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**MID-TERM EVALUATION  
OF THE  
AGRICULTURAL SECTOR  
ASSISTANCE PROGRAM (ASAP)**

Prepared by:

Joe Carvalho, REDSO/ESA/ANR  
David Gordon, Abt Associates  
David Hirschmann, American University  
David Martella, REDSO/ESA/ANR  
Emmy Simmons, REDSO/ESA/APD

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## **Executive Summary**

### **I. Introduction**

Implementation of the closely-related ASAC and ASAP programs in the course of the three cropping seasons of the 1990s has transformed the outlook for many farmers in Malawi. The total number of smallholder farmers involved in this program is still relatively small (some 29,000 out of 1.8 million rural households, with about 12.5 percent of the participants women farmers). Their estimated total production is but a fraction of the total burley output of the country (7.5 million kg out of a projected 120 million kg in 1992/93).

But for the first time in independent Malawi, at least some members of the majority of the population have been given access to the cash crop opportunities formerly restricted to the privileged few. The basis for a true transformation in Malawi's agricultural economy has been laid. That this transformation will actually be achieved is still far from clear. Nevertheless, the first step has been taken, there is widespread commitment to continuing down this path, and there are significant benefits to be achieved.

This evaluation was conducted to assess the effects of USAID's Agricultural Sector Assistance Program (ASAP) to date (i.e., Phase I) and to suggest next steps which the Mission might take in moving toward the envisioned Phase II of the six-year Program.

Since September, 1991, USAID has provided \$4 million in nonproject assistance (NPA) support and just under \$3 million in project assistance to the Government of Malawi (GOM) under ASAP's first phase. A second tranche of NPA assistance, of \$6 million, is planned for release by April or May, 1992. Each of the NPA disbursements has followed Government's completion of agreed-upon policy and institutional reforms laid out in the Program Agreement. A third tranche of \$10 million is as yet unscheduled but likely to happen by the end of calendar year 1993. The disbursement of this tranche will complete Phase I. This evaluation was principally concerned with the nonproject assistance and its effectiveness.

### **II. The Smallholder Burley Program**

The initial focus of the ASAP has been the smallholder burley program. It was asserted in the design that "once opportunity is felt through Malawi's most lucrative crop,

application to other agricultural activities is expected."<sup>1</sup> While, as will be considered in the next section, there is some question as to whether this assertion on the demonstration effect is justified, there is no question at all that burley is indeed "Malawi's most lucrative crop."

It is lucrative to the nation. Burley exports accounted for 60 percent of all tobacco exports and about 45 percent of total commodity exports in 1990.<sup>2</sup> 43,500 metric tons of processed burley accounted for some \$143 million dollars in foreign exchange in that year. The tobacco production, marketing, and processing sectors (in which burley is the single most important kind of tobacco) employed almost 700,000 people in Malawi in 1990/91. By the estimate of the Tobacco Association of Malawi (TAMA), more than four million people, or just under half of Malawi's current population of nine to ten million, are "fed, housed, clothed and otherwise sustained by the tobacco industry."<sup>3</sup>

Burley is particularly lucrative to the grower. There is no other crop which returns as much revenue per hectare.<sup>4</sup> In 1990 prices, the production of 1,350 kilograms (kg) of burley per hectare was estimated to result in a gross margin of 4,598 kwacha per hectare (or approximately 3.65 kwacha per day for the 1,260 days of labor invested). The production of 3,600 kilograms of hybrid maize was expected to yield a gross margin of 422 kwacha per hectare, or a return of 2.59 kwacha per day for an expenditure of 163 days of labor. Groundnuts were estimated to yield better returns than maize in terms of labor use (2.88 kwacha/day cf. 2.59 kwacha/day) but groundnut production is highly unfavorable in terms of use of land. The gross margin from 1,200 kg of groundnuts was only 473 kwacha per hectare, or only 13 percent of the return to burley.

Permitting smallholders to grow burley and to market it through the auction system has, therefore, provided smallholders an enormous economic opportunity. To judge by the discussions that we held with smallholder burley clubs throughout the country, smallholders are not only aware of the magnitude of this opportunity but they

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<sup>1</sup> Scope of work for this evaluation prepared by USAID/Lilongwe.

<sup>2</sup> IMF Statistical Annex to the Staff Report on the 1992 Article IV consultation. January 14, 1993. pp. 26 and 27.

