kg quota might be 4 bales a week for 6 weeks. Adjustments are announced by radio.

Estates purchase tobacco seed from Agricultural Trading Corporation, a subsidiary of Auction Holdings, and fertilizer from OPTICHEM. OPTICHEM imports approximately 50,000 tons of straight fertilizer annually and blends and granulates

fertilizer to produce product composition to match consumer demands. Smallholders procure free tobacco seed and subsidized fertilizer from ADMARC. ADMARC distributes approximately 100,000 tons of imported fertilizer, of which 17% is used by tobacco growers.

In 1990, approximately 15,500 estate growers produced 85 million kg of tobacco (flue and burley) on 70,000 hectares while 73,000 smallholder growers (6% of smallholder families) produced 15,000 million kg of tobacco (dark fired, sun-air cured, and oriental) on 30,000 hectares. Essentially 15% of Malawi's tobacco is produced on one third of the total tobacco land by 83% of the nation's tobacco growers.

Press Holdings is a prominent actor among tobacco estates and consists of two subsidiaries: General Farming with 3,600 hectares of flue tobacco (23% by value of the country's flue tobacco) and Press with 3,200 hectares of burley.

0723E

SOCIAL SOUNDNESS ANALYSIS

1. Introduction

The Malawi Agricultural Sector Adjustment Program (ASAP) is designed to broaden and equalize access to agricultural resources to achieve growth in agricultural productivity, employment and incomes. The purpose will be achieved through a combination of policy reform and project activities which will result in opening opportunities for smallholder production and marketing of high value cash crops and improvement in the terms and conditions of employment in the agricultural sector. With the additional income generated, it is assumed that smallholders will purchase high yielding maize varieties and fertilizer which will permit increased food production on substantially reduced areas of land as well as invest in the rural economy providing additional employment. (**1.. Peters and Herrera's 1989 study indicates that as income increases more food is retained for home consumption rather than income being made available to purchase additional inputs. Their data on fertilizer use also suggests a trend for the intensity of land use to decline with larger land holdings, larger areas under tobacco and higher incomes. In addition among the small sample of land poor households who grew tobacco in their study area, there was a tendency for them to produce less maize which resulted in a shift of control over expenditures away from women and a greater dependency on grain purchases. These initial findings call into question the assumption that increased income will be used for the purchase of inputs to increase productivity. However, the Ntchisi child survival project (FSNU Food Security Bulletin, 1990) and a complementary study undertaken in Phalombe (Engberg et al, 1985) show that giving land poor predominantly female headed households assistance in obtaining credit for inputs significantly increased yields of maize and resulted in continued use of hybrid seed and fertilizers. Further work is required to determine the exact nature of the relationship between income and increased input use for all categories of smallholders and to define what constraints exist and how they can be eliminated.

***) In addition the program will address issues related to liberalization of agricultural input marketing and supply systems and diversification of marketing channels for all agricultural produce such that smallholders will no longer be victims of monopoly pricing. The target population for ASAP is smallholders with less than 1.5 hectares of land (75% of the smallholder population, nearly five million people).

The main objectives of ASAP are:

- To allow small-scale farmers greater freedom of choice in production and marketing by establishing multiple marketing channels, by increasing access to rewarding commercial crops, and by diversifying sources of agricultural inputs.
- To increase the equity and transparency of regulatory and contractual

relationships in the agricultural sector by increasing access to market information, by clarifying terms and conditions of tenancy and laborer relationships, and by publicizing tobacco quota allocation criteria.

From a social perspective, the following questions arise:

- What is the current structure of employment, income distribution, and access to land and other resources (credit, labor, inputs and extension advice) among significant social groups within the agricultural sector? and;
- What are the constraints to increased production of all crops for different social groups?

Because Malawi is experiencing far-reaching structural transformation in the agricultural sector, we must also ask:

- What key underlying processes are causing changes in employment, income, and resource access within the agricultural sector, and what is the direction of change?

This social analysis provides preliminary answers to these questions, drawing primarily upon the results of a small set of high-quality research and analysis activities supported by USAID/Malawi during recent years (see PAAD bibliography).

2. Employment, Income and Resource Access in Malawi

Table 1. Employment and Income in Malawi, 1987

Sector	Percent of Employment	Percent of Income
Smallholders	72	34
Estates	9	7
Government	2	9
Industry/Business	10	50
Unemployed	7	0
Total	100	100

Sources: World Bank, Growth through Poverty Reduction, Technical Appendix 1, Table 2 (1989); Mkandawire, et al., Beyond Dualism, Table 1.9 (1990); Reserve Bank of Malawi, Financial and Economic Review (1987); Sahn et al., Policy Reform and Poverty in Malawi, Table 25 (1989).

The sectoral distribution of employment and income in Malawi in 1987 is illustrated in Table 1. At that time 14.6% of formal sector wage employees were women, 70% of all full-time farmers were women and 25% of part-time farmers were women - a category which has grown by 27.8% per annum since 1966. (World Bank, 1990).

The active labor force is expected to double from 3.5 million today to 7 million in the year 2015. (World Bank, 1990). Given the overwhelming share of the agricultural sector in employment, (nearly 3 million people) the majority of new entrants into the active labor force will have to be accommodated in

241

this sector. A task which can only be accomplished through increased productivity and labor intensification. The resulting growth in agriculture would lead to increased investment in rural areas and the generation of additional employment opportunities.

The paragraphs below provide a closer look at two groups that are of particular significance for the ASAP program: smallholders and estates. For the moment, it is convenient to consider these groups separately, but in fact key aspects of agrarian change in Malawi today emerge from the changing nature of relationships between smallholders and estates, and neither can be properly understood without considering the other.

a. Smallholders

During the 1970's, Malawi's agriculture sector displayed one of the fastest growth rates for GDP and exports in Sub-Saharan Africa. The main force behind this was the rapid expansion of estate production of tobacco, fueled by strongly preferential policy treatment. The benefits of this growth have not spilled over into the smallholder sector, where productivity increases have failed to allow either food production or the total value of smallholder agricultural output to keep pace with population growth.

Malawi's smallholder sector, 1.3 million households, produce 85% of the country's food supply and is squeezed by four main factors: (a) high rates of population growth (3.7% per year between 1977 and 1987); (b) inadequate access to land, which is reflected in declining per capita farm sizes and declining ability to leave land fallow which, without adequate inputs and crop rotations, has resulted in declining fertility (smallholder landholdings averaged 1.5 hectares in 1968/69, but only 1.2 hectares in 1980/81, a 20% decline in just over a decade); (c) low farmer adoption rates of HYV maize and fertilizer (10.5% for the former and 33% for the latter in the 1981 NSSA survey); and, (d) a set of national policies that have neglected the needs of smallholder agriculture or that have transferred wealth from smallholders to support investment in other sectors (Pryor 1988, Centre for Social Research 1988, Kandoole 1990, Kydd and Christiansen 1982). Table 2 summarizes some relevant aspects of smallholder agriculture in Malawi. No matter how much land smallholders have, 80%-90% is planted to maize leaving only very small areas for cash crop production.

75% of all smallholder households have less than 1.5 hectares of land. 20% have between 1 and 1.49 hectares and are considered subsistence farmers able to produce a small surplus in good years. However, 55% have less than one hectare, which at current productivity levels will supply a maximum of 75% of the family's basic nutritional needs. 23% live on less than 0.5 hectares, which yields only 27% of their consumption requirements. (World Bank, 1990). As a result, over half of all rural children experience chronic malnutrition and many low-income adults experience seasonal under-nutrition.

Smallholders with less than 1.5 hectares of land are more akin to peri-urban gardeners than they are to a traditional farming population. Peters and Herrera's 1989 study has shown that 40% of all income derived by smallholders including food retained for consumption comes from off-farm sources, 15% of which comes from remittances from family members and that 50% of all reported income is controlled by women. For households where cash crops are becoming a

significant income source, there is a tendency for women's access to and control of income to decline. If present trends continue it is likely that the majority of Malawi's rural people will transform into landless or near landless laborers, underscoring the importance of off-farm employment growth for Malawi's future.

Table 2. Smallholder Agriculture in Malawi, 1984/85

Holding in Ha.	Mean House Hold Size	% of Holdings	% of Land in Maize	% Land in Hybrid	% Female Headed
Households					
<0.50	3.6	23.0	81.5	.6	42
.50-0.99	4.4	32.3	83.7	1.3	34
1.0-1.49	4.9	19.9	82.3	3.4	24
1.5-1.99	5.1	10.9	74.7	5.3	28
2.0-2.49	5.7	6.3	77.3	8.4	10
2.5-2.99	6.1	3.5	69.8	10.3	
=>3.00	6.4	4.2	70.6	15.5	8

For female headed households the categories 2.0-2.99 ha. were combined.

Source: Kandolle (1990) & National Statistical Office, Zomba.

The three-way bind created by growing population, shrinking land resources, and ineffective rural investment has consequences for rural people that are familiar from elsewhere in East and Southern Africa: an increasingly skewed distribution of land and income (both regionally and within communities); a growing proportion of resource-poor, woman-headed households (30% throughout the smallholder sector); a growing marginalization of agriculture, which becomes a residual activity providing a less and less meaningful contribution to household food and income; and substantial reliance on alternative, non-farm sources of employment to meet basic subsistence needs. Lack of opportunity in smallholder agriculture, especially for those with the smallest landholdings, forces over half a million smallholders to live and work on estates, still others seek employment on the farms of larger smallholders.

1. Women Headed Households

In Malawi 30% of smallholder households are headed by women, 72% of whom have less than 1 hectare of land and cannot produce enough to meet their households consumption requirements. This is roughly commensurate with other countries in the region. The category "women-headed households" is not a homogeneous one. The specific circumstances of women headed households makes a difference, because a woman's access to land, labor, livestock and capital is largely determined by the nature of her current and past association with men, particularly with husbands or with male matri-kin in the South. Peters and Herrera's 1989 study suggests that 40% of women headed households are headed by women who have been divorced or widowed and 40% are headed by women who are married to Malawi based migrant workers. These households have relatively weak access to resources and are significantly poorer than rural households generally. However, women who are married to South Africa-based migrant workers (20% of women headed households), have an average income double that of other women-headed households and 40% higher than the rural average. The

picture regarding women as farmers, however, remains bleak; as Ariza-Nino (1991) points out, the policies and institutions that have stifled Malawi's smallholder agriculture in general have had a particularly crippling influence on the opportunities available to women farmers. Marginalization of smallholder agriculture is felt most directly and deeply by women.

ii. Production of Cash Crops

All major cash crops are produced primarily by estates however, 4% of smallholder land is under cash crops. (**2.. Cotton is grown on approximately 2% of the smallholder land area by 8% of the smallholder population. Tobacco is grown by 6% of smallholder households who are registered with ADMARC which supplies them with licenses, free seed and fertilizer on credit. In recent years, farmers have received approximately one fifth of auction floor prices for their tobacco. These price disincentives have all but destroyed the international market for Malawian dark fired and sun-air tobacco. KFCTA has initiated a scheme for 780 smallholders growing flue-cured tobacco who receive 40% of the proceeds of auction floor sales for their crop. Arabica coffee is grown under the authority of SCA which has 10,000 members. In 1990 their average incomes from the crop were K225. With declining world market prices for coffee and limited suitable land area in Malawi, there is limited room for expansion. 2% of Malawi's tea crop on 11% of the tea area is grown by 5,004 smallholders under the supervision of STA. Last season they realized only 10% of the final market value of their crop but averaged incomes of K800. Potential for expanded tea production is primarily limited to yield increases: however, an additional 60 hectares will be added to the scheme this year. 200 smallholders also grow sugar under the supervision of SSA. They are paid approximately 25% of the proceeds from the sale of their produce with average incomes being K4,500. The scheme will be expanded by 800 hectares this year and there is some potential for additional smallholder production on an outgrower or contract basis. Finally macadamia nuts are grown by a few smallholders under the supervision of MTNA in Ntchisi; however, long gestation periods constrain smallholder expansion. (Dan Walz)**) Smallholders have proven that they are aware of market forces by the considerable shifts in production experienced when price incentives and price ratios between various crops make it worthwhile. The low level of cash crop production in the smallholder sector is therefore due to price disincentives offered by ADMARC, the sole purchaser of smallholder cotton, tobacco and groundnuts; technical and legal constraints; and the inability of subsistence farmers to take risks. Few women are quota holders, and yet they provide an estimated 50% of the labor required both on smallholdings and on estates. Therefore, women undertake the field work without obtaining the direct benefits of quota holding. (Ariza-Nino, 1991)

Until this year smallholders were legally prohibited from growing burley, the most profitable type of tobacco. In 1990, a pilot smallholder burley production scheme was approved whereby 9,060 smallholders in areas where the average farm size was less than 1 hectare were identified and allocated a quota of either 0.1 hectares or 0.2 hectares for burley production. Despite the poverty focus of the smallholder burley scheme, it appears that the majority of participants had more than 1 hectare of land and already exhibited commercial cropping patterns. These were the only farmers with access to sufficient capital to commence production when the promise of credit for burley growers was not realized.

