

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

AGENCY FOR INTERNATIONAL DEVELOPMENT		1. TRANSACTION CODE		Amendment Number		DOCUMENT CODE			
<b>PROJECT DATA SHEET</b>		<input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete		<u>2</u>		<u>3</u>			
COUNTRY/ENTITY <b>MALAWI</b>		3. PROJECT NUMBER <b>612-0235</b>		5. PROJECT TITLE (maximum 40 characters) <b>ASAP Support Project</b>					
4. BUREAU OFFICE <b>AFRICA</b>		<input type="checkbox"/> 06		<input type="checkbox"/>					
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY <b>09   3   09   8</b>		7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4) A. Initial FY <b>91</b> B. Quarter <b>4</b> C. Final FY <b>96</b>							
8. COSTS (\$000 OR EQUIVALENT \$1 = )									
A. FUNDING SOURCE	FIRST FY <u>91</u>			LIFE OF PROJECT					
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total			
AID Appropriated Total									
(Grant)	2,960		2,960	15,000		15,000			
(Loan)									
Other									
U.S.									
Host Country		956			3,229	3,229 *			
Other Donors)									
<b>TOTALS</b>	<b>2,960</b>	<b>956</b>	<b>3,916</b>	<b>15,000</b>	<b>3,229</b>	<b>18,229</b>			
9. SCHEDULE OF AID FUNDING \$000									
A. APPROPRIATION/PURPOSE CODE	B. PRIMARY TECH. 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				6,340		5,332		15,000	
(2)									
(3)									
(4)									
<b>TOTALS</b>				<b>6,340</b>		<b>5,332</b>		<b>15,000</b>	
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 480 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				
Interim	MM YY	MM YY	Final	MM YY	<input type="checkbox"/> 000	<input type="checkbox"/> 941	<input checked="" type="checkbox"/> Local	<input checked="" type="checkbox"/> Other (Specify) <u>935</u>
	04   9   3	01   49   5		0   4   9   8				

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)

\* Proportional amount of anticipated host country contributions to the project and the Agricultural Sector Assistance Program.

Controller Clearance: CONT, R. B. Amin *Ra* 7/27/93

17. APPROVED BY	Signature	<i>Cynthia Kuroze</i>	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
	Title	Mission Director	
	Date Signed	MM DD YY 018   09   913	MM DD YY 10   12   16   913

THE AGRICULTURAL SECTOR ASSISTANCE PROGRAM SUPPORT PROJECT

Project Number 612-0235

Project Paper Supplement No. 1

July 1993

2'

ACTION MEMORANDUM FOR THE MISSION DIRECTOR, USAID/MALAWI

From: William R. Brands, PDO *William R. Brands*  
Date: July 15, 1993  
Subject: Project Paper Supplement and Authorization  
Amendment for the Agricultural Sector  
Assistance Program (ASAP) Support Project

Action: You are requested to approve the ASAP Project authorization amendment and project paper supplement to permit:

1. the expansion of the project's scope to include funding for: (a) a new activity in support of smallholder organization (marketing club) strengthening; (b) an addition to the ongoing agroforestry extension activity to link it more closely with the smallholder burley program; (c) an expansion of the food security and environmental monitoring activities; and (d) additions to activities regarding the policy study agenda, project management and monitoring/evaluation;
2. an increase in life-of-project funding from \$10,000,000 to \$15,000,000; and
3. an extension of the PACD by two years from September 30, 1996 to September 30, 1998.

The modifications to the ASAP project described in this supplement will facilitate attainment of the project's original objectives. The project's goal and purpose have not been changed.

Discussion: Malawi recorded impressive growth in its agricultural sector during the 1980's, but that growth tended to benefit the estate sector at the expense of the smallholder farmers. In an attempt to rectify this situation, the Government of Malawi (GOM) and USAID in September of 1991 signed the US\$20 million Malawi Agricultural Sector Assistance Program (ASAP) to support GOM implementation of policy reforms in the agriculture sector. ASAP was complemented at that time by a \$US10 million ASAP Support Project, which supports the implementation of specific activities within the GOM policy reform agenda.

ASAP's goal 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 ASAP,

smallholder (customary landholder) farmers should be free to grow and market an unrestricted variety of food and cash crops to improve their well-being. The ASAP Support Project provides funding for technical assistance, commodities, training and operating expenses to support program initiatives in the areas of smallholder organization development, agricultural policy research, agroforestry extension, food security, environmental monitoring and program implementation in order to achieve the objectives of ASAP.

A mid-term evaluation of ASAP was conducted in March 1993. The evaluation confirmed the overall success of the program in providing expanded economic opportunities to smallholder farmers. As stated in the evaluation, "Implementation of the closely-related World Bank financed Agricultural Sector Assistance Credit (ASAC) and ASAP programs in the course of the three cropping seasons in the 1990s has transformed the outlook for farmers in Malawi." The evaluation pointed to the fact that significant strides have been made toward increasing smallholder access to agricultural inputs, output markets, crop production alternatives and commodity price information, especially as it relates to burley tobacco. In addition, the evaluation recommended a series of actions for strengthening ongoing implementation of ASAP policy reforms. These recommendations included proceeding with plans to strengthen smallholder burley club organization and management; linking the agroforestry extension activity more closely to smallholder burley efforts; and contracting for a number of priority studies.