<sup>3</sup> Central and Southern Africa Region of the International Tobacco Growers' Association The Economic Significance of Tobacco Growing in Central and Southern Africa. n.d. (1992) It should also be noted that Malawi is the world's second largest exporter of burley -- second only to the U.S.

<sup>4</sup> The numbers cited here are taken from Fitch and Carvalho, 1991.

are determined to take advantage of it to better their lives.

Smallholders have proven their capability to produce a good quality product. The burley which ADMARC marketed on behalf of smallholders in 1990/91 sold for an average price of 7.29 kwacha per kg; this compared favorably with the average auction floor price for the year -- 6.87 kwacha per kg. In 1991/92, smallholders who marketed through the auction floors received an average price of 6.19 kwacha, compared to an overall auction floor average price of 6.52 kwacha per kg. While this would seem to indicate an overall slip in quality, evidence seems to point to delivery rather than production problems as the explanatory factor.

Rough estimates indicate that total gross revenue going to smallholder burley producers in 1990/91 was around 6.4 million kwacha.<sup>5</sup> This implies net returns to individual farmers in the neighborhood of 500 to 600 kwacha for an average quota of 300 kg. This compares to an annual income of about 500 kwacha for full-time wage labor, estimated at the minimum rural wage rate of 2.09 kwacha/day. In 1991/92, smallholder farmers made out much better. Sales through all channels add up to estimated total gross smallholder returns of 11.4 million kwacha. This implies average returns of about 1000 kwacha per 300 kg quota.

When smallholders were asked what they were spending their earnings on, they replied with the basics: housing, food, clothing, school fees, bicycles, agricultural inputs, and animals. As might be expected, the desire for even greater returns has led to a certain amount of "cheating" to secure quota and to a growing vociferousness in smallholders' demands for support services from the Ministry of Agriculture as well as more quota. It has also raised concerns for the Program's equitability within the smallholder sector.

While smallholder production was below the allotted quota in 1990/91 and 1991/92, the good weather conditions of 1992/93 combined with the enthusiasm of smallholders who realized good profits by marketing through the auction floors in 1992 now threaten to result in a smallholder crop in 1992/93 which exceeds the quota. If the prices received in 1993 are encouraging, there is likely to be substantially increased demand for smallholder quota in 1993/94 and the Government of Malawi will find itself hard-pressed to stick to the 8.5 million kg in the ASAP agreement for 1993/94.

#### A. Findings

Among the evaluation team's more specific findings with regard to the

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<sup>5</sup> See Annex E Table 8 for these calculations.

smallholder program itself are several regarding the quota allocation process:

- ◆ There is a growing sense of competition between smallholders and estates. This needs to be recognized and explicitly addressed by Government leadership, especially in the event of a bumper harvest in 1992/93. This could lead to lower prices and to some estate-grower backlash against the smallholder program. The discussion must, however, be refocussed on the more fundamental underlying issues of quota allocation and the expectation that a protected market can be extended, even to inefficient producers, indefinitely. The MOA has in recent years allocated quota in excess of industry targets. This is now being corrected in an effort to assure that prices and quality are maintained. As quota allocations for 1993/94 get underway, however, it will be important to take another, hard look at the economic outcomes of alternative approaches to quota allocation and to make the choice less on history and more on performance.
- ◆ The Ministry of Agriculture's system for allocating burley quotas to smallholders needs to be adapted to reflect: (1) growing interest among smallholders in burley production, to the point that the problem is no longer finding enough interested smallholders but rationing quota among an increased number of applicants; (2) the fact that criteria and methods for targetting quota to selected groups of smallholders have not worked as well as hoped; and (3) more effective use of an improved management information system.
- ◆ The regional Agricultural Development Districts (ADDs) need additional support to assume the responsibilities of burley quota allocation to both smallholders and estates. Data collection and management functions will need to be strengthened and additional staff assigned to carry out data verification activities. Ministry of Agriculture criteria regarding individuals' eligibility for quota as well as policy regarding total quota establishment need to be clarified.

Resolution of burley marketing problems has been and will be important to the sustainability and expansion of the smallholder burley program success to date. The organization and functioning of the burley clubs must be an important concern in this regard. Other marketing issues will require action by the estates and by an entrepreneurial transport sector.

- ◆ The decision to allow smallholders to market their burley through the auction floors has been the key element in making the smallholder burley program as successful as it has been. Not only has it resulted in higher prices (on average) but it has increased farmers' awareness of quality premia and the competitive nature of the burley market. Such access must continue to be assured and support provided by the extension service to enable clubs to take full advantage of

the auction floor process.