There is considerable potential for expanded smallholder production of burley which, given the fact that Malawi has failed to meet its production targets in recent years, is desirable. The Government of Malawi is committed to extending the current smallholder burley production scheme to include 53,500 smallholders with less than 1 hectare holding quota allocations of 200 kg each by 1995/96. However, if smallholders from the target population are to be included, credit and extension services will have to be made available to them. In addition, the considerable resistance from the estate sector to anything but minimal and heavily controlled access to the crop must be overcome.

The pilot smallholder burley scheme has not been fully evaluated, however, discussions with farmers indicate that it has met with mixed success. Farmers complaints have centered on their dissatisfaction over supply of inputs and ADMARC's marketing performance. ADMARC did not pay farmers 45% of the rolling three year average as promised, rather they paid an average of K1.19 per kg. as opposed to the average auction floor price of K7-8 per kg. As a result, only 377,000 kg. of the estimated total smallholder production of 1,320,000 kg. has been marketed through ADMARC. (Steven Shumba) Those farmers who sold to ADMARC obtained negative returns on their crop while those who sold illegally to estates, at an average of K2.33 per kg., exhibited small positive returns. (Conroy, 1991) If burley production is to have a favorable impact on rural incomes and investment, farmers need to gain direct access to the auction floor.

Another cash crop which lends itself to smallholder production is cashew nuts. The trees are drought tolerant and require minimal labor input. They also have low establishment costs and the crop has a high economic value. Much of the lakeshore within two kilometers of the lake is suitable for cashew production and it should be encouraged as part of a mixed smallholder farming system. To date, smallholders produce only 70 tons which is all marketed through ADMARC.

Groundnuts, maize and pulses are also grown by smallholders primarily for food but also for sale when the published prices for the coming season make it profitable. These crops unlike the export crops are traditionally grown by women though cultivation as a cash crop is also undertaken by men. They require no purchased inputs, however, fertilizer use substantially increases maize yields. Groundnuts compete with maize for land and labor and at present ADMARC, as the sole purchaser of groundnuts pays less than two thirds the export prices which acts as a disincentive to increased production.

iii. Constraints to Increased Smallholder Production and Productivity for all crops

Apart from access to land, the major constraints to increased smallholder production are: access to credit, extension, inputs; and, lack of options with respect to marketing. Women experience all constraints more acutely than men due to de facto barriers to their participation in Government programs (smaller farm sizes restricting their access to extension, credit and inputs and lack of access to cash crop quotas) despite their central role in the agricultural sector.

245

a) Credit

The Smallholder Agricultural Credit Administration (SACA) was established in 1987 to coordinate non commercial credit sources for the smallholder sector. It manages 90% of all credit extended to this sector and provides seasonal loans for recommended levels of fertilizer, pesticides and seeds, in kind, to farmers who have formed farmers clubs and have demonstrated that they can work together. Clubs are assisted by the MOA's extension staff who spend the majority of their time working with members. Farmers clubs share a collective responsibility for the repayment of individual members loans. Due to their nature they tend to include only those smallholders who are considered to be a good credit risk which de facto locks the majority of poorer farmers out of both the mechanisms through which inputs and extension services are made available to the smallholder sector. Currently there are 10,000 farmers clubs which include members from 300,000 households (25% of all smallholders), 29% of whom are women, however, women receive only 15% of the volume of credit. Women's participation has increased dramatically in recent years, in 1985/86 only 19% were women. 80% of the members cultivate plots in excess of 1 ha. 67% of all loans are for hybrid maize production, 15% for tobacco, 10% for groundnuts and the rest are primarily for cotton.

SACA cannot be regarded as a means for assisting the most vulnerable sectors of the smallholder population unless the smallholder is shown to be credit worthy. Indeed, the recent rapid expansion of SACA has resulted in declining repayment rates from a high of 98% in 83/84 to 85.5% in 89/90, particularly among men who tend to have larger loans than women (women's repayment rates continue to be near 100%). No matter what their credit history, there is reluctance among SACA officials, MOA staff and farmers clubs to extend credit to land poor farmers. In addition, many smallholders now fear credit due to measures taken to enforce repayment, primarily forced sale of farmers assets. (Mwinjilo et al., 1990)

b) Extension

The Ministry of Agriculture provides free extension services to smallholders and has fielded one extension officer for every 750 smallholder households. Only 15% of these extension agents are women which seriously restricts women's access to extension services given cultural norms which prevent men from interacting freely with women. In addition, due to the many activities extension officers undertake and the inability of their budgets to meet operating costs, adequate and timely delivery of extension services continues to be a constraint to increased agricultural production and productivity. Additional extension modules for non-traditional crops as well as more staff will be required if all smallholders are to diversify and gain access to extension services. Extension advice concerning cash crops from which smallholders have been barred in the past will be particularly important. In addition there is a need to increase the current effort of adaptive research on farmers fields to develop more appropriate extension messages with smaller input packages and to decrease the bias against farmers without access to credit or who do not cultivate hybrid maize. Currently only 14% of smallholders with less than 0.5 ha. and 18% of smallholders with 0.5 - 1 ha. receive extension advice compared with 40-50% of the smallholders with over 2 ha. (World Bank, 1990)

In 1980/81 only 15% of women farmers received extension advice and less than 5% had regular contact with the extension service. (NSO, NSSA 80/81) Since then a special women's program has been initiated by the MOA which fields women Farm Home Assistance Officers. However, FHA's receive on average 25-50% of the training given to male extension agents, have limited access to transport and are encouraged to extend messages concerning home making as opposed to agricultural activities. The target of FHA's is to ensure that 30% of all participants in rural agricultural training courses are women and that women comprise 50% of the membership of farmers clubs by 1995/96. Male extension workers should equally be encouraged to work with women farmers.

c) Inputs

The cost of importing fertilizer due to disruption of supply lines through Mozambique has resulted in one of the highest nutrient prices in sub-saharan Africa. Subsidized fertilizer is therefore provided through ADMARC to farmers clubs. The recent closure of some ADMARC selling points has allegedly made it more difficult for farmers to obtain inputs in these areas and it is estimated that 30-40% of subsidized fertilizer leaks to the estate sector.

25% of all smallholder fertilizer is purchased with cash, 17% is applied to tobacco, 30% to HYV maize and 50% to local maize. There is significant regional variation in fertilizer use with 38% of smallholders in Muzu and 14% of smallholders in Blantyre applying fertilizer to maize in 1990/91. (Smale, 1991) Many smallholders do not adhere to recommended application rates which in some cases gives negative returns. However, on average fertilizer use results in positive returns and there is considerable demand for increased supplies. (conversation with Peters, Conroy and Smale) In order to increase the use of fertilizer, supplies and credit must become more readily available.

Seed supply is the responsibility of the National Seed Company of Malawi. ADD's have also recently begun seed multiplication, rather than encouraging importation of approved seed material, which they claim will reduce the price of seed for smallholders. For twenty years farmers have been offered a hybrid maize variety which did not suit their needs. However, in 1991, 400 tons of a more suitable variety will be released to smallholders. If this proves to meet their domestic requirements it is hoped that production and therefore total maize yields will increase.

d) Marketing

The state marketing board ADMARC is responsible for supply and distribution of most inputs to smallholders; for purchasing tobacco, cotton and groundnuts from smallholders; and for being the buyer of last resort for all other crops. ADMARC has developed an extensive market structure providing a guaranteed and stable price for all smallholder crops. 82% of the smallholder households currently live within 8 km. of an ADMARC center. While ADMARC has tended to stabilize prices which is an important part of the most vulnerable group's ability to survive (Peters and Herrera, 1989, FSNU bulletins), suitable extension packages, cultivation of high value cash crops, price incentives and efficient markets would mitigate against seasonal fluctuations in prices brought about by removal of subsidies and price controls.

ADMARC purchases approximately 20% of smallholder crops; the rest are kept for

home consumption. However, ADMARC's liquidity problems have disrupted markets in some years. Despite liberalization of marketing channels in 1987, prices for both ADMARC and the private sector continue to be controlled. ADMARC dominated markets significantly diminish the potential for rural enterprise. However, liberalization of agricultural marketing and closure of some ADMARC markets has led to a reduction in ADMARC's buying and selling activities for maize and pulses. (Scarborough, 1991) Despite this trend, ADMARC continues to purchase 90-95% of all marketed smallholder maize. Part of the reason for the lack of uptake of marketing options amongst private entrepreneurs has been the fact that they are unable to compete with ADMARC prices while ADMARC continues to obtain a defacto transport subsidy.

Various traders and growers associations provide non-financial services to the private sector (DEMATT, MEDI, and WWB) and five specialized financial institutions extend credit to the small-scale enterprise sector. (**3.. INDEFUND, INDEBANK (providing seasonal credit), SEDOM (whose line of credit to private traders has yet to be disbursed due to the perceived risky nature of these loans and high start up costs), MUSCCO and the Malawi Mudzi Fund. Only the Malawi Mudzi Fund caters for the needs of laborers and poor smallholders but it has experienced high administrative costs and low repayment rates especially during the planting season and from male borrowers which jeopardizes its operation.***) However, due to limited access to credit from these institutions, money lenders have provided more than one third of the total value of small and medium enterprise's financial needs at interest rates averaging 50%, well above that of formal institutions.

The development of a viable private sector capable of delivering inputs and marketing food and cash crops will depend on credit availability for transport, storage and input/output products. Impediments to credit access include a lack of adequate equity and collateral. Impediments to their purchasing and selling commodities, other than lack of credit, include restrictions in the issuance of trading licenses, lack of foreign exchange to import supplies and a lack of identified markets outside those already in existence.

Few formally organized marketing groups outside those initiated by the Government of Malawi or development projects exist due to: (a) preference for propriety business organization; (b) Government pricing and marketing policies which provide no real economic incentives to small producers; and (c) past disappointing experiences with cooperatives. However, farmers groups have the potential to develop into marketing associations given appropriate technical and financial support. If other avenues are developed for marketing by groups of farmers, care should be taken not to duplicate existing services. Farmers legitimate concerns over being cheated and their consequent reluctance to organize with individuals from other villages who are not their relatives, must also be recognized.

The potential negative effects of all new marketing options on national as well as household food security should be more thoroughly understood. (**4.. The pricing and marketing unit of MOA's planning division is expected to complete a review of marketing policies pertaining to the encouragement of rural traders as part of the World Bank agricultural marketing and estate development project credit agreement. In addition, Pauline Peters is currently

undertaking a study of the impact of maize liberalization on household food security.

**)

B. Estates

The estate sector has been in the forefront of agrarian change during the decade of the 1980's, and can be expected to have a growing influence on agricultural employment and incomes during the 1990's. In 1960, estates occupied 2% of Malawi's land area, in 1979, there were about 1,100 estates, taking up roughly 260,000 hectares of land, and providing employment for some 200,000 people. The owners were primarily corporations, businessmen, politicians and civil servants. Ten years later, there were over 15,000 estates, with a total area of about 850,000 hectares (30% of Malawi's agricultural land), employing about 600,000 people (7% of the working population). The mean size of estates formed in 1989 was 26 hectares, as against 202 hectares in the 1970's. Increasingly, leaseholds have been established by smallholders who convert their customary landholdings to estate status, or who fashion estates from unallocated customary land held by chiefs (Mkandawire et al. 1990, Jaffee et al. 1991). In the context of East and Southern Africa, this represents an agrarian change of unprecedented magnitude and rapidity.