This supplement to the ASAP Support Project is based primarily upon recommendations contained in the evaluation, as discussed with and agreed to by the ASAP Program Implementation Committee. In order to effectively implement those recommendations, the ASAP Support Project is being amended to increase the life-of-project funding by US\$5 million to a new total of \$US15 million. The PACD is also being extended by two years to September 30, 1998 to accommodate the new and expanded activities.

The strategy of this supplement is to provide funding to accomplish the following:

1. Support smallholder organization strengthening.

The focal point for this activity will be increasing the economic viability of the smallholder burley marketing clubs through the establishment and maintenance of proper record-keeping and management systems and the development of appropriate organizational structures. Project support for this new activity will include financing of a cooperative agreement with a U.S. institution experienced in small farmer organizational development.

2. Link ongoing agroforestry extension activities with smallholder burley efforts.

The current agroforestry activity implemented through a cooperative agreement with Washington State University (WSU) will be expanded to identify and disseminate ecologically sound and cost-effective methods of integrating agroforestry techniques with burley tobacco production and curing on smallholder farms. An amendment to the existing cooperative agreement with WSU is envisioned for an expansion of work in this area.

3. Expand support for food security monitoring and policy development.

ASAP funding supported the development and utilization of a new crop estimates methodology in four Agricultural Development Divisions (ADD). Additional funding will be provided to extend this methodology to all eight ADDs, procure field measuring equipment and train MOA field staff. Additional funds will also be provided to assist the MOA in the development of data bases regarding food availability and security with assistance from the Africa Bureau's Famine Early Warning System (FEWS) Project.

4. Improve environmental monitoring in Malawi.

The Department of Environmental Affairs (DREA) finalized an Environmental Monitoring Plan (EMP) to monitor the potential environmental impact of increased burley tobacco production associated within ASAP policy reforms during an initial period of three cropping seasons starting in 1993. Full development of the EMP, however, will require a greater level of effort than first anticipated in the original project design. For this reason, the Mission anticipates providing additional funds through this amendment to procure technical assistance and commodities through buy-ins to the Africa Bureau's SARSA Project to support this effort.

5. Complete studies to support implementation of specific policy reforms associated with ASAP.

The ACAP evaluation report recommended changes and additions to the list of studies required to support the implementation of specific policy reforms associated with ASAP. Funding under this amendment will support new studies in such areas as transportation constraints to marketing, marketing constraints for traditional agricultural commodities, industry outlook for Malawi tobacco exports, women's participation in burley clubs and market demand studies for a variety of agricultural commodities.

The institutional, financial and economic analyses conducted in the original project paper remain valid with this increased financing.

Owing to the implementation demands of these new and expanded activities, the services of a PSC project assistant will be extended. The project will also provide support for the Mission's monitoring/evaluation advisor.

Financial Plan: The summary revised financial plan for A.I.D. inputs under this project is as follows:

Financial Plan

Component	Present Budget	This Amendment	Revised Budget
1. Agricultural Policy Research	3,590,000	-	3,590,000
2. Agroforestry Extension	1,576,000	1,059,000	2,635,000
3. Food Security	2,127,000	318,000	2,445,000
4. Environmental Monitoring	503,000	797,000	1,300,000
5. Studies/Implementation Management	1,460,000	790,000	2,250,000
6. Monitoring/Evaluation/Audit	368,000	236,000	604,000
7. Smallholder Organizational Develop.	-	1,900,000	1,900,000
8. Contingency	376,000	(100,000)	276,000
TOTAL	10,000,000	5,000,000	15,000,000

Initial Environmental Examination: An environmental examination (IEE) required for this amendment was approved by the Africa Bureau environmental officer. The IEE appears as Attachment A in this PPS.

Conditions Precedent: All prior conditions precedent have been satisfied for disbursement of funds under this project.

Authority: In accordance with Delegation of Authority 551 (revised) Section 4.A.(2) and (3) and in accordance with State 116198/01 you have authority to approve this project paper supplement and extend the PACD by two years.

Recommendation: That you approve the project paper supplement by signing (1) the project paper facesheet and (2) the project authorization amendment.

V

Project Authorization Amendment No. 1

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), the Agricultural Sector Assistance Support Project was authorized on September 27, 1991, for life-of-project funding not to exceed ten million United States dollars (\$10,000,000) over a five year period from the date of authorization.
2. Pursuant to Section 496 of the Foreign Assistance Act of 1961, as amended, I hereby authorize an additional five million United States dollars (\$5,000,000) in grant funds for the Project, for a new life-of-project funding not to exceed fifteen million United States dollars (\$15,000,000) over a seven year period from the date of the original authorization.
3. The original authorization, as amended, remains in full force and effect.