- ◆ The recommendations of the ACIDI team<sup>6</sup> with regard to strengthening of burley club administration would go a long way to improving the club's abilities to ensure input supply and credit management (and, at the same time, reducing the extension service burden) as well as marketing on the auction floors.
- ◆ Figuring out how to allow estate owners to play a supportive role in marketing of smallholder burley, especially in areas ill-served by transporters, would provide an additional boost if the transparency of the auction floor pricing can be maintained.
- ◆ The transport constraint is real. Even if the Auction Holdings management and TCC manage to work out a delivery quota schedule which eases congestion at the receiving areas, smallholders are likely to continue to experience high costs and inadequate service until the transport sector is better developed. More attention should be directed to increasing incentives for greater investment and competition in this area, particularly for domestic haulage. The proposal to expand the number of Auction Holding satellite receiving stations also deserves serious consideration as a way of easing the transport constraints.

The Government of Malawi's performance in implementation of the smallholder program has generally been good:

- ◆ The MOA/SACA extension agents charged with credit and marketing functions have played a principal role at the farmer contact level. MOA staff up and down the line have been involved in trying to get the right supplies to the right places at the right time -- and to collect the money when the crop is sold. The MOA's Smallholder Agricultural Credit Administration (SACA) and ADMARC have worked together to manage the supply system and it has performed reasonably well so far.
- ◆ There is, however, some concern that as the Rural Finance Company (RFC) is phased in over the next year or so<sup>7</sup>, there will be new, unforeseen glitches in the administration of the program which could affect smallholders. SACA staff have always been an integral part of the MOA structure; once outside, communication

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<sup>6</sup> Crane, Don and Gavin Olney Smallholder Burley Clubs' Organizational and Training Needs Assessment. Agricultural Cooperative Development International (ACDI): December, 1992.

<sup>7</sup> Discussed further in Section III below.

difficulties, for example, are likely to surface. Some operational and contingency planning involving both USAID and the World Bank as well as the Ministry of Agriculture should get underway as soon as the RFC agreement is signed.

- ◆ The MOA may now be facing the problem of an overburdened and strained extension service. Many FAs have too many farmers scattered too widely to do an adequate job both on burley and on everything else.
- ◆ Transport is a perennial problem and affects the abilities of the regional field staff to do their jobs adequately.
- ◆ And those in Liwonde and Blantyre regions may soon be called upon to redouble their efforts to implement a burley-maize extension initiative funded by IFAD. A close eye on the development and implementation of this project with regard to the burden it may place on the extension services is mandatory.
- ◆ Continued support for efforts to make relevant information on a whole range of issues relating to burley production and marketing more available to a wider group of people is clearly needed.

#### B. Conclusions

The ASAP has already begun to contribute in a measurable way to the achievement of the purpose and goal set out in the PAAD.<sup>8</sup> By increasing smallholder access to the output market for a single agricultural commodity, burley tobacco, smallholder incomes were raised by some 10 million kwacha from 1990/91 and 1991/92 marketing. Additional incomes realized by the smallholder sector from burley production and sales in 1992/93 could be as much as 10 to 12 million kwacha. So far, the effect of this income boost has been restricted to a very small segment of the smallholder sector.

Nevertheless, the smallholder experience in burley production has clearly begun a process of agricultural change which offers some prospects for achieving the Program purpose and goal on a broader basis. It has brought a significant, if small, number of farm households into the cash economy; it is providing important experiences in competitive marketing.

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<sup>8</sup> The ASAP purpose is: To increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information. The goal is: To increase agricultural productivity, employment, and income.

The burley smallholder program is, in our view, not reversible at this point. Continuation of the annual increases in smallholder quota allocation in line with ASAC/ASAP agreements promises further progress in increasing food security and reducing the inequitable dualism in the Malawian economy. But the burley experience has raised a host of new questions and tough challenges which the Government of Malawi must face. Among those we find most critical:

- ◆ **Quota concerns:** Can the national quota be brought back under control? Should it be brought under control? What is (should be) the position of Malawi in the world tobacco market? How much economic power are the estates willing to allow to be shifted to the smallholder sector? Can the cap on the smallholder burley quota allocation be maintained in the current political environment?
- ◆ **MOA priorities and time:** Can the Government entities involved in the burley program, particularly the various field levels of the MOA, assume new responsibilities for serving smallholder burley growers and yet devote adequate attention to the production of other food and cash crops? Is it realistic for MOA support to the input delivery/credit system to be scaled back as SACA moves into the Rural Finance Company?
- ◆ **Information:** Can the information flow be improved to sustain and improve the efficiency of the burley sector as a source of national and individual economic growth even if quota allocation authority is decentralized to the ADDs? Should concrete information on various criteria be used to drive the smallholder selection process or should self-selection be allowed to play a major role?
- ◆ **Tenants:** How will or can the tenancy system respond to the clear challenge posed by expanded, successful smallholder burley production? Will estate owners take the lead in restructuring the tenant system in a way which recognizes the new choices that smallholders have?
- ◆ **Diversification:** Can/should the smallholder burley phenomenon lead to the development of a new national export strategy in which other tobaccos are given more explicit emphasis and/or markets for other crops suited to smallholder production are encouraged and developed?

### III. Beyond Burley?

Extending the reach of the ASAP to increase smallholder access to crop production alternatives and output markets beyond burley will not be easy. Even a superficial examination of the Malawian economy shows that no other agricultural or industrial sector possesses all the characteristics associated with the success of the burley sector:

- ◆ excellent producer price incentives for crops which have flexible production requirements well-suited to Malawi's physical resource base;
- ◆ a strong market demand, backed by international financing, with local market access managed and maintained by a profit-oriented marketing organization; and
- ◆ a well-articulated, effective organizational structure to both lead and support the sector as a whole.

Yet one can readily construct a story of how the economic opportunity of the smallholder burley program might translate into more broad-based, sustainable agricultural growth in Malawi. Here's how that transformation of Malawian agriculture might develop:

*The government recognizes that the costs to the economy of the operational principle of maximizing estate profits have become overwhelming and intolerable. The government is particularly concerned to diminish the economy's overwhelming dependence on burley and to promote a two-pronged strategy of export- and domestic demand-led diversification into other crops and agriculturally-based industries.*

*First, the government decides to address the domination of burley in economic choices by moving in an orderly way to lower individual producers' returns to burley through increasing the burley production target, primarily by accelerating the expansion of the smallholder burley program. The assumption is that expanded burley production will force Malawian exporters to develop customers who will only be willing to buy at lower prices. The lowered returns to burley will then begin to weed out inefficient producers (probably those in highly leveraged and/or relatively new estates), who will find it in their interests to look elsewhere for economic opportunities. For individual smallholders in the burley program, the returns also diminish, but the coverage of the program is expanded, so the total cash inflow into the poor communities farming the customary land is substantially increased.*

*Expanding the production target thus creates the space for reestablishing the effectiveness of the control mechanisms over production through a politically-sustainable*

*rationalization of the quota allocation process, focusing on the themes of efficiency, transparency and equity. An aggressive public education campaign is mounted to explain why the quota is needed and exactly how it works. This ensures that prices and quality do not collapse and make everyone worse off.*

*Second, the government decides to provide incentives for diversification of both export- and domestic-market oriented production and, especially, "market creation" efforts. Those inefficient burley producers who are looking for other opportunities are likely to be those who would benefit from export-related incentives (which could range from monetary incentives, such as foreign exchange retention accounts or export bonuses, to the provision of support services, such as assistance from EEST in the production and marketing of other crops or an expanded foreign market information service).*

*Smallholders are able to utilize the cash income from burley to purchase sufficient fertilizer to expand their yields from hybrid maize beyond household consumption levels which, in turn, provides additional cash incomes. Alternatively, smallholders increase their maize production by using hybrid varieties but limit the amount of land planted to such varieties to that amount needed to assure household food supplies. The "released land" is then planted in other cash and food crops which improve the overall standard of living either indirectly (as income) or directly (through consumption of the production). The goods and services which they purchase from others increases income-earning opportunities off the farm.*

*Thus, the increased purchasing power in the hands of customary landholders has several positive effects on other segments of the population as well. First, it puts upward pressure on both tenant prices and on wage levels in the estate sector; second, it provides a market for a wide range of simple consumer goods and incentives for expanding the transportation sector and the marketing nexus serving the rural economy; and, third, it increases the employment opportunities within villages farming the customary lands by providing a context for micro-enterprise expansion.*

The scenario just described suggests perhaps the most "natural" way for the Malawian economy to go "beyond burley", that is, using the incomes generated by expanded production of burley to stimulate the growth in production of other goods and services. Even this scenario, however, implies that the Government of Malawi and its donor-partners, such as USAID, will need to promote the diversification of the economy more effectively than has been the case in the past.