Three factors lie at the heart of this transformation. First, during this period there have been large increases in the nominal and real prices of tobacco, the most profitable varieties of which have been reserved exclusively for estate licensees. Second, there have been only minor improvements in the range of commercial agricultural opportunities open to smallholders. Third, substantial expropriation of smallholder lands to form medium-sized estates, a process that was at its height during the early 1980's but which continues today, has led to tenure insecurity and the threat of tenure insecurity. By assuming the legal status of estates, smallholders simultaneously gained access to rewarding commercial crops, and defended themselves against politically powerful individuals bent on land grabbing. Small estates in fact constitute a rapidly-growing category of commercializing smallholders who represent Malawi's best hope for broad-based rural development. Further relevant aspects of Malawi's changing estate sector are summarized in Table 3.

Table 3. Structural Variation within the Estate Sector

Significant Characteristics	Estate Size Category (ha)			
	<=15.0	15.01-30.0	30.01-100.0	>100.0
Amount of idle land:	18%	24%	29%	50%
Estate converted from existing smallholding:	42%	56%	4%	6%
Manager was/is tenant, laborer, smallholder:	78%	77%	35%	22%
Mean annual salary of estate manager:	300MK	900MK	1200MK	2700MK
Mean annual bank production loan:	5000MK	4000MK	15000MK	66000MK
Amount of labor from family members:	18%	13%	6%	1%
Encroachment onto the estate a big problem:	2%	7%	11%	32%
Sell tobacco through non-auction mechanism:	43%	16%	29%	9%

Source: Fleuret analysis of estate sector survey data set, population-weighted results

In Malawi, small estates are not simply miniature versions of large estates; they are qualitatively different. They have resource endowments and management strategies that place them plainly in the category of small-scale commercial farmers, a category that elsewhere in the region serves as a major source of rural employment. It is this group that characteristically generates a surplus available for investment in local communities, often focusing on schools and water supplies.

i. Women as Estate Owners

Mkandawire et al. (1990) established that about 3% of Malawi's estates are registered in the names of women. There are, so far as we know, no statutory requirements that impose specific legal barriers to women's participation in the estate sector, but this low rate of participation can only be explained by the presence of de facto or informal barriers (Ariza-Nino 1991). Moreover, for many women, access to land is being jeopardized through estate formation. As is the case elsewhere in Africa, formally gender-neutral land registration procedures can contribute to an erosion of women's rights to land. This is because their names are not present on the legal documents that shift the land they currently cultivate from the customary domain (where access is based on community membership) into the leasehold domain (where access is based on individual identity).

ii. The Estate Labor Force

Four main types of workers are employed on estates in Malawi. These are (a) paid and unpaid family members of estate leaseholders and managers, (b) tenants and their unpaid family members, (c) permanent laborers hired for a period lasting from a few months to year-round, and (d) casual (ganyu) laborers hired on a daily or weekly basis from surrounding smallholder communities. The best current estimates of the size and composition of this worker population are summarized below.

Table 4. Size and Composition of Estate Labor Force, 1989/90

Category of Worker	Number
Leaseholder family members:	37,800
Tenants and unpaid family members:	254,900
Permanent laborers:	163,000
Total permanent workforce:	455,700
Casual laborers:	140,000
Total estate sector workforce:	595,700

Source: Mkandawire et al. (1990), Jaffee et al. (1991)

Adult men constitute 70% of the total permanent workforce and 42% of the casual workforce. Adult women account for a small fraction of permanent laborers (8%), but a large fraction of casual laborers (35%). Children (people under the age of fifteen) constitute 25% of both permanent and casual workforces. In general, men are paid about 50% more than women (but less than the agricultural minimum wage), while children are paid about half the adult male rate. From these wages many estates deduct the cost of food, housing and other services provided. Real income from estate employment has stagnated during the 1980's, but compares increasingly favorably with smallholder real earnings, which have declined (Jaffee et al. 1991). Outside of smallholder agriculture, the estate sector has been the largest source of employment opportunities in Malawi, growing by about 8% per year during the 1980's. Taking into account all non-working family members, there are an estimated one million estate workers and dependents in Malawi (12.5% of the total national population). Over one-half of these people are tenant farmers and their families.

iii. Tenancy

In an earlier era, when there were much smaller numbers of estates and tenants, and when estates were owned and managed almost exclusively by a well-educated elite, written contracts specifying the terms and conditions of tenancy were the rule. These days nearly all but a few of the largest estates rely on oral contracts that fail to specify the terms and conditions for tenants. Not surprisingly, this lack of specificity in the terms of tenancy creates uncertainty and misconceptions, leading to disagreements about earnings and prices charged for housing, food, inputs and other services; high rates of turnover, theft and burning of tobacco; and weak incentives to preserve tobacco quality. From the estate perspective, labor relations are

seen as one of the most significant constraints to increased production and improved quality; and from the tenant perspective, there is evidence of artificially low remuneration rates set through collusion and intimidation (cf. Nankumba 1990). The situation is further complicated by the absence of clear and accepted administrative or legal processes for resolving disagreements between workers and managers. When the Government does intervene in labor relations, the results are subject to question. In addition, the Ministry of Agriculture, in conjunction with the Tobacco Association of Malawi, sets a maximum price for tenant tobacco "which is designed to reduce the price paid to the tenant below that which would otherwise be negotiated in a free market" (Fitch and Carvalho 1991:27).

Given this picture, why would anyone want to become a tenant? The answer lies in the hope for economic success, a hope that is realized by perhaps one tenant in five. Jaffee et al. (1991) have shown that there are three significant categories among the tenant population: "accumulating tenants", about 20% of all tenants, who do relatively well (usually on larger, well-managed estates), and who are investing in livestock, small businesses, and estates of their own; "middle tenants", about 50% of all tenants, who earn incomes meaningfully greater than most smallholders; and "poor tenants", constituting perhaps 30% of all tenants, who manage to survive (usually on the smaller and most marginal estates), but at levels that are comparable to or worse than conditions in the smallholder sector. These variations are an important source of dynamism in Malawian agriculture; tenancy in fact appears to be, for some, an intermediate step between subsistence-oriented smallholder production and commercially-oriented estate production.

3. Components of Agrarian Change and Policy Implications

To this point the analysis has focussed on the structure of the smallholder and estate sectors. We turn now to a discussion of estate-smallholder interactions, which opens a window on the nature of agrarian change in Malawi and the policy issues that arise as a result.

a. Agrarian Change: The Estate-Smallholder Interface

To understand the likely effects of ASAP on either estates or smallholders, it is important to sketch in the areas where the estate "sector" and the smallholder "sector" come together. Although our understanding of the estate-smallholder interface is not complete, in assessing what is already known we will begin to clarify the main sources of dynamism and tension that are driving agrarian change in Malawi. There are three main areas of overlap that derive from (a) competition for land and other rural resources, (b) restrictions on access to commercial agricultural opportunities, and (c) the organization of rural labor markets.

i. Land and Land Use

Estates and smallholders compete for grazing land, fuelwood, building materials, and land for cultivation of food crops. From the estate side, this is perceived as "encroachment"; from the smallholder side, estate owners appear to be taking advantage of traditional community-based modes of rural resource access, at the same time as they use modern juridical mechanisms to gain exclusive access to lands under leasehold. The advantages of "estate"

- 252 -

status (which is a mode of land tenure, not a form of land use) are clear to all (certainly to Malawi's smallholders), as evidenced by the 13,000 small estates formed in the 1980's, and the current backlog of 10,000-12,000 estate applications. However, the implication of these land transfers in terms of women's continued rights to land and inheritance are unclear particularly where a number of households have combined their land resources in order to register under one of their names. In addition, the impact of legalizing burley production by smallholders on estate registration is unknown. We assume, the desire for registration will decrease as the number of smallholders and their individual quotas increases.

ii. Commercial Opportunity

Like all former British colonies in the region, Malawi has inherited and sought to maintain a rigid set of agricultural policies and institutions designed to provide a favored few with exclusive access to remunerative export crops. Since the early 1980's this framework has come under great pressure for change, as evidenced primarily by (a) the rise of the category of "smallholder estates", (b) the increasingly common practice of using illegal smallholder "outgrowers" to produce export crops, and (c) manipulation of smallholder-targeted input channels by estates to gain access to cheap farm supplies. The result has been a de facto erosion of long-standing policy and institutional barriers. While this change is strongly resisted by those within the government and industry who maintain, manage, and benefit from the older alignment, a pilot scheme for smallholder burley tobacco production has been launched and discussions are taking place concerning liberalizing markets for all crops as well as increasing the number of marketing and input supply channels available to smallholders.

iii. Rural Labor Markets

The zeal for regulation and institutionalized management that characterizes the Government's approach to agricultural production and marketing in Malawi is not reflected in rural labor markets, where little attempt is made to enforce national minimum wage laws, arbitrate disputes, or measure the magnitude and direction of market changes. We are now beginning to understand that there are relatively large flows of agricultural labor across regional boundaries and across "sectoral" boundaries, but the implications of this have yet to be fully discerned.

What can be said is this: (a) smallholders with less than 1.0 hectare of land (that is, the majority of all smallholders) spend perhaps 30% of their time performing "ganyu" or casual agricultural labor on the farms of wealthier smallholders or estates (cf. Peters and Herrera 1989, table C10); (b) annually about 140,000 smallholders find some employment as casual laborers on estates (Mkandawire et al. 1990); (c) about 160,000 landless or near-landless rural dwellers have found employment as permanent or semi-permanent laborers on estates (Jaffee et al. 1991); (d) a majority of Malawi's 100,000 tenant families appear to have migrated across district boundaries to find employment, and many have migrated across international boundaries (Jaffee et al. 1991); and (e) there is an appreciable tendency for viable smallholders to seek employment first as laborers, and then as tenants, with the long-term objective of establishing estates or businesses with opportunities for commercial expansion. In fact, it may be somewhat

253

misleading to think of tenants and smallholders as members of two distinct groups; Jaffee et al. (1991) found that the size and distribution of customary landholdings among a sample of tenants was more-or-less indistinguishable from the size and distribution of landholdings among the rural population generally.

Women are discriminated against in rural labor markets, being offered lower wages for the same work as men and often being confined by the dominant gender division of labor to the worst paying jobs of seasonal nature. However, women work on average twice as many hours per day as men with their agricultural labor only decreasing amongst the highest land holding group of smallholders. In contrast men's working hours increase with the size of land holding and the introduction of cash crops. (World Bank, Engberg et al, Peters & Herrera, 1989). The effect of increased cash crop production on overall labor availability is however, unknown.

The key implications here are (a) rural people are earning a substantial and growing proportion of their incomes through agricultural employment; (b) the rural labor market appears to encompass all categories of agricultural labor, which will speed agrarian change; and (c) basic institutional mechanisms needed to monitor and successfully manage this aspect of agrarian change in Malawi are weak or absent.

b. Agrarian Change: Policy Problem Areas

Agrarian change in Malawi thus has three main components: (a) a continuing marginalization of smallholder agriculture as conventionally conceived, driven by population growth but accelerated by a stifling policy and institutional environment; (b) the emergence of a category of entrepreneurial "smallholder estates", driven by commercial opportunity and land security, that is comprised of the most viable remnants of the smallholder population; and (c) a rapidly-growing population of landless or near-landless rural people with few alternatives to estate employment. This sequence of change is inevitable, and has the potential to move Malawian agriculture onto a new plateau of higher productivity and broad-based growth; but it also has the potential to lead the country into severe agrarian conflict based on competition for land and competition for a share in the wealth generated by commercial agriculture. Much depends on the set of policy instruments adopted by the Malawian government during the next 5-10 years. In principle, it should be possible to take advantage of several clear opportunities for growth, while acting to ameliorate those circumstances that will be most socially disruptive. During the next decade, the Malawi government needs to accommodate and respond to the currents of change in the following ways:

- By encouraging smallholder commercialization. This entails relaxing institutional controls on input distribution, and on the production and marketing of high value crops, especially tobacco; allocation of burley tobacco quotas to smallholders; increased access to market information, and other appropriate Government services (particularly credit and extension advice); establishing multiple commercial marketing channels by licensing private brokers and estates to buy smallholder burley; and promoting farmers collective bargaining power, through the licencing of marketing associations.

- By seeking to manage current and foreseeable conflicts in labor relations.

This entails increasing the transparency of contractual relationships in the agricultural sector; requiring specific unit costs to be included in tenant and labor terms and conditions; providing a legislative and administrative framework for the resolution of labor disputes, and fostering a more equitable sharing of the wealth generated through export agriculture.