Signature:   
Cynthia F. Rozell  
Mission Director

Date: 8 - 9 - 93

Clearances: KRockeman, AFS	<u>KR</u>	Date	<u>7/28/93</u>
JHale, AFS	<u>JH</u>	Date	<u>7-28-93</u>
MSarhan, PPD	<u>MS</u>	Date	<u>7/28/93</u>
MPowdermaker, FMO	<u>MP</u>	Date	<u>7/28/93</u>
TLOfgren, PPD	<u>TL</u>	Date	<u>7/28/93</u>
SScott, DD	<u>SS</u>	Date	<u>20/06/93</u>
TFillinger, RLA	<u>TF</u>	Date	<u>7/6/93</u>

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## **I. BACKGROUND**

While growth in Malawi's agricultural sector has been impressive, it has tended to benefit the estate sector at the expense of the smallholder farmers. In an attempt to rectify this situation, the Government of Malawi (GOM) and USAID entered into a US\$20 million Malawi Agricultural Sector Assistance Program (ASAP,) designed to increase agricultural productivity, employment and incomes. ASAP was complemented at that time by a US\$10 million ASAP Support Project, which funds specific project activities supporting implementation of the GOM policy reform agenda.

ASAP-supported policy reforms permitted 7,200 registered smallholder burley producers to group together and market their tobacco directly on the auction floors for the first time in 1991-92. During the 1991-92 marketing season 210 of these collective "Burley Marketing Clubs" marketed over 1 million kilograms of burley directly on the auction floors, receiving an average price of MK6.19/kg compared to the national average price of MK6.52/kg. The smallholder burley program expanded in 1992-93, with over 29,000 producers grouped into more than 1000 marketing clubs registered to grow 7 million kilograms of burley. An estimated four million dollars (equivalent) in rural income was generated by smallholder sales of burley tobacco during the first two years of the program. It is anticipated that an additional four million dollars in revenues from smallholder burley sales will result this season and increase demand for rural goods, services and employment.

The ASAP mid-term evaluation in early 1993 confirmed the overall success of the program in providing expanded economic opportunities for smallholder farmers. As stated in the evaluation, "Implementation of the closely-related World Bank financed Agricultural Sector Assistance Credit (ASAC) and ASAP programs in the course of the three cropping seasons in the 1990's has transformed the outlook for farmers in Malawi." The evaluation pointed to the fact that significant strides have been made toward increasing smallholder access to agricultural inputs, output markets, crop production alternatives and commodity price information, especially as it relates to burley tobacco. In addition, the evaluation report recommended a series of actions for strengthening ongoing implementation of ASAP policy reforms. These recommendations included proceeding with plans to strengthen smallholder burley club organization and management, linking the agroforestry extension activity more closely to smallholder burley efforts; and contracting for a number of priority studies.

In response, the ASAP Support Project is being amended to increase authorized life-of-project funding by US\$5 million to a new total of US\$15 million. This increase in funding will support: (1) a new activity in support of smallholder organization (marketing club) strengthening; (2) an addition to the ongoing agroforestry extension activity to link it more closely with the smallholder burley program;

(3) an expansion of the food security and environmental monitoring activities; (4) additions to the policy study agenda, implementation support and project management; and (5) expanded monitoring/evaluation activities. In addition, the project assistance completion date for the ASAP Support Project will be extended by two years from September 30, 1996 to September 30, 1998 to allow sufficient time for implementation of these new and expanded activities.

## II. REVISED PROJECT DESCRIPTION

### A. GOAL AND PURPOSE

The goal and purpose of ASAP remain unchanged. 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 ASAP, 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. This will enable them to produce, or generate additional income to acquire sufficient food to improve their well-being. The ASAP Support Project provides support for technical assistance, commodities, training and operating expenses to support program initiatives in the areas of smallholder organization development, agricultural policy research, agroforestry extension, food security, environmental monitoring, studies and program implementation.

### B. PROBLEMS/ISSUES

The ASAP Support Project was designed to support ASAP by creating an agricultural policy analysis capacity within Malawi, monitoring the impacts of agricultural policy change, helping smallholders benefit from new opportunities created under the program, and supporting the implementation of policy initiatives. The implementation of policy reforms to date has been very successful, but has also helped identify areas where additional support is needed to enhance the sustainability of reform efforts. As indicated by the mid-term evaluation of ASAP, the success of agricultural market liberalization in general, and the smallholder burley program in particular, depends upon the long-term viability of the smallholder marketing clubs. However, since club organization is generally weak, the evaluation team recommended immediate efforts to strengthen club organization and management. This need was not fully anticipated during the original project design, and additional funding is needed to promote and support club development.

The evaluation team also recommended linking the project-supported agroforestry activity more closely with the smallholder burley program by promoting the use of agroforestry technologies among smallholder

burley producers. This expansion of ongoing agroforestry extension activities will require additional funding for successful implementation.

The severe drought of 1991-92 clearly demonstrated the need for upgrading reporting and information systems on crop yields, food availability and nutritional status for use in formulating food security policy, and in worst case scenarios, as a means of targeting relief efforts. Based upon a review of existing activities, additional funding for food security activities will be utilized to fully implement the new crop estimates methodology, and support the MOA in integrating existing data into a comprehensive information system.

Possible deterioration of Malawi's natural resource base as a result of policy reform is a major concern for both the GOM and USAID. Based upon this concern the GOM Department of Research and Environmental Affairs (DREA) has designed an Environmental Monitoring Program (EMP) carefully structured to physically measure and evaluate the environmental impact of policy reforms. However, additional funding is required to support implementation of the EMP during the initial period covering three cropping seasons.

Finally, the evaluation team recommended revising the policy study agenda to focus on priority issues related to market liberalization in general, and implementation of the smallholder burley program in particular. The team also recommended steps to strengthen monitoring and evaluation. Expanding these efforts also requires a modest increase in funding.