Among the most critical assumption in the scenario is that farmers will be able to market their produce. Yet one of the more striking features in the Malawian economy is the relatively undeveloped market structures for all crops other than tobacco. Without a means to get the crop to markets, either domestic or export, and without a steady purchasing clientele, producers will not be able to turn their production capacity

into incomes. Thus, if Malawi is to diversify its agricultural production to supplement the income generated by burley tobacco, the initial thrust should be directed in opening up and/or expanding the formal and informal rural market system.

A. Findings

In summary, our consultations:

- ◆ confirmed the conclusion of the Food Studies Group in its "Study of the Impact of the Liberalization of Smallholder Agricultural Produce Marketing" with regard to maize: "...the role played by private trading has remained limited in a number of respects. First, in many areas (the exception being in densely populated areas of the South) the main trading activity is bulking up maize for delivery to ADMARC depots which offer the depot delivery premium...Second, private trading remains insignificant in the North of the country and in areas of thin population and limited transport facilities. Third, traders do not generally play a significant role in either seasonal storage activities or in supplying rural households who are purchases of maize...ADMARC still dominates the market for maize."<sup>9</sup> It was our impression that this conclusion could be extended to virtually all commercializable food crops;
- ◆ suggested that trader licensing procedures at the ADD are cumbersome at best and completely inhibiting to development of a competitive market at worst. The revision of the procedures currently under consideration by the MOA is a commendable move in the right direction, but may not be adequate;
- ◆ indicated that demand for food crops which could be processed for local consumption is soft. In part this is due to Malawians' relative low purchasing capacity (the most popular size packet for cooking oil is a 50 gram sachet costing 59 tambala). In part it is due to the fact that input for common processed food products (e.g., cooking oil) can be imported more cheaply than it can currently be purchased in Malawi. Crude soybean oil from Argentina is reportedly less expensive than sunflower or groundnut oil produced from Malawian raw materials. This accounts for processing firms being less interested and aggressive in developing local suppliers than they might be expected to be;
- ◆ underscored an unfamiliarity in Malawi with the process of "making a market." The ADMARC habit is well-ingrained. ADMARC buys what it has funds to buy at prices the GOM establishes (on an abstract analytical basis) in places where it is mandated to buy (including places where it loses money and its costs are

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<sup>9</sup> Food Studies Group. op cit., p. 6.

covered on the grounds of its playing a "social function"). The Food Studies Group gives some case studies of private individuals in the "liberalized" market actually trying to arbitrate between producers' and consumers' interests but the only commodity in which this seemed to be occurring on a significant scale was potatoes;<sup>10</sup> and

- ♦ indicated that a private-sector organization might be better-placed than those which are wholly public to serve as a point for innovation. The Estate Extension Services Trust, for example, offers some interesting advantages in mobilizing the resources and initiatives of small estates. EEST is already focussing its efforts on estates where fluctuations in tobacco prices are anticipated to have the most impact on current incomes. Many of these estates were established -- and many got bank financing -- on the basis of projected tobacco incomes. If tobacco prices were to fall, many of these estates would find themselves in almost immediate financial crisis. While other crop options would become more attractive compared to tobacco, estates capacity to undertake the new investment to switch production might be limited.

xi. Conclusions

Reaping full advantage of the burley initiative, therefore, will require the development of product markets and marketing organizations outside of the tobacco sector. Such development could be spontaneous -- in response to people with increased incomes from burley production seeking to purchase expanded volumes of goods and services and other people responding to supply them. It is our conclusion, however, that spontaneous development is too much to hope for. Rather, we argue, it will take deliberate action on both the part of Government and the private sector to bring it about.

Any incipient private sector trader is likely, at first glance, to be hampered in attempts to supply inputs, market outputs and provide transportation services to the agricultural sector by five major factors:

- ♦ ADMARC's presence. While, in theory, a more competitive agency these days<sup>11</sup>, ADMARC has several advantages in maintaining an effective system of panterritorial, panseasonal pricing in marketing both inputs and outputs in such a

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<sup>10</sup> Food Studies Group case studies. See Scarborough and Kaluwa.