- By increasing security of tenure for women as well as men by encouraging women smallholders to register their land separately, and by ensuring that women's names appear on leasehold documents as joint leaseholders when the documents pertain to customary land they have been cultivating.

Taken together, these policy changes will have the following effects which should help Malawi manage the agrarian transition currently underway. First, they will support small-scale agricultural development, which can be expected to be accompanied by growth in and broadening of employment opportunities in rural Malawi. Second, they will accommodate the legitimate needs of a rapidly-growing population of agricultural laborers, while providing an institutional mechanism for managing the major stresses associated with rural structural change.

c. Conclusion

Once legal and administrative impediments to smallholders production of export crops have been removed, the challenge facing Malawi will be to ensure that access to the means of production (land, labor, inputs, credit to purchase inputs, extension advice and markets for output) is broadened to the extent that smallholders can take advantage of the opportunities. At the same time, the most vulnerable groups (smallholders with less than 1 hectare; female headed households, except those whose husbands work in RSA; estate workers; and, the urban poor) must be protected from the potential negative impact liberalization will have on purchasing power. If the vulnerable groups remain barred in reality from the means of production their household food security could become further threatened. The effects of liberalization will however be mitigated if smallholders are paid a fair price for the crops they currently grow and if the terms and conditions for their tenancy or labor on estates ensures that they derive a minimum wage for their efforts.

Since only 20% of all smallholders produce a surplus, the majority are unable to respond to price incentives under normal circumstances. Of the target population of ASAP (smallholders with less than 1.5 hectares), the inability of those with less than one hectare (55% of all smallholders) to meet subsistence needs means that their income creation potential is limited. These farmers are least able to bear the risk of cash crop production in a free market. Consequently without special assistance, they are unlikely to pursue the burley option which is believed to be their best means for escaping the poverty trap in which they are caught. In addition, given organizational constraints which will limit the number of farmers in marketing associations, there will be a need to include all categories of smallholders in the scheme with different individual quotas based on land holdings and ability to bear risks. Percentages for members from each smallholder category should be worked out to ensure that the target population does not become marginalized in this activity.

255

The success of ASAP will be jeopardized if it does not take into account the specific constraints faced by vulnerable groups particularly women farmers. Women's smaller plot sizes, labor constraints during peak seasons, increasing involvement in agricultural labor, lack of access to credit, extension and inputs as well as cultivation of the lowest value crops, makes them more vulnerable to structural adjustment policies than their male counterparts. Customary and de facto barriers as well as legal restrictions on their involvement in commercial agriculture must be removed and efforts made to encourage their participation in ASAP at all levels. The extent to which womens opportunities to increase production of subsistence crops; grow cash crops; take advantage of the extension service; and use credit is expanded by ASAP will determine how the majority of Malawi's rural households are effected by ASAP since they perform 70% of agricultural labor and control 50% of household income expenditures. ASAP through the encouragement of more profitable agricultural enterprises should also result in a slowing down of family disintegration arising from the need for men to migrate in search of employment opportunities.

It is expected that the direct beneficiaries of ASAP will be all commercial farmers, especially the target population of smallholders with less than 1.5 hectares who will be encouraged to become burley producers; tenants, permanent and casual laborers on estates; and, private traders. Indirect beneficiaries will be individuals who obtain employment from the expected growth in the rural economy and all people whose access to social services is increased by the expected increase in investment in rural areas. People and groups who may be negatively effected by ASAP are smallholders with less than one hectare who are unable to bear the risks inherent in cash crop production and the urban poor because their purchasing power will decrease if market liberalization results in increased prices for staple foods. Estate owners may also be negatively effected if improvements in the terms and conditions of employment on estates and competition from smallholder burley production erodes their profit margins and reduces their labor pool. Indeed many of the smaller badly managed estates may be forced out of business.

2576

MALAWI AGRICULTURAL SECTOR ASSISTANCE PROGRAM**ECONOMIC IMPACT ANALYSIS****1. Forenote**

There is still no clear guidance from AID/W about how one should go about comparing the costs and benefits of NPA (non-project assistance) activities, although draft guidance on NPA states that if a sector cash grant disbursement mechanism is used, the PAAD must include an analysis that "... links the type and level of A.I.D.'s financial contribution to the anticipated development impacts of the program." The basic problem with applying standard benefit-cost analysis to NPA is that it is not precisely correct to define the dollar resources provided under such programs as "costs," inasmuch as they are not costs of instituting the policy changes, in any real sense. If they are costs of anything, they are really the costs of imports or of other potential uses of foreign exchange by Malawi. This being the case, and given Malawi's relatively open foreign exchange regime, each dollar disbursed will be worth no less than a dollar to Malawi, yielding a "benefit-cost ratio" at least equal to one, even prior to discussing development impacts of the policy changes.

The analysis below, therefore, is not so much a benefit-cost analysis as it is an attempt to quantify the putative impacts of the ASAP program on a group of beneficiaries. That beneficiary group is the smallholder sector in Malawi, and the definition of "smallholder" is understood to include not only those currently operating in the smallholder sector but also estate tenants and laborers, because such estate labor is supplied by the smallholder sector. The stream of impacts (or benefits) may be compared with the currently proposed \$50 million in outlays on the ASAP activity (both program and project assistance) as a means of deciding if ASAP is "worth" doing, at least from this standpoint.

2. Background

The purpose of the ASAP program is to introduce greater equity into Malawi's agriculture sector, a sector with the bulk of income currently skewed heavily in favor of a small group of owners of large estates. Instead of operating to increase agriculture's contribution to value added as a whole, the ASAP program contains four elements designed to spread projected increases in agriculture-based income somewhat more fairly among those depending on the sector for a livelihood. First, the GRM will commit to providing roughly one third of the annual increase in burley tobacco quotas to the smallholder sector, with the result that by 2000 about 15 percent of the expect burley tobacco quota will be in smallholder hands. In connection with this move, marketing channels will be broadened to expand competition. Second, the GRM will commit to expanding competition among marketing channels for smallholder-produced cash crops other than burley. Third, extension services, credit

services, and input provision will be designed to better support the smallholder sector's requirements. These will support the first two elements, and are probably necessary to realizing impacts from these elements. Fourth, information on commodity prices and on tenancy terms will be publicized in an effort to improve the bargaining power of poorer members of the agriculture sector.

Given the complexity of the program, and the profundity of the changes it requires in Malawi's agriculture sector, the task is daunting. This nature of the program means that, despite the significant analysis already carried out with A.I.D. funding up to this point, considerable additional research and analysis will be required over the life of the program. As a consequence, at this stage it is only possible to quantify a portion of the intended impacts of the program; other impacts can only be described in qualitative terms. Those most readily quantifiable now are those related to providing the smallholder sector with a portion of the burley tobacco quota. Those less easy to quantify as of this writing are those relating to increased smallholder remuneration for production of other cash crops and those relating to improvements in the welfare of tenants and other workers in the estate sector. The following discussion proceeds from the more quantifiable to the less so, draws some conclusions on the economic merits of the ASAP program from the standpoint of the Malawian economy, and suggests certain areas of analysis that the Mission should undertake to assess and verify the impacts analysis.

3. Impacts of Smallholder Burley Quota

The provision of a portion of the expansion in national burley tobacco production quotas to the smallholder sector is a direct attempt to improve the distribution of income in the agriculture sector. This policy condition of the ASAP program will not, in itself, increase value added in agriculture as a whole. The following discussion of impacts therefore focuses on the smallholder sector, and assumes no net effect on overall value added in the agriculture sector in Malawi, at least in the first instance.

As described in policy conditionality under ASAP, smallholder burley production quotas are expected to be no less than those displayed in Line 1 of Part 1 of Table 1. At the 1991 per-kilo auction price in Line 2, these quotas are expected to provide gross returns to the auctioning entity of the amounts in Line 3 of the table. At average per-kilo costs of 2.75 kwacha in Line 4, costs that represent non-labor, non-marketing inputs, total costs for production of the smallholder quota will be the amounts in Line 5, and will result in a gross margin of the amounts in Line 6. When the marketing costs in Line 8 are deducted, an adjusted gross margin for the total quota is derived in Line 9. Finally, the opportunity cost of growing (Line 13, based on the total area in burley and an average return per hectare from alternative crops) should be deducted from the adjusted gross margin to arrive at a true net remuneration for labor that represents the advantage to the smallholder sector as a whole for the privilege of producing burley tobacco. This income stream is in Line 14.

258

4. Impacts of Increased Cash Crop Production

In a manner similar to that employed in the case of burley tobacco, it is possible to provide a rough estimate of the likely effects of policy changes relating to other cash crops. (Unlike the other benefits quantified in relation to ASAP, these benefits will increase global agricultural value added beyond what its level would be in the absence of the program). Part 2 of Table 1 contains potential benefits from regulatory changes designed to encourage expanded smallholder production of such crops. There is currently no crop budget information on non-traditional cash crops, nor is there any information available on what types of crops might be grown in future by the smallholder sector if the planned marketing liberalization occurs. On the other hand, we assume that the returns to other cash crops are likely to average somewhat less than returns to burley, or there will be no smallholder demand for burley quotas. The likely extent to which cash crops will be grown is also unclear, but the Mission has set a target (in the PAAD) indicating that at least 10 percent of smallholder units will be growing new cash crops by the year 2000. Assuming that such crops are produced on roughly one fifth of each producing farmer's land, two percent of Malawi's smallholder-held land will be in such new cash crops.

Line 1 of Part 2 of Table 1 shows the amount of customary land in smallholder hands, and the next four lines are composites of the estimate of the amount of smallholder land that represents a net increase on the production of cash crops. The actual movement into increased cash crops is not slated to begin until 1993, an optimistic assumption based on the fact that these cash-crop-related policy changes will not be in place until at least then. Line 6 of the table is an assumption about the value (i.e., the gross margin) per hectare. Based on the reasoning in the preceding paragraph, we assume that cash crop labor returns will be about three quarters the comparable figure for burley, which translates into a gross margin figure per hectare. The final line of the table derives the annual impacts expected from the program.

5. Impacts on Estate Workers' Welfare

The third element of the ASAP program that is intended to improve the welfare of agriculture sector participants is the element that publicizes prizes, particularly the prices paid tenant and other labor on agricultural estates. As described earlier in this PAAD, the relevant policy changes will involve (1) posting on estates the terms and conditions of tenancy and casual and permanent labor, and (2) clarifying adjudication procedures for estate-tenant and estate-labor disputes. While these changes in themselves would likely bring about some improvement in what are currently apparent "unfair" labor practices, there is likely to be an additional fillip as the opportunity cost of estate tenancy and labor increase as a result of improved smallholder sector access to production of burley and other cash crops.

The degree to which there will be a transfer of income from estate management to estate labor is obviously difficult to gauge. And it is important to understand that this will represent a transfer, rather than any increase in

value added, especially in the burley sector. An element that would tend to undermine any expected gains in this transfer as a result of perceived increases in smallholder sector opportunity costs is the fact that the smallholder sector increases in incomes through burley and other cash crop production are (at least in the medium term) likely to affect only a very small percentage of the smallholder sector (see discussion of relative magnitudes below). However, mitigating this factor is the point that burley tobacco production requires certain technical skills, particularly among tenants. Consequently, the potential pool of labor on burley estates is somewhat specialized and thus presumably smaller than the entire smallholder labor pool. This fact will assist in seeing that smallholder access to burley production puts at least some upward pressure on tenant (and other burley labor) remuneration by estate management.

Part 3 of Table 1 is a rough derivation of the expected improvement in estate labor's income resulting from the foregoing changes. Line 1 of the table contains an estimate on the number of labor days required per kilogram of tobacco produced. Line 2 is the amount of burley produced annually per hectare. Line 3 derives, from the first two lines, the amount of labor required annually to produce a kilogram of burley. Line 4 is the total amount of burley to be produced in Malawi. Line 5 is the total amount of labor days required to produce this burley. Line 6 is the 1991 average wage per labor day. Line 7 contains the percentage increase in wages projected over the period. Line 8 is the kwacha value of that increase in wages, representing the benefits of this element of the program.