### C. PROJECT MODIFICATIONS

The ASAP Support Project activities proposed below are specifically designed to support the development of smallholder organizations, expand agroforestry extension activities to link more closely with smallholder burley production, increase and expand ongoing efforts in the areas of food security monitoring and policy development, and support the implementation of a program to monitor the environmental impact of agricultural policy reforms.

#### 1. New Element

##### (a) Smallholder Organization Development

As previously stated, ASAP policy reforms permitted 7,200 registered smallholder burley producers to group together and collectively market their tobacco directly on the auction floors for the first time in 1991-92. These collective groups, an extension of Smallholder Agricultural Credit Administration (SACA) credit clubs, have since been referred to as Burley Marketing Clubs. During the 1991-92 season, 210 clubs marketed in excess of 1 million kilograms of burley

directly on the auction floors. The smallholder burley program was further expanded in 1992-93, with over 29,000 producers registered to grow 7 million kg of burley. These producers are grouped into more than 1,000 clubs, of which more than 750 have declared their intention to market their product directly on the auction floors.

The success of the clubs to date in marketing their tobacco directly on the auction floors has been the primary engine driving implementation of the smallholder burley program. However, the clubs are only loosely structured farmer groups. No legislative authority exists for the existence of the smallholder burley marketing clubs as currently organized. While the lack of formal club legal status is not limiting implementation at this time, it could eventually become a matter of concern if the credit functions of SACA are taken over by a private bank, as is planned.

Of greater concern is the fact that smallholder burley marketing clubs are still in the early stages of organizational development, and are in great need of both leadership and management training. Club officers are more concerned with crop management than business management, and club leaders are not well trained in the duties of their offices, nor in the overall functions of clubs. Club financial records are also inadequate to meet objective standards of fiscal accountability.

In summary, the success of the smallholder burley program depends upon the long-term viability of the marketing clubs. And, in order to become viable business entities, the clubs require training in book-keeping, establishment and maintenance of a proper record keeping system and group organization to ensure their ability to provide needed services to their members. The mid-term evaluation of ASAP also strongly recommended taking immediate action to strengthen the clubs.

Project support for this element will include financing of a cooperative agreement with a U.S. institution experienced in small farmer organizational development. The recipient will provide a long-term advisor, short-term technical assistance and training resources to support Ministry of Agriculture implementation of the smallholder burley program. This support will take the form of training programs in club leadership and management, development of a standardized record-keeping system, and the organization and implementation of farmer training to promote adoption of the system. The recipient will also provide support to the MOA in monitoring smallholder burley production, credit, marketing and organizational problems, and assisting in their resolution.

## 2. Changes in Existing Elements

### (a) Agroforestry Extension

ASAP funding is currently supporting nationwide agroforestry extension

activities. The activity is being implemented through a cooperative agreement with Washington State University (WSU), and consists of efforts to promote farmer utilization of proven agroforestry techniques to improve agricultural productivity. The ASAP mid-term evaluation recommended that the agroforestry extension component be expanded and more closely linked with smallholder burley efforts. Therefore, the current agroforestry extension activity will be expanded to identify and disseminate ecologically sound and cost-effective methods of integrating agroforestry techniques with burley tobacco production and curing on smallholder farms. The integration of agroforestry techniques into smallholder burley production will help maintain/improve soil fertility, with reduced dependency on inorganic fertilizer inputs, reduce problems of erosion and water runoff associated with tobacco farming, and increase the supply of poles to reduce environmental damage caused by the increase demand for wood utilized in tobacco curing. Long-term assistance will be provided to manage activities such as the identification, multiplication and distribution of (1) appropriate soil-improving trees for erosion control; (2) fast-growing trees for poles used to construct curing sheds; (3) preservation methods to prolong the life of poles used in curing barns; and (4) grasses for thatching curing sheds and grading barns. Training for MOA extension staff in delivering these techniques and the development of a training manual will also be supported. USAID intends to finance the expansion by negotiating an amendment to the existing cooperative agreement with WSU.

(b) Food Security Monitoring and Policy Development

Existing food security activities will be complemented by the following additions to the activity:

(i) New Crop Estimates

ASAP funding supported the expansion of the new crop estimates methodology from two to four ADDs in 1991-92. This new methodology has been fully endorsed after a testing stage, and is replacing the older "subjective" measures utilized by the Ministry of Agriculture in estimating smallholder crop production and yields. ASAP support for this effort will be increased to finance the extension of the new methodology to the remaining four ADDs. Project funds will support the procurement of field measuring equipment, and the training of MOA field assistants in the use of the methodology.

(ii) Famine Early Warning System (FEWS)

A FEWS Advisor is currently assigned to Malawi through the end of December 1993 to assist the Government of Malawi in the development of data bases for use by decision-makers in analyzing food availability and food security. The advisor is working with the MOA Agro-Economic Survey Department (AES) to assist in data base development, including

survey design, data collection, and analytical procedures. The centrally-funded FEWS III Project, currently under development, anticipates the assignment of a long-term FEWS Advisor to Malawi to continue the work with an emphasis on expanding the use of data for development planning. The project will provide funds to assist the local support staff to FEWS, and a small buy-in to the planned FEWS III Project to provide some short-term technical assistance and commodities.