<sup>11</sup> World Bank. The Agricultural Sector Adjustment Credit paper discusses the various reforms which ADMARC is to make to become a more commercially-oriented entity.

way as to undercut any risk-taking entrepreneurship by private sector traders. As a government institution, ADMARC has better communications with the MOA than anyone else could possibly have. ADMARC also has an almost automatic financial "overdraft" authority when dealing in any food crops or engaging in any activities which affect the food supply of the nation. ADMARC's "social function" can be readily invoked to justify non-competitive behavior and the GOM is obliged to cover the organization's financial losses. Conversely, private traders, especially new ones, have to get their market information on their own (price reporting is limited and late), are considered by all banks to be high credit risks and are unlikely to get credit, and must be able to operate at a profit if they are to stay in business.

- ◆ The poverty of domestic customers. Without either a credit facility tie-in or a solid, complementary export market, private traders of agricultural inputs, outputs, and other services will have a hard time developing a smallholder clientele which is large enough and cash-rich enough to be able to support an enterprise of any size.
- ◆ The generally restrictive nature of the regulatory framework for private trading activities also appears to be a major constraint for the private sector to increase activities. An entrepreneur wishing to trade in a particular commodity in several ADDs, for example, must apply for separate licenses in each ADD, paying a fee in each one. There are also, apparently, regulatory restrictions on the use of transport for the movement of produce.
- ◆ Even outside of ADMARC and the general regulatory framework, the GOM has a history of intervening in markets -- banning exports of beans in 1989, for example -- which makes entrepreneurial behavior more risky.
- ◆ Transport availability, especially for small traders interested in conveying small quantities, is inadequate. The Food Studies Group noted two small potato traders in a rural market trying to arrange transport for five days after their purchases were complete. It may also be that there is a crowding-out phenomenon at work here -- with burley transport as one culprit and the phenomenal returns to long-distance haulage another. While to the casual observer (such as our team) it would appear evident that there is a lack of small-truck (e.g., up to 3 tons) capacity to serve rural communities on a regular and flexible basis, truckers consulted evinced little or no interest in pursuing such transport operations. Burley, it was noted, is light for its bulk. This means that big trucks, preferably contracted for a season to a large estate, are more cost-effective than smaller ones. Long-distance trucking profits in the range of 50 percent also make that trader, dominated by large trucks in continuous operation to the ports of Durban

and Dar, more attractive than a rural pick-up truck-based operation.

In general, it is our conclusion that the investment climate which could lead to expanded private initiative and investment in market development remains poor. This is in spite of efforts to liberalize produce marketing and to provide incentives to domestic and foreign investors (the Banking Act of 1989, Capital Market Development 1990, Investment Promotion Act of 1991). While these may have been important and necessary steps toward market liberalization, review of the impact on the ground indicates that they may not be sufficient and further steps are needed.

## VI. Recommendations

The dozen recommendations of the evaluation team fall generally into two categories. We have roughly prioritized the recommendations within each category.

- ◆ Actions which can/should be taken **immediately** to strengthen implementation of the smallholder burley program, either within the context of the current ASAP project or in a Project Amendment to be designed in April-May; and
- ◆ Actions which should be considered **between now and the design of Phase II**, some of which will probably require substantial study involving potential implementors.

In addition, we append some suggestions for studies not mentioned in the PAAD.

### A. Immediate Actions to Strengthen the Smallholder Burley Program

#### 1. **Move forward with all speed on means to strengthen smallholder burley clubs**

Since club membership is the route by which smallholders gain access both to individual quotas and to the auction floors, burley club functioning is of critical importance to the improvement and sustainability of the smallholder burley program. The ACDI report by Crane and Olney proposes a number of areas in which club skills need to be better developed. We concur in these proposals; clubs need to be better administered if the smallholder burley program is to be sustainable.

Provision of both local currency and technical assistance to the MOA to enable it to provide more training courses for burley club members and more one-on-one

support to individual clubs would be a sound investment at this time. Burley groups who have managed to get enough information and to work together well enough to market their burley on the auction floors have clearly benefitted from their club activities. The evidence seems to indicate that the more knowledgeable clubs are about issues such as tobacco grading, financial management, and, in general, the production and marketing of high-quality tobacco, the more sustainable will be the success of the smallholder program to date. Increased group cohesion (based upon good club management and a perception that all members are being treated fairly) will also go a long way in ensuring that the transition from an MOA-based tied credit/input delivery system to a delinked credit and input supply program situation goes smoothly.