6. Second-Round Marketing-Related Benefits

Finally, it is highly likely that if all the foregoing occurs, a certain portion of the smallholders involved in burley production will attempt to capture a portion of the marketing margin between producing plot and auction floor. Of course, a certain element of this margin is remuneration for the use of transport equipment, and this amount is tentatively assumed to be fifty percent of the one kwacha/kilogram marketing margin presented in Part 1 of Table 1. Of the remaining fifty percent, we make a very rough estimate that about one-fifth of this (or ten percent of the share marketing margin) will be taken over by smallholders or smallholder groups.

First, it is clear that the number of hectares that the smallholder sector anticipates moving into burley remains a very small proportion of total smallholder hectareage.

Second, and by contrast with the first, the very high returns to burley mean that the increased burley production alone will add an additional about 4 to 5 percent to our estimate of total value added in the smallholder sector in 1991.

Third, and similarly to the second, the small size of the average burley plot expected to be required by the smallholder sector means that the fruits of this transfer will be shared by about 3 to 4 percent of smallholder households.

While these improvements in equity are not large, they are not insignificant and represent the beginnings of a move in the "correct" direction on income distribution questions in Malawi.

8. General Conclusions of the Analysis

The proposed ASAP program is an ambitious attempt to rectify longstanding and deteriorating welfare conditions in Malawi's agriculture sector. The program is ambitious in that it calls for a distinct structural change in regulatory arrangements that have for years exploited the smallholder sector to the benefit of the estate sector. It is also ambitious in that the GOM has within the past few years already initiated a scheme of estate expansion to absorb the more technically competent (and politically powerful) elements of the smallholder sector, and regards this change to previous arrangements as already farsighted and ambitious. The ASAP-proposed broadening of the burley tobacco quota is pushing a government that already believes it has made important concessions to a point which that government believes is excessively concessive (and probably politically dangerous).

Despite the accepted political risk in implementing this program, there is no gainsaying the equity problems in Malawi, especially as reflected in deteriorating quality of life indicators. The conclusion of the foregoing analysis is that, assuming that the estimated improvements in welfare of the smallholder sector occur as a result of this program, these impacts may be considered to support the planned expenditure of program funds. It is again worth reminding ourselves here that these impacts are (for the most part) not net improvements to the Malawian economy as a whole, but are improvements to a poor and important subsector of that economy.

One way of interpreting the results (contained in Table 3) is to consider that, in present value terms, an externally funded GRM subsidy to the smallholder sector of approximately 2.5 times the level of the currently proposed ASAP cash grant would be required (in the absence of these policy changes) to bring the smallholder sector up to the same level of welfare as assumed will occur with the policy changes. The use of the burley policy changes is clearly a less costly means of arriving at the same improvement in smallholder welfare, viewed from the the standpoint of the smallholder sector itself. It is important to remember that, under the program, the economy as a whole benefits from the "free" access to the foreign exchange resources made

261

available under the program. Thus, in addition to a projected net improvement in smallholder welfare (at the admitted expense of the estate sector, leaving agriculture as a whole unchanged in terms of incremental increases in value added), the program will provide the economy with an incremental volume of external resources, and that on a grant basis.

9. The Downside Risks and Evaluation Requirements

The foregoing said, the Mission believes that it is important to continually monitor the validity of the assumptions made in this analysis. Although assumed impacts on the smallholder sector are estimated (in this analysis) to be over double program outlays, these are very rough estimates of impact and the inherent riskiness in the program's objectives means that actual impact could be far less than estimated here. The benefits accruing to the "free" foreign exchange resources would be substantially eroded if, as a result of the ASAP program, the smallholder sector and/or the economy as a whole were worse off than they would have been in the absence of the program. If, for example, the projected smallholder burley production estimates are not realized, not only does one have a loss in equity benefits, but total agricultural value added will be less than it would have been without the ASAP program.

Recognizing the riskiness of the program, the Mission will, throughout the course of the program, collect and analyze sufficient data to confirm or reject the various elements of the impact analysis and the assumptions that underlie it. The Mission has made a more than adequate start on this analysis in the research that it has carried out through the various design phases of ASAP. In particular, many aspects of a baseline against which to gauge impact, even in the near term, have been documented. The Mission therefore has what is perhaps a unique opportunity to continue the data-gathering and analysis, in order to weigh the actual impact of the ASAP program, as designed, and to make any modifications to that design over time, if they are deemed necessary.

TABLE 1. ASAP Program Impacts Analysis

Part 1 Impact of Smallholder Burley Quota						
	1991	1992	1993	1994	1995	2000
1 Smallholder Burley Production (mn kg)	3.5	7.0	8.5	9.2	10.7	15.0
2 Auction Price (MK/kg)	6.2	6.2	6.2	6.2	6.2	6.2
3 Auction Returns (mn MK)	21.8	43.6	53.0	57.3	66.7	93.5
4 Unit Costs (MK/kg)	2.8	2.8	2.8	2.8	2.8	2.8
5 Total Costs (mn MK)	9.6	19.3	23.4	25.3	29.4	41.3
6 Gross Margin (mn MK)	12.2	24.4	29.6	32.0	37.2	52.2
7 Unit Marketing Costs (MK/kg)	1.0	1.0	1.0	1.0	1.0	1.0
8 Total Marketing Costs (mn MK)	3.5	7.0	8.5	9.2	10.7	15.0
9 Adjusted Gross Margin (mn MK)	8.7	17.4	21.1	22.8	26.5	37.2
10 Area Yield (kg/hectare)	700	770	847	932	1025	1651
11 Hectares in Smallholder Burley (th)	5000	9991	10035	9874	10440	9088
12 Opportunity Cost (MK/hectare)	465	465	465	465	465	465
13 Total Opportunity Cost (mn MK)	2.3	4.2	4.7	4.6	4.9	4.2
14 Incremental Returns (mn MK)	6.4	13.1	16.4	18.2	21.7	33.0
Part 2 Impact of Cash Crop Growth						
1 Total Smallholder Hectareage	1.8	1.8	1.8	1.8	1.8	1.8
2 Pct. of Smallholders in New Cash Crops			1.0	3.0	5.0	10.0
3 Pct. of Unit Land in Cash Crops			20.0	20.0	20.0	20.0
4 Pct. of Total Hectares in New Cash Crops			0.2	0.6	1.0	2.0
5 Smallholder Hectareage in New Cash Crops			0.004	0.011	0.018	0.036
6 Average Labor Input (days/hectare)			400.0	400.0	400.0	400.0
7 Average Remuneration (MK/day)			2.1	2.1	2.1	2.1
8 Remuneration per Hectare (MK/hectare)			834.0	834.0	834.0	834.0
9 Total Remuneration (mn MK)			3.0	9.0	15.0	30.0
Part 3 Impact on Estate Workers' Welfare						
1 Labor Days per Hectare of Burley	1300	1300	1300	1300	1300	1300
2 Burley Produced per Hectare	700	770	847	931.7	1024.87	1650.563
3 Labor Days per Kilogram of Burley	1.86	1.69	1.53	1.40	1.27	0.79
4 Total Burley Produced (mn kg)	65	75	85	95	100	100
5 Total Labor Days for Burley	120.7	126.8	130.5	132.6	126.8	78.8
6 Average Wage per Day	1.78	1.78	1.78	1.78	1.78	1.78
7 Percentage Increment in Wages Over Base		2	3	4	5	10
8 Incremental Benefits (mn MK)	0.0	4.5	7.0	9.4	11.3	14.0
Part 4 Second-Round Marketing-Related Impacts						
1 Smallholder Burley Production (mn kg)	3.5	7.0	8.5	9.2	10.7	15.0
2 Marketing Margin (MK/kg)	1	1	1	1	1	1
3 Total Value Marketing Margin (mn MK)	3.5	7	8.5	9.2	10.7	15
4 Labor-Related Proportion of Margin (pct)	50	50	50	50	50	50
5 Pct of Smallholders to Capture Margin			1	3	5	20
6 Margin Captured by Smallholders (mn MK)	0.00	0.00	0.04	0.14	0.27	1.50

263

TABLE 2. ASAP Program Impacts Analysis (cont'd)

	1991	1992	1993	1994	1995	2000
	----	----	----	----	----	----
Hectares in Smallholder Burley (th)	5	9	10	10	10	9
Total Smallholder Hectares (th)	1800	1800	1800	1800	1800	1800
Percentage in Burley	0.3%	0.5%	0.6%	0.5%	0.6%	0.5%
Smallholder Sector Value Added (mn MK)	560					
Incremental Returns (mn MK)	6.4	13.1	16.4	18.2	21.7	33.0
Returns as a Share of 1991 Value Added	1.1%	2.3%	2.9%	3.3%	3.9%	5.9%
Total Smallholder Households (th)	1300	1313	1328	1339	1353	1422
Avg. Smallholder Burley Plot (hectare)	0.2	0.2	0.2	0.2	0.2	0.2
Hectares in Smallholder Burley (th)	5	9.1	10.0	9.9	10.4	9.1
Smallholders Households in Burley (th)	25	45.5	50.2	49.4	52.2	45.4
Share of Total Smallholder Households	1.9%	3.5%	3.8%	3.7%	3.9%	3.2%

TABLE 3. ASAP Program Impacts Analysis (cont'd)

IMPACTS	1991	1992	1993	1994	1995	2000
	----	----	----	----	----	----
1 Incremental Returns (mn MK)	6.4	13.1	16.4	18.2	21.7	33.0
2 Total Remuneration (mn MK)	0.0	0.0	3.0	9.0	15.0	30.0
3 Incremental Benefits (mn MK)	0.0	4.5	7.0	9.4	11.3	14.0
4 Margin Captured by Smallholders (mn MK)	0.0	0.0	0.0	0.1	0.3	1.5
5 TOTAL IMPACT ON SMALLHOLDERS	6.4	17.6	26.4	36.8	48.2	78.5

DISCOUNTED STREAM OF IMPACTS AT 10.0%
IS: 249 million kwacha

PROGRAM EXPENDITURES					
1 Program Expenditures (mn dollars)	10	10	10	10	10
2 Exchange Rate (MK/dollar)	2.8	2.8	2.8	2.8	2.8
3 Program Expenditures (mn MK)	28	28	28	28	28

DISCOUNTED STREAM OF EXPENDITURES AT 10.0%
IS: 106 million kwacha

INSTITUTIONAL ANALYSIS

I. INTRODUCTION

Implementation of the Agricultural Sector Assistance Program (ASAP) involves a broad and complex set of policy reform actions, studies of agricultural development issues, management of planned project activities, and design of new project activities. Within the Government of Malawi (GOM), implementation responsibilities will rest with at least five different ministries, offices and organizations: Ministry of Finance (MOF), Ministry of Agriculture (MOA), Department of Economic Planning and Development (EP&D), Department of Research and Environmental Affairs (DREA), and University of Malawi Bunda College of Agriculture. Within MOA and EP&D, various sections will be involved with different specific activities. Program activities also must be coordinated with at least four other donor organizations: the World Bank, the European Community, British Overseas Development Administration, and UNICEF. This analysis provides relevant details of each of the GOM institutions which will have a role in program implementation, as well as details about the coordination of all components of the program.

II. Ministry of Finance

A. Introduction

The Ministry of Finance is well suited to serve as the GOM implementing agency and overall coordinating ministry for ASAP. It has the requisite stature to guide high level decision making in achievement of the policy changes which are the focus of the program, and is in a good position to influence budget decisions that will be critical to implementation and achievement of policy objectives. The Mission's experience with nonproject assistance in Malawi has shown that the necessary internal GOM approvals for reform actions, and consequently for meeting prerequisites for disbursements, can take time. In its design, ASAP must incorporate both the time required for this process as well as procedures to expedite the required actions and approvals.

B. Organization and Function

1. Organization

The Ministry is headed by a Minister of Finance, and has as its chief civil servant the Secretary to the Treasury. The Secretary is assisted by a Senior Deputy Secretary and Accountant General. The Accountant General manages the MOF's accounting staff,

265

as well as the accounting staff of all other ministries. The Senior Deputy Secretary is assisted by three Deputy Secretaries, one for Revenue and Budget, one for Bilateral and Multilateral Affairs, and one for Economic Affairs. Within the Bilateral and Multilateral section, there are two Undersecretaries (one for bilateral affairs and one for multilateral affairs), one Senior Assistant Secretary, and three Administrative Officers, one of whom has as a specific responsibility backstopping A.I.D. business. An organization chart is included to this report as an attachment.