(c) Environmental Monitoring

The Department of Research and Environmental Affairs (DREA) has finalized an Environmental Monitoring Plan (EMP) to monitor the potential environmental impact of increased smallholder burley tobacco production associated with ASAP policy reforms during an initial period of three cropping seasons starting in late 1993. The EMP focusses on monitoring the effects of smallholder burley production on deforestation, soil erosion, and water quality, and is predicated upon the utilization of six line ministries to collect and analyze data within their particular mandates. DREA will act as overall coordinator of the effort.

The EMP includes intensive monitoring activities in five small catchments. Casual linkages between changes in land cover, soil erosion, sediment yield, water quality, and smallholder incomes will be carefully monitored in these catchments. The results will be verified and complimented by small research grants awarded on a competitive basis to national and international research institutions

Full development of the EMP has indicated a need to increase the level of effort required over that which was originally anticipated during ASAP Support Project design. The current design requires the procurement of long- and short-term technical assistance and commodities to support EMP implementation. Technical assistance will support line ministry data collection and analysis, and DREA's compilation and analysis of this information into reports for the GOM and donors. In addition, direct funding will be provided for critical DREA and line ministry personnel and operating expenses to ensure full implementation of the EMP. The Mission anticipates procuring both the technical assistance and commodities through buy-ins to the centrally-funded Systems Approach to Regional Income and Sustainable Resource Assistance (SARSA) Project.

(d) Studies/Implementation/Project Management

(1) Studies

The evaluation of ASAP recommended a re-alignment of studies required to support ASAP's themes and the implementation of specific policy reforms. USAID/Malawi therefore proposes the following re-alignment of studies:

### 1. Transportation Constraints to Marketing

This study will be in place of the originally planned private sector maize marketing study. It includes an analysis of the transport constraints for all commodities, including tobacco and maize. The study will examine issues related to the provision of transport as it affects marketing, including importation and licensing requirements; barriers to entry; capital and credit access; regulation of freight rates and tariffs; ownership and leasing patterns, and the availability and cost of maintenance.

### 2. Marketing Constraints for Traditional Agricultural Commodities

This will be a series of studies to examine the legislative, administrative and practical barriers to expanded private sector participation in smallholder crop marketing in Malawi. The commodities to be studied include, but are not necessarily limited, to the following: rice, beans, potatoes, edible oil seeds, vegetables, fruit, maize, tobacco, cotton, and macadamia.

### 3. Industry Outlook for Malawi Tobacco Exports

The purpose of this study is to examine the future prospects for Malawi's position in the world tobacco market for burley, dark-fired, oriental and flue-cured tobacco. This study will analyze demand prospects, examine Malawi's closest international competitors and compare the relative advantages and disadvantages of those countries with respect to production costs, labor costs, transportation, etc. The study will also attempt to estimate future demand and prices for Malawi tobacco, and identify the type of grower who will be able to profitably remain in business under several possible scenarios.

### 4. Women's Participation in Burley Clubs

As a general rule, women in Malawi tend to have certain disadvantages relative to men, and tend to be more conservative about new entitlements associated with financial risk. In spite of MOA efforts, women's participation in the smallholder burley program is less than expected. This study will concentrate on identifying constraints to women's participation, and recommending mechanisms for resolving them.

### 5. Market Demand Study

This study will utilize data from the 1993 National Household Budget Study to assess the basic parameters of demand by various income groups for a variety of processed and un-processed agricultural commodities. The study will also examine the effect on consumer behavior as a result of incremental changes in income, particularly with respect to diet preferences.

(ii) Project Management

Supervision of the six long-term cooperative agreements and buy-ins financed under the ASAP Support Project, in addition to managing the short-term contracts for policy studies, monitoring and evaluation, will require the continued services of a PSC project assistant manager to assist in implementation. The current project assistant manager position will be extended for an additional two years. The project will also provide support for the Mission's monitoring/evaluation advisor.

(e) Monitoring/Evaluation/Audit

This activity is being expanded to provide funding for an intensified effort to monitor the impact of the smallholder burley program on rural communities, food security, employment levels, rural purchasing power, and individual smallholder farmers. This additional effort will be financed through an amendment to the ASAP Food Security Activity cooperative agreement with HIID.

**III. REVISED COST ESTIMATES AND FINANCIAL PLAN**

The following two tables reflect a detailed budget for the additional US\$5 million authorized for ASAP Support Project activities and revised cost estimates with proposed methods of implementation and financing for the \$US15 million total amount.

**TABLE I**

<b>REVISED BUDGET - ADDITIONS</b>	
<b>(US\$)</b>	
<b>Agoforestry Extension</b>	<b>1,059,000</b>
Technical Assistance (WSU)	554,600
Commodities (WSU)	67,000
Training (WSU)	63,400
Operations (WSU)	93,400
Commodities (MOA)	96,100
Training (MOA)	88,000
Operations (MOA)	96,500
<b>Food Security</b>	<b>318,000</b>
Technical Assistance	(100,000)
MOA New Crop Estimates	177,600
MOA Agro-Economic Surveys	140,400
FEWS Buy-in	100,000
<b>Environmental Monitoring</b>	<b>797,000</b>
Technical Assistance	399,254
Commodities	258,817
DREA and Line Ministry Support	138,929
<b>Smallholder Organization</b>	<b>1,900,000</b>
Technical Assistance	1,050,000
Commodities	55,000
In-country Training	450,000
Operations	345,000
<b>Studies/Implementation/Management</b>	<b>790,000</b>
Policy Studies	400,000
Implementation	140,000
USAID Management	250,000
<b>Monitoring/Evaluation/Audit</b>	<b>236,000</b>
<b>Contingency</b>	<b>(100,000)</b>
<b>TOTAL</b>	<b>5,000,000</b>