We also recommend, however, that means for including more women in the clubs should also be worked out as soon as possible in order to ensure greater equity in the smallholder burley program. Suggestions which could be considered include: establishment of women only clubs with all or part of the incremental quota for 1993/94; cooperating more closely with the Women's Program Office in the MOA; setting targets for all or for individual ADDs; including women's membership as one of the criteria of a good club; and allowing established clubs to increase their burley quota in proportion to the number of new women members they accept. It is important that, as part of this effort, the intended definition for "women participants" be clarified. It should be possible to develop more detailed guidance for the application of this definition. A principle of prioritization rather than exclusion should be applied.

**2. Strengthen the ADD Tobacco Management Information System**

The ADDs have already gone some distance in implementing management information systems to monitor the smallholder burley program and the importance of these initial efforts must be recognized. Strengthening, however, needs to take place along three dimensions: more systematic reporting of quota allocation, production monitoring, and progress in sales; more timely centralization of information to permit program managers in headquarters to have a bird's eye view of the situation as the season progresses; and increased definitional clarity, particularly with regard to target groups. In preparation for the decentralization of the quota allocation process to the ADDs (see below), it would also be useful for ADD Information Systems on Smallholders to be expanded to include similar information on estates by EPA and RDP.

**3. Link the agroforestry component of ASAP more closely to the smallholder burley**

**efforts**

Since there can be serious long-term environmental consequences from growing tobacco without using proper rotational and soil management techniques, it would be beneficial to focus agroforestry extension activities on the smallholder burley growers. Since the ASAP Project already supports an agroforestry initiative, acting on this recommendation should be relatively straightforward. The agroforestry program would be able to benefit from having the club organizational structure to work with and could reinforce the cohesion and cooperative work habits of the clubs as well to the extent that agroforestry activities would affect more than one farmer. The high profits associated with burley tobacco should also enable farmers to participate in agroforestry practices which may take a few seasons to produce a payoff. The agroforestry advisor felt he could have a package to begin testing with selected burley clubs by the 1993/94 growing season. This should be encouraged.

**4. Facilitate the decentralization of the quota allocation system**

Given the current state of the quota determination and quota allocation system, the ADDs will be put under tremendous pressure by various local interest groups and politically powerful individuals unless an approach to region-based allocation of quotas is carefully worked out. In our view, facilitation of this decentralization process will require at least five things:

- Public education on the concept of the quota;
- Clear policy guidance on the overall level of the quota from the Ministry of Agriculture, with explicit concurrence from the industry, particularly TAMA and TCC;
- A clear and timely system in the MOA to inform the ADDs of the ADD-level quota, with transparent criteria established to determine the appropriate ADD quota;
- A transparent information system including production and marketing performance data for estates as well as smallholders (This should be linked with the Management Information System strengthening in recommendation 2.); and
- A process of regular consultation among ADDs and between ADDs, the MOA, TAMA, TCC, AH, and TEAM.

The ASAP project could provide support for both studies and workshops to accomplish these.

**5. Carry out the study regarding licensing of estates (or other entities) to market *SH***

**tobacco above-(or without-)production-quota**

This study is noted in the policy matrix for ASAP as being a condition precedent for tranche 3. This study of "alternative marketing channels for smallholder producers" must not focus simply on how to control such marketing (e.g., the use of smallholder coupons, pre-registering or post-reporting). Rather, the scope of work has to require the analysts to consider the extent to which there could be economies of scale from such licensing, what the impact on the quota delivery system is likely to be, how smallholders could be assured of maximum prices, etc.

**6. Support the strengthening of EEST capabilities with regard to diversification efforts.**

The Estate Extension Service Trust is a trusteeship established in November, 1990, to provide extension service to freehold and leasehold farms (estates). Their major thrusts are afforestation, livestock, diversification and increasing tobacco productivity. They presently operate on an annual budget of 4.5 million kwacha largely made up from the cess at the auction floors (0.33% of gross returns).

All the estates the review team visited (large and small) stated that they do have regular contact from EEST. They said that they often have field demonstrations on an estate in the area to which they are invited. The estate owners felt that they have received some valuable information regarding technical information on growing tobacco. In addition, they have been told by EEST field agents that they need to think about growing other cash crops. A couple of the estates stated that they were doing some experiments with alternative crops in conjunction with EEST.