2. Function

The Ministry is involved in all major policy considerations, and has primary responsibility for preparation and presentation of Government's annual budget, as well as for maintenance of government accounts. It also is the primary contact for multilateral and bilateral donor agencies operating in Malawi. Financial transactions between the GOM and A.I.D. go through the Ministry, which is the signatory for these transactions. Currently nine MOF officials can sign documents on behalf of the GOM.

a. Policy Function

Given its overall responsibility for managing the financial affairs of the government, MOF plays a key role in all major GOM policy decisions, which generally would require MOF approval. MOF usually is included in meetings where policy issues are discussed and resolved, and chairs those meetings which in particular deal with issues which are likely to have a major financial impact. At a senior level on policy issues, contact is maintained by MOF officials both with other GOM officials and with donor officials.

b. Budget Function

The GOM's budget process is a year-long process, beginning in April/May when ministries and statutory bodies submit budget proposals to MOF, and ending in April/May of the following year when Parliament approves the "Estimates of Expenditure on Revenue Account" and "Estimates of Expenditure on Development Account." During the year, there are discussions with all concerned parties about each budget submission, ceilings set by Economic Planning and Development (EP&D) in consultation with IMF and the World Bank, an allocation of funds by EP&D and Treasury based on approved ceilings, and final discussions with ministries and parastatals on these allocations. While the MOF shares the budget work with EP&D, it has final responsibility for budget decisions and preparation of the final documentation.

c. Accounting Function

While technically all accounting staff are MOF employees coming under the control of the Accountant General, ministries generally are self-accounting and have their own

accounting staff, albeit who can be transferred among ministries by MOF. All agencies of the GOM use the same accounting system which facilitates accumulation, consolidation, and presentation of financial data. The basic GOM Chart of Accounts is also used for donor funded projects and programs with special identification so that accounts can be kept separately in order to meet the project agreements.

C. Role in ASAP Program Implementation

The Ministry of Finance will be the implementing agency and overall coordinating ministry for ASAP. It will have the following specific responsibilities: certification of GOM satisfaction of conditionality and consequent request for disbursement by A.I.D. of nonproject assistance funds; chairmanship of the Program Implementation Committee (PIC) and Program Management Committee (PMC); and coordination within the GOM of resolution of issues arising in particular from study recommendations and the development of action plans. While the MOF will not have direct responsibility for the implementation of any specific project activities, its role as chair of the PIC and as overall coordinating ministry will require substantial amounts of time and effort. In addition, as the GOM entity responsible for certifying conditionality satisfaction, the MOF will have to work with both the line ministries responsible for implementation of specific actions, and USAID, to see that conditions are met in a way which is acceptable to all concerned parties.

D. Capacity to Execute Role

The MOF has substantial responsibility within the GOM, and commensurate demands on the time of staff members, in particular those at a senior level. While the qualifications of staff are appropriate for the tasks envisioned under ASAP, the level of effort which will be required will impose an additional burden on those staff. Nonproject assistance, as opposed to project assistance which involves primarily a technical ministry, tends to require greater involvement of MOF senior staff, who must keep abreast of movement towards satisfaction of specific conditions, intervening when necessary with the technical ministries and negotiating when necessary with the donor. Because both the GOM and the donor want to see disbursements in a timely fashion, the MOF's job is a fulltime one, a combination of monitoring, intervention and negotiation, which requires the efforts of various staff members, including the Secretary and Deputy Secretary themselves.

To reduce the management burden of both the MOF and the GOM more generally in the implementation of ASAP, the number of conditions have been reduced to the minimum possible. The complexity and breadth of ASAP, however, set limits to the reduction of conditionality. In addition, although the MOF will chair the two major program committees (PIC and PMC), subcommittees of the PIC should be able to perform many of the tasks required of the PIC, and these subcommittees may require only minimal MOF participation, and even then ordinarily not at a senior level.

The MOF is fully prepared substantively to assume its responsibilities under ASAP. Its understanding of the policy issues is comprehensive. During the course of negotiations for the design of ASAP, the Ministry chaired the meetings in which the policy agenda was discussed. In addition, the Ministry has had primary responsibility for preparing and submitting to USAID the letter of intent in which the program's overall objectives are defined and the GOM's commitment to those objectives and the program's major actions is presented.

III. Ministry of Agriculture

A. Introduction

The Ministry of Agriculture is the primary technical ministry involved with the implementation of ASAP. One key objective of ASAP, to open up burley tobacco production to smallholder customary landholders issued with individual quotas, puts the program clearly within the purview of MOA's responsibilities, because it has authority over the issuing of tobacco quotas. Almost all of the program's activities, including its project components, will involve the MOA. While the extent of MOA involvement during the program's two-year phase one can be well defined, the specific nature of its involvement during phase two is less well defined, and will depend on the results of various studies which will be conducted as part of the program.

B. Organization and Functions

1. Organization

At the top of the MOA's organization structure is the Minister of Agriculture (His Excellency the Life President) and an Assistant Minister. The Principal Secretary (PS) is the highest ranking civil servant, and he is responsible for overall agricultural policy formulation, planning, coordination and management of the smallholder and estate agricultural subsectors. He is assisted by a Deputy Secretary (DS), two Controllers of Agricultural Services (CAS/NRDP [National Rural Development Program] and CAS/Institutions), a Chief Planning Officer (CPO), and a Chief Accountant. An organization chart is included in this report as an attachment.

The MOA is divided into the following units: four technical departments (Irrigation, Animal Health and Industry, Agricultural Research, and Agriculture), Planning Division, Accounts' Division, Extension Aids Branch, Training Branch, Smallholder Agriculture Credit Administration (SACA), and the Department of Administration and Finance. In addition, there are eight Agricultural Development Divisions (ADDs) through which the technical departments communicate with smallholder farmers. The organization of the ADDs is described below. Each unit at MOA headquarters and each ADD is headed by a

Chief, who reports to the PS through either the CAS/NRDP or the CAS/Institutions.

The National Rural Development Programme (NRDP), initiated in 1977 with donor support, established a system for providing agricultural extension services through eight ADDs, each of which represents an agro-ecological zone. Two ADDs are in the north, and three each in the central and south. Each ADD is divided into Rural Development Projects (RDPs), and there are a total of 30 RDPs in the country. Each RDP is divided into Extension Planning Areas (EPAs), and there are 117 EPAs country-wide. Each EPA is divided into sections, which are further divided into blocks. Blocks must not be less than five but not more than eight to be covered in theory once fortnightly.

Each ADD is headed by a Program Manager (PM), who is assisted by subject matter specialists (SMS) in crops, adaptive research, veterinary services, credit, training, women's programs, finance, administration and irrigation. Technically these specialists come under their respective departments, but management of their activities within an ADD is the responsibility of the PM. Each RDP is headed by a professional agricultural officer, each EPA by a Field Officer with a diploma from Bunda College of Agriculture, and each EPA section by a Field Assistant with an agricultural certificate from the Natural Resources College. The Field Assistants are the front line agents in daily contact with the farmer.

Of particular importance to ASAP will be the MOA headquarter staff, the Department of Agriculture, SACA, Extension Aids Branch, and the ADDs.

2. Functions

The functions of the following units are of particular importance to the implementation of ASAP: MOA headquarter operations, the Department of Agriculture, the ADDS, and SACA.

a. Headquarter Operations

The PS's staff, which includes the DS, two CASs, the CPO, and the Chief Accountant, plays the key role in agricultural policy development, as well as in the planning and managing of the Ministry's operations.

The PS has overall responsibility and authority for managing the Ministry. The DS has responsibility for the provision of administrative, accounting and personnel support services to the Ministry and its affiliated institutions.

The CAS/NRDP is responsible for all programs of the Department of Agricultural Research (DAR), the Department of Agriculture (DOA), the Department of Animal Health and Industry (DAHI), SACA, the Department of Irrigation (DOI), and the eight ADDs. In effect, the CAS/NRDP is in charge of the extension work of the MOA, which is managed through

the ADDs, drawing on the resources of the various technical departments.

The CAS/Institutions is responsible for programs carried out by agricultural institutions, including the Natural Resources College, Training Branch, Smallholder Coffee Authority, Smallholder Tea Authority, Kasungu Flue Cured Tobacco Authority, Smallholder Sugar Authority, Agricultural Development and Marketing Corporation (ADMARC), and the Estates and Estate Extension Service.

The CPO is responsible for planning and budgeting, marketing and pricing, monitoring and evaluation of MOA programs, project preparation, and data processing. The Planning Division's responsibilities include preparation of MOA's annual budget estimates, preparation of medium and long-term sectoral development strategy and advising on sectoral policies including agricultural pricing and marketing policies, monitoring and evaluation of ongoing development projects, and coordination of all foreign donor missions dealing with the agricultural sector.

The Chief Accountant is responsible for maintaining the financial records of the Ministry. All MOA project accounting is the responsibility of this office.

Particularly relevant to ASAP are the functions of the CAS/NRDP, the CPO, the Chief Accountant, and, of course, the PS. The CAS/NRDP, the CPO and the PS all are involved with policy decisions. Their involvement with policy-related issues during the course of the implementation of ASAP will be substantial. As with the MOF, the individuals in these positions are technically qualified to deal with these issues - the concern is more a matter of the amount of time and effort which program implementation will require. During the design of ASAP, at least the PS and CAS/NRDP have been involved with program definition. The CAS/NRDP has represented the MOA at meetings where design and policy issues have been discussed. Substantively, the MOA has a comprehensive understanding of the program's objectives and areas of activity.

Given its mandate in the areas of preparing budget estimates and preparing sectoral strategies and policies, the Planning Division will have a key role to play during the implementation of ASAP. This Division requires strengthening in certain areas, and a project funded by British ODA is currently under design which has as its objective the establishment of a sustainable capacity for effective agricultural planning and policy formulation. The expected outputs of this proposed project include managerial tools, agricultural strategy tools, information systems, policy research and staff training. Implementation of this project should address critical issues which exist concerning the MOA's planning and policy development capabilities.

b. Department of Agriculture

The Department of Agriculture, which is under the overall supervision of the CAS/NRDP, is responsible for providing extension and training services to the smallholder sector to promote increased crop production, food self-sufficiency and improved smallholder farmer income levels. The management structure of the Department includes a Chief Agricultural Officer, two Deputy Chief Agricultural Officers, and two Assistant Chief Agricultural Officers. Below the management structure are subject matter specialists for training, extension, tobacco, credit, fertilizer, crops, and women's programs. In the field, the Department's staff report for administrative purposes through the ADD structure. On technical issues, they report directly to the Department of Agriculture at MOA headquarters. These subject matter specialists are the extension agents.

The objectives of the Department's extension program recently have been redefined in its "Five Year Extension Strategy Plan" (Department of Agriculture, Ministry of Agriculture, January 1990). These objectives are to:

- (i) reach male and female smallholder farmers with appropriate and timely messages through the use of the block and other applicable extension systems;
- (ii) expand contact with smallholder women farmers through the use of targeted extension messages, services and innovative and suitable methods for working directly with women;
- (iii) provide direction and technical advice to male and female smallholder farmers on agricultural programmes through the development of specific strategies and targeted activities from each subject matter specialist;
- (iv) provide in-service training for extension staff to improve their levels of competence in working with both male and female smallholder farmers;
- (v) intensify collaboration with male and female smallholder farmers to identify their training needs based on area specific production and socio-economic constraints, and to provide training to farmers in order to change attitudes and improve knowledge;
- (vi) strengthen research, extension and farmer linkages through regular participation of research staff from commodity and adaptive research teams, SMSs, field staff and male and female smallholder farmers in the development of appropriate technical messages;
- (vii) foster cooperation with NGOs and other ministries involved in rural developed programmes at all levels in order to improve services to male and female smallholder farmers; and

(viii) enhance agricultural production through the provision of credit and other services and to particularly expand the distribution of credit packages to women and the more disadvantaged farmers.