TABLE II

## REVISED COST ESTIMATES AND IMPLEMENTATION/FINANCING PLAN

<u>Item</u>	<u>Implementation/Financing</u>	<u>Amount</u>
<b>Agricultural Policy Research Unit</b>		
TA/Commodities/Training	Cooperative Agreement (HBCU) / Letter of Credit	1,919,941
Construction/Operation	Cooperative Agreement (Bunda) / Cost Reimbursement	1,580,959
Vehicles	A.I.D. Direct Contract / Direct Payment	89,100
<b>Agroforestry Extension</b>		
TA/Commodities/Support	Cooperative Agreement (WSU) / Letter of Credit	1,897,389
Training/Operations	Ministry of Agriculture / Cost Reimbursement	516,511
Vehicles	A.I.D. Direct Contract / Direct Payment	221,100
<b>Food Security</b>		
TA/Commodities	Cooperative Agreement (HIID) / Letter of Credit	1,149,923
Crop Estimates	Ministry of Agriculture / Cost Reimbursement	359,619
Nutrition Surveys	Ministry of Agriculture / Cost Reimbursement	672,611
Agro-Economic Surveys	Ministry of Agriculture / Cost Reimbursement	140,476
FEWS	Buy-in to Central Project / Cost Reimbursement	104,221
Vehicles	A.I.D. Direct Contract / Direct Payment	18,150

**Environmental Monitoring**

TA/Commodities	Cooperative Agreement (Buy-in)/ Letter of Credit	915,062
Operations	DREA and and Line Ministries/ Cost Reimbursement	342,038
Vehicles	A.I.D. Direct Contract/ Direct Payment	42,900

**Smallholder Organization  
Development**

TA/Training/Commodities	Cooperative Agreement/ Letter of Credit	1,900,000
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**Studies/Implementation/  
Management**

Studies/Implementation	A.I.D. Direct Contract/ Direct Payment	1,744,000
USPSCs Project Mngt.	A.I.D. Direct Contract/ Direct Payment	506,000

**Monitoring/Evaluation  
Audit**

	A.I.D. Direct Contract/ Direct Payment	604,000
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Contingency		276,000
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<b>TOTAL</b>		<b>15,000,000</b>
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INITIAL ENVIRONMENTAL EXAMINATION

I. PROJECT DATA

Project Location : Malaŵi

Project Title and Number : Amendment of the  
Agricultural Sector  
Assistance Program  
(ASAP, 612-0235)

Recipient : Government of Malaŵi

Funding : US\$15 million

Life of Project : 7 years

IEE Prepared by : Benson Phiri  
Agricultural Economist  
USAID/Malaŵi

Environmental Actions Recommended : Categorical exclusion  
: Negative determination  
*Cynthia Rozell*

Approval : *Cynthia Rozell*  
: Cynthia Rozell  
Director  
USAID/Malaŵi  
Date *22 July 1993*

Date IEE Prepared : May 21, 1993

Clearances : John Gaudet, AFR/ARTS/FARA  
Washington DC (attached)

: Mary A. Kleinjan, GC/AFR  
Washington DC (attached)

*Samuel T. Scott*  
: Samuel T. Scott  
Deputy Director  
USAID/Malaŵi  
Date *26 July '93*

INITIAL ENVIRONMENTAL EXAMINATION

I. PROJECT DATA

Project Location: MALAWI

Project Title and Number: Amendment of the Agricultural Sector Assistance Program (ASAP 612-0235)

Recipient: Government of Malawi

Funding: \$15 million

Life of Project: 7 years

IEE Prepared by: Benson Phiri, USAID/Malawi

Environmental Actions Recommended:

Categorical exclusion     X      
Negative determination     X      
Positive determination             
Deferral                     
Date                   

Concurrence:

Bureau Environmental Officer  
John J. Gaudet

Approval:           ✓          

Disapprove:                     
Date: 7/2/93

Clearance: GC/AFRANK <sup>Frank</sup>                    Date: 7/1/93

## II. PROJECT GOAL AND PURPOSES

The purpose of Malaŵi's Agricultural Sector Assistance Program (ASAP) is to increase customary landholder (smallholder) access to agricultural inputs, output markets, cash crop production and alternatives, and labor market information. The ASAP Support Project provides funding for technical assistance, commodities, training, and operating expenses to support activities in the areas of policy research, agroforestry extension, food security, environmental monitoring and program implementation. By the end of the program, smallholder farmers will be free to grow and market an unrestricted variety of food and cash crops to produce sufficient food, or generate additional income to acquire sufficient food, to improve their general well-being. The ultimate aim is a liberalized agricultural economy in Malaŵi with equal access to the means of production, without barriers to market entry or other practices biased for or against any category of farmer.

## III. PROJECT PROBLEM

Although Malaŵi has one of Africa's strongest economic performance records, there are underlying structural weaknesses which tend to limit the distribution of economic benefits which have resulted from this success. While growth in Malaŵi's agricultural sector has been impressive, it has largely tended to benefit the estate owners at the expenses of the smallholders. For example, during the 1980s the real value of estate production grew by 5.2% compared to 0.4% for smallholder farmers. As a result, the benefits of its overall growth have not accrued to the overwhelming majority of Malaŵi's rural population. In an attempt to rectify these structural weaknesses, the Government of Malaŵi (GOM) and USAID have engaged in the US\$20 million Malaŵi Agricultural Sector Assistance Program (ASAP). ASAP is designed to support GOM implementation of policy reforms in the agricultural sector. The US\$10 million ASAP Support Project supports the implementation of specific activities within the policy reform agenda.

ASAP policy reforms permitted 8,000 registered smallholder burley producers to group together and market their tobacco directly on the auction floors for the first time in 1991-92. During the 1991-92 season 310 of these collective "Burley Marketing Clubs" marketed over 1 million kilograms of burley directly on the auction floors, receiving an average price of MK6.19/kg compared to the national average price of MK6.52/kg. The smallholder burley program expanded in 1992-93, with over 29,000 producers grouped into more than 1000 clubs registered to grow 7 million kg of burley.

The ASAP Mid-term Evaluation in early 1993 confirmed the overall success of the program to date in providing expanded economic opportunities for smallholder farmers, and recommended a series of actions for strengthening implementation of ASAP policy reforms. In response, the ASAP Support Project is being expanded to provide that additional support.

#### IV. PROJECT OUTLINE, STRATEGY, AND IMPACTS

##### Project Description:

The project assistance completion date for the ASAP Support Project will be extended by two years from September 30, 1996 to September 30, 1998 to continue implementation support. In addition, authorized life-of-project funding will be increased by US\$5 million to a new total of US\$15 million to provide support for the following new and expanded major project activities:

##### Smallholder Organization Strengthening

The success of the clubs to date in marketing their burley tobacco directly on the auction floors has been the primary engine driving implementation of the Smallholder Burley Program. However, the clubs are only loosely structured farmer groups. No legislative authority exists for the existence of the smallholder burley marketing clubs as currently organized, and they are in great need of leadership and management training. Club leaders are not well trained in the duties of their offices, nor in the overall functions of clubs, and club financial records are inadequate to meet objective standards of financial husbandry. The success of the smallholder burley program depends upon the long-term viability of the marketing clubs, which will require training in record-keeping and group organization to ensure their ability to provide needed service to their membership. This new project activity will finance a Cooperative Agreement with a U.S. institution experienced in small farmer organizational development for the provision of technical assistance and training resources to support implementation of the Smallholder Burley Program. Support will include training programs in club leadership and management, development of a standardized record-keeping system, and the organization and implementation of farmer training to promote adoption of the system. The activity will also support MOA monitoring of smallholder burley production, credit, marketing and organizational problems, and assisting in their resolution.

### Agroforestry Extension

The agroforestry extension activity will be expanded and more closely linked with smallholder burley efforts to identify and disseminate ecologically sound and cost-effective methods of integrating agroforestry techniques with burley tobacco production on smallholder farms. The integration of agroforestry techniques into smallholder burley production will help maintain/improve soil fertility, with reduced dependency on inorganic fertilizer inputs, reduce problems of erosion and water runoff associated with tobacco farming, and supply poles to reduce environmental damage caused by the increased demand for wood utilized in tobacco curing.

### Environmental Monitoring

The GOM has finalized an Environmental Monitoring Program (EMP) to monitor the potential environmental impact of increased smallholder burley tobacco production associated with ASAP policy reforms during an initial period of three cropping seasons starting in late 1993. The EMP will document the effect of smallholder burley production on deforestation, soil erosion, and water quality in five catchments by monitoring casual linkages between changes in land cover, soil erosion, sediment yield, water quality, and smallholder incomes. This activity will fully fund EMP implementation.

### Food Security Monitoring and Policy Development

This activity will be strengthened with additional funds to support implementation of the new crop estimates methodology (mainly training of extension field staff) and purchase of commodities for weighing produce. Studies/surveys, to be conducted by the Agro-Economic Surveys of MOA, will be supported. In addition to a Famine Early Warning System (FEWS) buy-in.

Additional funding for studies/implementation/management will be provided under the amendment. Most of the policy studies proposed will be undertaken by the soon-to-be established Bunda College Policy Research Unit. In addition the USPSC Project Manager position will be extended for another two years.

### Strategy:

The strategy employed under ASAP to achieve program objectives has been through a combination of policy and regulatory reforms, and direct project assistance. These policy and regulatory reforms, and projects have been designed to increase smallholder production and marketing of crops, improve the efficiency of agricultural input delivery, promote equity for estate laborers and tenants, and identify opportunities for agricultural diversification. The ASAP

Support Project component has been incorporated to complement, strengthen, and implement the policy reform package. These projects include studies that will be managed by the soon-to-be established Bunda College's Agricultural Policy Research Unit.