The above objectives recognize that, "with women taking a larger role in agricultural production (for family consumption, food security, and exports), it is important that the Department of Agriculture addresses the needs and aspirations of both male and female smallholder farmers."

c. Agricultural Development Divisions

The function of the ADDs is to organize the provision of extension services, and to manage the agents who provide the services. As is discussed above, most of the ADD staff come under one of the four technical departments within the MOA. However, in the provision of extension services, the technical staff are managed within the ADD structure, and come under the supervision of the ADD management staff. The four technical departments provide technical guidance, but do not manage the operations of their respective staff in the field. In addition, for budget purposes, all the support mechanisms required for extension services, e.g. vehicles and maintenance, subsistence, etc., are the responsibility of the ADDs. This is particularly important because over time the level of budget resources allocated to ADDs has not kept pace with the increased costs of providing extension services nor with the increase in the numbers of farmers who are to receive the services. This problem is discussed in more detail below.

d. Smallholder Agricultural Credit Administration

SACA's function is to provide credit to smallholders for the procurement of agricultural inputs. The procurement of inputs, in particular fertilizer, by smallholders often is dependent on acquiring credit through SACA. SACA is managed by a headquarter staff, and operates through a specialist credit staff at the ADD, RDP and EPA levels. Credit is administered through farmers' clubs, which are formed for that purpose. Generally a club has 10 - 30 members. As of 1990, there were 10,700 clubs with a total membership of about 315,000. SACA has received its funds from the World Bank through an IDA credit and IFAD loan. Over the past three years, SACA's loan portfolio has grown from MK23 million to MK65 million, and is expected to reach MK70 million during the 1991/92 crop year. Loan repayment performance has declined in the last two years, and in 1990 the recovery rate was 85%. Default on credit disbursement renders a club ineligible for new borrowing. A specific concern raised by SACA management is that as the program grows and smaller farmers become credit recipients, the credit worthiness of the new farmers' clubs is lower and the default rate is likely to rise.

SACA is virtually the only formal sector source of credit to smallholders. Some smallholders obtain credit from the Malawian Union of Savings and Credit Cooperatives (MUSCCO), but this number is very small, and obtaining credit from MUSCCO does not assure the farmer of access to the necessary inputs, which often are available only through the use of credit from SACA.

C. Role in ASAP Program Implementation

While the MOF is the implementing agency for ASAP because of its overarching role with respect to policy determination and financial management for the GOM, the MOA will have a major role in the day-to-day management of program activities and in the achievement of program objectives concerning the development of smallholder agriculture. Most of the studies planned under the program will involve the direct participation of MOA, as will the project component designed to extend agroforestry techniques to the smallholder sector and part of the food security project component. In addition, given that the development of smallholder agriculture will require efficient and effective extension services as well as sufficient provision of credit and inputs, the MOA will be closely involved with determining how these will be provided, and how the supply of credit and inputs can be restructured to place less of a burden on the central government and to improve farmer accessibility. Finally, three project activities within ASAP will be directly implemented by the MOA: food security and nutrition monitoring, an early warning food availability system, and agroforestry extension.

As noted above, of particular importance to the implementation of ASAP will be the MOA headquarter staff, the Department of Agriculture, the Planning Division, the ADDs, and SACA. These are discussed separately below.

1. Headquarter Staff

Given the policy development, planning and budgeting functions of the MOA headquarter staff, staff members will play key roles in the achievement of ASAP's objectives. In addition to PS participation in PMC meetings and senior level participation in PIC meetings, headquarter staff will be involved with the definition of scopes of work for the various planned studies, with review of the findings and recommendations of those studies, and with the preparation and approval of action plans which result from the studies. These action plans are likely to involve policy reforms and budget commitments, as well as project-type activities, and implementation of the plans will require substantial coordination both of internal MOA activities and of the participation of other ministries. Headquarter staff also will be responsible for implementation of the burley-specific program activities, i.e. the design and implementation of the smallholder registration scheme, issuance of individual quota allocations and certificates, design of alternative marketing channels, and evaluations of the overall scheme's performance.

2. Department of Agriculture

The Department of Agriculture's role in the implementation of ASAP can not be wholly defined at this point, and will depend in part on the results of studies conducted during the program's phase one. One specific activity for which responsibility will rest with the department is the agroforestry extension project component. Initially under the supervision of a TA contractor, agricultural extension agents will have responsibility for communicating agroforestry techniques to smallholders, and the Department will be responsible for overall management of the activity. The purpose of this activity will be to promote the use of agroforestry techniques to increase productivity, support environmentally sound agricultural practices, and provide alternative sources of fodder, firewood and other wood products.

Developing opportunities for smallholders to initiate and increase production of cash crops through improved access to credit, inputs and technical knowledge will require substantial effort by the extension services, including, with respect to the Department of Agriculture, well trained extension agents available to assist all categories of smallholders, and in particular those with less than 1.5 ha who historically have not received adequate extension assistance. ASAP does not intend to incorporate a major comprehensive extension service development activity, in part because already USAID has provided substantial resources under its Agricultural Research and Extension Project and because the World Bank is doing significant work in the area of extension. However, studies are planned under the program, which will identify specific problem areas which are related to extension work and which are relevant to achieving ASAP objectives, and these studies are expected to result in action plans which will form part of the basis for the design of ASAP's phase two.

3. Agricultural Development Divisions

The ADDs' role in the implementation of ASAP is both direct and indirect. ADD staff will have a direct role in the implementation of agroforestry and food security project activities, because it will be ADD staff who will provide the agroforestry extension services and who conduct the food security surveys and analyse the results. On the overall program side, ADDs provide the management structure for provision of extension services, and in that capacity play a critical albeit indirect role in achieving program objectives, indirect in the sense that program resources are not directly allocated to extension services. In addition, the planned study on developing extension modules to help smallholders with less than 1.5 ha will involve heavily the work of the ADDs, and may result in future activities in that area.

4. Smallholder Agricultural Credit Administration

SACA has no direct role in the implementation of ASAP, however because it is currently the only major source of credit for smallholders it deserves mention in this analysis. Smallholders require credit for the procurement of inputs. ASAP intends to identify alternative means for increasing the availability of credit to smallholders, especially those with less than 1.5 ha, and during the program's phase one a project activity may be designed and implemented to make credit available to smallholder tobacco farmers. This would take place based on the results of a credit study scheduled for early 1992. This study will include a review of SACA's role, performance and potential in the area of smallholder credit delivery.

D. Capacity to Execute Role

1. Policy Reform

The MOA's capacity to deal with policy reform will be strengthened through a proposed link program funded by ODA with the overall objective being to establish sustainable capacity for effective agricultural planning and policy formulation. This link program will be implemented through the Ministry's Planning Division. As with the Ministry of Finance, the MOA has technical and managerial expertise, but the demands which ASAP will place on senior level management as policy issues are raised, studied, analyzed and resolved will be substantial. Overall, program implementation will be management intensive, and a concerted effort will be required by MOA along with other GOM entities and USAID to accomplish program objectives. The strengthening of the MOA's Planning Division will be important to the successful achievement of the GOM's functions under ASAP.

2. ASAP Project Activities

For specific project activities under ASAP which require the provision of services by ADD staff and extension agents, a management structure has been designed and funds provided which will ensure that sufficient resources are available on a timely basis for implementation of project planned activities. In addition, the technical skills required for activity implementation are available either through expatriate technical assistance, or through local expertise. Where expatriate TA is now being used, a plan exists to phase out that long-term TA during the life of the project.

3. Achievement of Overall ASAP Objectives

Achievement of overall ASAP objectives will require in particular the provision of technical services to smallholders so that they can adopt profitable and "food-secure" crop mixes appropriate to their physical and socio-economic environments and to the availability of resources and inputs. In terms of provision of extension services, the MOA has experienced problems providing

275

adequate resources to its field staff. One budget study conducted during the design of ASAP indicated that real operating expenditures per person for the ADDS have dropped substantially since 1987. Using 1986-87 as the base year, 1987/88 operating expenditure per person for the ADDs was MK 896. This dropped to MK 692 in 1988/89, then to MK 610 in 1989/90 and up slightly to MK 618 in 1990/91. This same problem has been identified in the Department of Agriculture's "Five Year Extension Strategy Plan," which states as one constraint to effective extension services, "Supportive supervision visits of Field Assistants by the Development Officer, Assistant Development Officer and Subject Matter Specialists are infrequent and inadequate. This is often the result of a shortage of vehicles, fuel or subsistence allowances which prevent regular visiting schedules." (p. 14)

The underlying problem may be insufficient resources and/or inadequate planning and management. The strengthening activity of the Planning Division will help improve the planning and management aspect. Under ASAP, various studies will include different aspects of the extension system and will identify constraints to providing adequate services to smallholders, and ways of alleviating those constraints.

Other problems identified in the "Five Year Extension Strategy Plan" which have reduced the effectiveness of extension services are the following:

- a. Involvement of the Field Assistants in other activities, particularly involving credit clubs, which has reduced time available for farmer visits and block meetings and demonstrations;
- b. Extension messages are not seen as being relevant to farmers, or they include information which is already well understood and excludes consideration of socio-economic constraints which frequently prevents implementation of recommended practices;
- c. Credit and inputs are not available on a timely basis to satisfy farmer requirements;
- d. Relatively low producer prices, increased input costs and reduced profitability have resulted in declining interest in some crops; and
- e. Failure of extension staff to accurately identify farmer problems and constraints.

Each of the above problem areas is being addressed by one or more components of ASAP, primarily initially by studies which result in action plans designed to alleviate identified constraints. USAID will have to review study results carefully to determine what additional policy reform measures or project activities are required to promote smallholder development through improved provision of technical and other services.

IV. Department of Economic Planning and Development

A. Organization and Function

EP&D is a department within the Office of the President and Cabinet. It is responsible for central planning and the coordination of activities of the GOM's sectoral ministries. Its civil service head is a Principal Secretary, who is followed by a Chief Economist, and, in turn, by a Deputy Chief Economist. From there, the department is divided into four branches, three of which are headed by an Assistant Chief Economist (see attached organization chart) and one of which is headed by a Senior Personnel Officer. The three technical branches have the following responsibilities:

1. Macroeconomic planning, commerce and industry, social and population;
2. Projects' planning, monitoring and evaluation, aid coordination; and
3. Agriculture, energy planning, energy administration, transport, food security.

One branch which is of particular relevance to ASAP is the third described above, which includes food security. One of ASAP's project activities involves assistance to one unit of that branch, the Food Security and Nutrition Unit (FSNU). The FSNU coordinates the development of GOM food security and nutrition policy, and monitors related activities. It is the secretariat for the Interministerial Food Security and Nutrition Advisory Committee, which includes six ministries (Agriculture, Community Services, Health, Education, Local Government and Finance) plus three branches of the University of Malawi (Bunda College, Kamuzu School of Health Sciences, and Center for Social Research). The FSNU has five staff positions. Its head is a Principal Economist, and other staff members are two economists and two nutritionists. At present the position of one nutritionist is vacant. All staff belong to the Economic Common Service within the GOM.

B. Role in ASAP Program Implementation

EP&D will be involved with ASAP implementation on two levels. As with the Ministries of Finance and Agriculture, senior level staff, including the PS, Chief Economist and Deputy Chief Economist, all will participate at one time or another in discussions and decisions about policy matters. In addition, either the Chief Economist or his deputy will be involved in the deliberations and operations of the Program Implementation Committee and its subcommittees. Because ASAP study issues may cut across individual ministry boundaries, EP&D's role in helping to define study agendas, to analyse study results and to prepare action plans will be particularly important.

277

EP&D's second level of involvement with ASAP's implementation concerns the FSNU's role as coordinator of GOM's food security activities, including being secretariat of the Interministerial Food Security and Nutrition Advisory Committee. Under ASAP a food security advisor will be located within the FSNU to assist with policy development and coordination in the area of food security. This position will be funded as a long-term position under the project for four years, and will be an advisory position to the Principal Economist.

C. Capacity to Execute Role

As with the Ministries of Finance and Agriculture, EP&D has expertise to analyze and resolve policy issues, but also as with the other ministries, the demands on the EP&D staff are already substantial, and implementing the policy agenda of ASAP will increase those demands. The Department has a unit which deals with agriculture, and it is expected that this unit would handle most of the business of ASAP. Final decisions about policy matters would concern the senior level staff.

EP&D's role with respect to the food security activity and its capacity to execute that role is well established. The A.I.D. activity will contribute to an ongoing project.