#### V. PROJECT ENVIRONMENTAL CONCERNS, MITIGATION AND MONITORING

##### Environmental concerns:

Potential negative environmental impacts of a general nature are to be expected over the long run, whenever large agricultural policy reform programs are put into effect. Some of these long-term impacts would be, for example, contamination of ground and surface water due to increased use of fertilizers and agro-chemicals in burley tobacco production. Lake Malaŵi could possibly be affected, since all rivers eventually drain into it. There is also the potential for bringing new land under cultivation, and reduced fallow periods as a result of burley tobacco production and/or expanded crop production. The resulting deforestation and continuous cultivation may lead to increased soil erosion, which would reduce soil fertility. Burley tobacco production also uses non-biodegradable plastic materials for roofing sheds, and from fertilizer bags and inner fertilizer bag lining.

Many of these long-term impacts can be mitigated by introducing proper agricultural practices following a rigorous monitoring and evaluation program. The idea being to prevent the problems arising by detecting any impacts early on, then ensuring that farmers change their practices well in advance of any impact. One example of good agricultural practice is the agroforestry extension activity which is promoted under the original ASAP Support Project. Other good practices are: the use of inorganic nitrogen fertilizers; soil conservation by use of soil loss technologies designed to address soil erosion; and replanting and planting of new trees. Also appropriate grasses can be identified and developed for shed roofing material in the agroforestry interventions. When multiplied and used at levels commensurate with demand, there will be reduced reliance on use of plastics for roofing tobacco curing sheds.

It should be pointed out that the environmental monitoring activity has been specifically designed to evaluate the environmental impact of policy reforms carried out under ASAP. Analysis and use of the data collected will increase opportunities for mitigation and within-project changes.

It is therefore expected that the ASAP Amendment will not have significantly adverse impacts on the environment, however in order to ensure the long-term sustainability of the program, the following specific recommendations will be made to GOM by project staff:

- \* Explore the possibility of utilizing more durable plastic for roofing that would last more than one year, ie five years;
- \* Determine alternatives to wood poles, ie bamboo, metal poles, bricks, etc;
- \* Investigate the increased use of house verandas for leaf curing to reduce the need for poles, grass, and plastic as well as labor for shed construction;
- \* Investigate/find, and multiply grass types that do not easily allow water to pass through;
- \* Explore the possibility of recycling plastic from fertilizer bags and plastic lining and plastic used on the curing shed;
- \* Test Lake Malawi water quality as more results are obtained from environmental monitoring;
- \* Farmer training should incorporate the use of the 'A' frame for ridge alignment and other land husbandry techniques to smallholder burley tobacco producers; and
- \* Encourage farmers to follow the recommended (4 year) rotation pattern.

#### Mitigation:

The ASAP Support Project includes an environmental monitoring activity to support the initial establishment and operation of a full environmental monitoring unit in the GOM's 1991-established, by Presidential Decree, Department of Research and Environmental Affairs. The overall purpose of the unit is to monitor all on-going and proposed development projects and their environmental impacts. Specifically, support is provided to implement the GOM Environmental Monitoring Program to measure the impact of increased smallholder burley production associated with ASAP policy reforms.

Under ASAP, a pilot agroforestry extension project will also be undertaken to extend research-proven agroforestry technologies to smallholder farmers. Those growing burley tobacco will be particularly encouraged to adopt these technologies. It is anticipated that the project will enhance farmers' economic well-being by improving food production efficiency; and enhance the sustainability of agricultural systems, reduce natural resource degradation and ameliorate adverse environmental effects.

As part of the burley tobacco program, farmers are advised to follow a four year rotation in order to control pests and diseases as well as to improve soil fertility. This is an example of integrated pest management (IPM) that should be covered during training.

**Monitoring and critical indicators:**

The following indicators will be monitored by the GOM: water pollution levels; rate of deforestation; rate of soil erosion; and amounts and types of fertilizers applied on a national and regional basis. The rate of adoption of agroforestry technologies by area of project choice should also be monitored.

Amount and types of agro-chemicals used will also be monitored after defining the baseline data. Banned and restricted pesticides will be prohibited from being used under the ASAP Support Project. Amount and types of fertilizers used will also be monitored after identifying the base line data.

**VI. RECOMMENDED ENVIRONMENTAL ACTIONS**

Proposed negative environmental determination for the smallholder burley program (22 CFR 216.3 (2) (iii)) provided that the recommendations provided herein are complied with. Based on 22 CFR 216.2 (C) (2) (i) a proposed categorical exclusion is recommended for technical assistance for food security, smallholder organization and agroforestry extension activities.

A categorical exclusion is recommended for staff and farmer training for burley tobacco production, agroforestry extension, and new crop estimates methodology (22 CFR 216.2 (C) (2) (i)).

Research into agroforestry techniques not presently available is also proposed for categorical exclusion (22 CFR 216.2 (C) (2) (ii)).

A categorical exclusion is recommended for studies/monitoring by the Bunda College Policy Research Unit, USAID/Malaŵi, and HIID (22 CFR 216.2 (C) (2) (iii)).

A categorical exclusion is recommended for the purchase of commodities proposed under the Food Security Monitoring and Policy Development and Environmental Monitoring (22 CFR.2 (C) (2) (i)).

Approved: Cynthia Flozue

Disapproved: \_\_\_\_\_

Date: July 23, 1993

Clearance: AFS:Kurt Rockeman KR Date: 7/26/93

PID:William Brands WR Date: 7/20/93