V. Bunda College of Agriculture, University of Malawi

A. Organization and Function

Bunda College is one of five constituent colleges of the University of Malawi system, and is responsible for the training of individuals in the fields of agriculture, animal science, home economics and rural development. The head of the college is a principle, assisted by a vice-principle. The college has five academic departments, each of which is managed by a Head of Department: Agricultural Engineering, Animal Science, Crop Production, Home Economics and Human Nutrition, and Rural Development. The Dean of the Faculty of Agriculture has responsibility for managing the faculty's affairs. The college has approval to establish a new department-level unit, the Center for Agricultural Research and Development.

The Chancellor and Vice-Chancellor of the University are responsible for the affairs of all colleges. The University is a statutory body, and as such has control over its own budget and reports to the Department of Statutory Bodies. It works with the Ministry of Education, but is not technically part of the Ministry. Various functions are centralized at the University level, including overall accounting responsibility and physical development responsibility. Bunda College has responsibility for some accounting functions, and is allocated monthly disbursements from the University to make direct payments in specific areas.

B. Role in ASAP Program Implementation

Under ASAP, an agricultural policy research unit will be established which will provide the capability within the College to conduct research on policy matters, and assist with identification and resolution of issues and development of proposals for implementing recommended actions. This unit will be the first constituent unit of the approved but not physically established Center for Research and Development (CARD). It is intended that while this unit will be based at Bunda, it will institute close working relationships with relevant GOM offices and private and public firms, as well as the Center for Social Research at Chancellor College, so that the work of the unit involves as broad participation as possible. It is expected that some form of advisory board will be established to advise the research unit on policy research, development and implementation issues.

ASAP funds will be used to finance a cooperative agreement with a U.S. university (or consortium) to assist the College in this activity. While drafting of the RFP and contractor selection will involve the College as well as GOM departments, A.I.D. will negotiate and sign the cooperative agreement. The agreement will include provision for two long-term technical assistant (TA) positions (agricultural economist and statistician), short-term TA, one PhD training opportunity (statistics), short-term training, study tours, institutional and commodity support. The College will organize the necessary local staff recruitment for the research unit, and initial operational costs for a period of two years will be financed under the project. The cooperative agreement will include provision for institutional development support to assist the College with the establishment, management and operations of the unit.

In addition, ASAP will finance the construction of facilities, including an office block and housing, at Bunda College for the research unit and the long-term technical assistance. The University of Malawi, which has its headquarter office including an estate development office in Zomba, will be responsible for the contracting action for this construction, while USAID will make direct payments to the contractor upon receipt of the required certificates.

Finally, College staff are expected to be involved in other studies under ASAP which are conducted prior to the establishment of the research unit, and in the annual evaluations of the ASAP program. During the first year of the program, a number of studies are necessary to identify specific actions required to implement the policy reform agenda. Because the length of time required for the competitive selection process for the cooperative agreement (at least ten months from start to arrival of TA), some studies which might otherwise be included as part of the research unit's scope must be organized earlier. Although in at least some instances outside contractors will be used for the studies, it is expected that College staff will participate as well. Annual evaluations are scheduled to assess in particular the program's impact on promoting smallholder development. While the midterm and final evaluations will be larger

efforts involving outside specialists, the other annual evaluations are likely to be the responsibility of the research unit.

C. Capacity to Execute Role

College staff have participated in studies used for the design of ASAP, and their work was considered to be of high quality. Staff have shown that they have both the expertise and interest to conduct the research, and they should bring to the program a wealth of local knowledge and sensitivity to issues as they are perceived within the country. With the assistance of a U.S. university experienced in agricultural policy research and in the organizational requirements to establish and manage a research unit, Bunda has the capability to undertake the institutional development activity planned under ASAP.

Project funds will support the operations of the research unit for a period of two years. During that time, the unit's presence and technical capabilities, as well as its availability to undertake outside projects, will be publicized. The College intends to set an overhead rate (approximately 30%) to cover its operational costs for outside work. The income from contracted projects will be used to offset operational costs. After two years of project support, the responsibility for covering the cost of operating and maintaining the unit will rest with the College and the University. The overall situation will be assessed at that time to determine whether further financial support for operations will be necessary.

A preliminary analysis of Bunda's contracting procedures indicates that it is qualified to undertake a host country contract for the construction of the unit's facilities. Bunda has used that procedure in the past with USAID as well as with other donors, including the EC and ODA. Construction activities are managed by the estate development office situated at the University headquarter offices in Bunda. Upon notice that funds for the construction activity are available, that office will contract with an architectural firm used by the University for the preparation of drawings. That firm will subcontract with a quantity surveyor who will estimate construction costs (and during execution of the contract will monitor contractor expenditures for the purpose of University approval of certificates). The University ordinarily preselects eligible firms who will be allowed to bid for the contract. All technical drawings and bid documents will be reviewed by A.I.D. prior to issuance. The contract, which will have an approximate value of \$600,000, is expected to be advertised in the Commerce Business Daily. The University will conduct a formal review and evaluation of bids received. USAID will be represented during that process, and will approve the award process prior to final award. Contract execution will be monitored by REDSO/ESA's Regional Engineering Office. Payment to the contractor will be made directly by USAID based on the receipt of certificates on a regular basis. Certificates will be reviewed by the quantity surveyor and the architectural firm, and approved by the University, prior to being sent to USAID. While the preliminary analysis has shown that the University's contracting

procedures, as described above, are acceptable to A.I.D., in accordance with current regulations a formal analysis, in this case by a REDSO/ESA Regional Contracting Officer, will be conducted prior to any earmarking of funds for the construction activity. It is expected that this analysis will be conducted within two months of ASAP grant agreement signing.

VI. Department of Research and Environmental Affairs

A. Introduction

The Department of Research and Environmental Affairs' (DREA) is the primary coordination body on issues concerning the environment. Its Division of Natural Resources and Environment is mandated to assess the current state and forecasted trends in the quality of natural resources. It is also responsible for review of policies and programs related to sustainable development and enhancement of environmental quality. The DREA is part of the Office of the President and Cabinet (OPC) and acts as the focal point in environmental monitoring activities capturing input from the relevant line ministries, namely, Ministry of Forestry, Ministry of Agriculture, and Ministry of Works.

B. Organization and Functions

1. Organization

At the top of the DREA's organization structure is the Principal Secretary who is responsible for the overall policy formulation regarding research and environmental affairs, planning, coordinating, and managing research and environmental affairs. The department was constituted to a full department on April 1, 1991.

DREA consists of five divisions, namely:

- Science and Technology;
- National Research Council of Malawi Affairs;
- Administration and Support Services;
- Information Science and Engineering; and
- Natural Resources and Environment.

It is within the Natural Resources and Environment Division that ASAP resources will be channeled for the monitoring of the environment. Specifically, support will be provided to the Natural Resources Management Section and the Planning and Environmental Assessment Section of this division (see attached organizational chart).

2. Functions

a. Planning and Environmental Assessment Section

Among its many functions are: "Ensuring that economic and social development in the country is sustainable by promoting developmental activities, the execution of which is guided by the desire to conserve and protect environmental assets." Specific objectives for the environmental component of DREA include:

- assist the Government in collecting all available information/data on natural resources and development projects and assess and analyze the effects of development on the environment;
- prepare a National Environmental Conservation Policy Strategy (NECPS) in consultation and collaboration with all concerned Ministries, Departments and relevant Institutions;
- prepare appropriate guidelines for the implementation of the strategy and environmental impact assessment of development projects for use by various Ministries, Departments and all other institutions;
- prepare and conduct seminars at national, regional and district levels to explain the NECPS;
- implement the NECPS in selected priority areas; and
- monitor the effects of development projects and other activities on the environment.

b. Natural Resource Management Section

The functions of the Natural Resource Management Section are as follows:

- monitor and assess quality of the natural resource base in order to propose proper management measures and rational utilization of resources;
- review policies, plans, programs and activities of GOM and NGOs in order that the overall goal of sustainable development is achieved;
- assess environmental impact of large-scale agricultural projects;
- promote afforestation and re-forestation schemes;
- promote woodlots for conservation and land management purpose;

- monitor and assess quantity and quality of water resources;
- monitor and assess ecological effects of pesticides and fertilizer on the environment.

ASAP-financed monitoring is designed to, inter alia, accomplish the following objectives:

- develop the capacity to carry out regular monitoring of land use changes;
- measure and monitor the rates of deforestation and soil erosion on customary land;
- monitor the encroachment of cultivation into steep escarpments, marginal areas and hills, and develop appropriate land use policies for such areas in consultation with District Development Committees;

C. Role in ASAP Implementation

While MOF is the implementing agency for ASAP, the DREA will play the the major coordinating role in ensuring that the ASAP reform policies do not adversely affect the environment. The DREA will rely on line ministries and departments for soil erosion, deforestation, and related information.

As regards land use changes, DREA will rely upon information available from the Land Husbandry Branch of MOA where aerial photographs, satellite imagery tapes, and data/analysis from a UNDP/FAO Project are available. DREA will supplement available information with site visits. DREA will need to be familiar with a software program being used by the UNDP/FAO project called ALES (Automated Land Evaluation System). For soil erosion monitoring, a system for measuring simple soil loss and river sediment load will be developed in coordination with the MOA who will undertake actual data collection.

Deforestation will be monitored by measuring the amount of new land brought under cultivation plus deforestation from fuelwood. DREA will work closely with the Department of Forestry in the Ministry of Forestry and Natural Resources to coordinate data collection, which will be undertaken by Ministry of Forestry and Natural Resources.

For livestock data, DREA will liaise with the Department of Animal Health and Industry of MOA. DREA will also undertake an analysis of existing data/information.

D. Capacity to Execute Role

At the moment, there is only one staff member assigned to the Division of Natural Resources and Environment. ASAP will fund the establishment of 17 additional positions on the development budget account; by GOM's financial year 1994/95 these positions will

be funded under the revenue (recurrent) budget account. The new positions include: Principal Environmental Officer, two Senior Environmental Officers, two Environmental Officers, one Economist, one Draftsman, two Tracers, one Stenographer, one Copy Typist, five Laborers, and one messenger. ASAP will also provide 8 months of technical assistance.

VII. USAID

A. Organization and Function

Within USAID, program implementation will be the responsibility of the Agriculture and Food Security (AFS) Division, which currently has two A.I.D. direct hire professionals (one division chief and one deputy) and two foreign service national professionals who will be involved with the program. Implementation will involve also the Program, Evaluation and Analysis (PAE) Office and the Project Implementation and Development (PID) Office, as well as the Controller's Office on financial matters. Discussion of major policy issues and review of achievement of program objectives will involve the Director's Office.

B. Role in ASAP Program Implementation

USAID, as the funding agency, must ensure that the appropriate funding mechanisms are in place for proper disbursement so that program activities can take place without disruption. In addition, USAID will be responsible for the procurement of various commodities for those activities, and for the negotiation of various service contracts and cooperative agreements.

In a more substantive sense, USAID must work to see that progress toward the accomplishment of ASAP objectives is being achieved. This will require a high level of effort working with GOM ministries, both individually and through the Project Implementation Committee and its subcommittees. Progress toward meeting both short-term and long-term objectives must be monitored, and a working relationship with key GOM officials must be established to allow effective intervention when necessary. In addition, within USAID, regular monitoring of program implementation must be done to ensure that all activities, including reform initiatives as well as project activities, are

C. Capacity to Execute Role

Managing the implementation of ASAP within USAID will require drawing on the resources of various offices. While day-to-day implementation responsibility will rest with the AFS Division, the participation of other offices will be necessary given the combination nonproject/project assistance, the complexity of the policy reform issues and related studies, and the variety of project activities. In particular the PAE Office and PID Office will be

involved with assisting with discussion and resolution of policy reform issues, with implementation of the Bunda College project activity, and with the design of studies and identification of follow-on activities. An internal program committee will be formed consisting of the AFS, PAE, PID and Controller's offices, and regular (initially monthly) progress reports will be prepared and submitted to the Director's Office in addition to committee members.

VIII. Joint GOM-USAID Coordination

As is discussed in more detail in the PAAD section on implementation, GOM-USAID coordination in the implementation of this program is essential to the eventual achievement of program objectives. Formal coordination will take place through the Program Implementation Committee and its subcommittees, and through the Program Management Committee. Informal coordination will involve frequent meetings between GOM and USAID project managers, and joint participation in the execution of the studies and reviews/evaluations of the program. In addition, funds will be provided for seminars and workshops at which study results and policy issues can be discussed in an open forum with representatives of the GOM, other public sector entities, the private sector, and the donor community.

285