Given the difficulties that the team foresees in going "beyond burley" and the initiative which the EEST has already shown in this area, some support might be given to EEST to expand their efforts in these areas. The estates, particularly the larger estates, are best suited in terms of technical skill and knowledge as well as investment/risk management potential to pioneer export crop diversification and the chance that EEST can help them to do so is a chance that should be taken.

**B. Moving toward a Phase II ASAP**

**1. Clarify the "transport bottleneck" both for burley marketing and for the expansion of other agricultural commodity markets**

Rather than carrying out the study of "Private Sector Maize Marketing" identified in the policy matrix as part of tranche 2, we recommend that a new study of the transport constraints to market development and operation be designed and implemented as soon as possible. The emphasis should be on domestic haulage, particularly for perishables and relatively small volumes. This recommendation is consistent with a concern expressed in the recent evaluation of the Commercial Transport Project: "The MCTP [Malawi Commercial Transport Project] has successfully addressed the need for indigenous Malawian international haulage industry, in particular for petroleum products. However, in the process, it improved the position of international haulers vis-a-vis domestic transporters (lower fuel costs, subsidized capital, secured business, etc.). The MCTP made international transport more profitable than domestic, and in the process might have diverted local capital from the domestic market. It seems that the next step is to address the domestic trucking industry, which is still very backward."<sup>12</sup>

The scope of work should address, at a minimum: regulations having to do with the import and licensing of vehicles for transport of goods and whether these provide any real barriers to entry; the capital situation, including possible expansion of the leasing business; regulations regarding freight rates and tariffs and their impact on freight hauling patterns and costs; current patterns of transport and costs; ownership/leasing patterns; the extent to which tobacco haulage crowds out haulage for other commodities; and the availability of maintenance facilities and costs.

It should also provide for a specific assessment of the burley transport situation, including: the extent to which the establishment of additional satellites for Auction Holdings would ease the transport constraint on smallholders; the success of the reforms being implemented by TCC and Auction Holdings in 1992/93 to smooth the delivery of quota and ease the congestion at the floors; and the extent to which other management innovations at Auction Holdings (e.g., use of bar codes to register bales) might speed up bale handling and ease congestion overall.

**2. Design an information system which permits assessment of the impact and importance of targetting smaller smallholders and women**

While the ADD-based Management Information System will, if strengthened, provide comparable statistical information on the smallholder burley program, it will not provide much of an understanding of the "softer" issues which have

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<sup>12</sup> Adiv, Aaron Final Report. Commercial Transport Project Project Final Evaluation. Draft of August, 1992. p. 47

emerged as important to the program -- the impact of targetting, the distribution of benefits, how people perceive the program, etc.. It is recommended that the MOA and USAID/Malawi consider the establishment of "sentinel club" monitoring system, wherein each year a dozen clubs receiving quota would be randomly selected for repeated visits throughout the year. This might be an appropriate activity for Bunda College involvement.

One might envision the definition of a set of standard and special studies which would be carried out each year. The standard studies, over a series of years, would provide a data base documenting club' and club members' responses to a series of events (price rises/falls, transport difficulties, grading mistakes, labor problems, etc.). The special studies could address issues of within-club and within-household equity, the impact of tobacco labor allocations on the production of other crops, household decision-making regarding the use of burley profits, the perspectives of those community members who are not members of the club, etc.

The repeated contacts with the sentinel clubs would permit more sensitive exploration of political and personal issues affected by the burley opportunity and would permit both MOA and USAID to periodically "take the pulse" of the economy from a grassroots perspective. Some minor compensation for the community might also be envisioned (e.g., an Ambassador's Self-Help Fund donation at the end of the year).

**3. Monitor the transition between the MOA/SACA system and the establishment of the RFC; analyze potential impact of the separation of agricultural extension and credit staff on operations of the burley clubs and the input supply system**

The policy matrix proposes the development of a "Smallholder Credit Plan", with the study to take place between tranche 2 and tranche 3. Given the progress of events with regard to the establishment of the Rural Finance Company, the scope of work for the development of a smallholder credit action plan should be structured to take explicit account of the plans for the transition and carry out an analysis at the RDP level regarding its implications for continuous operation of the credit/input supply system at the burley club level.

It may be that the delinking of credit and technical extension duties will have the desired effect in freeing up the time of extension agents to spend more time on that side of the business. If any monitoring of this is done, it would be important, at the same time, to address whether the provision of extension services for burley production crowds out the provision of extension services for other crops. This is really more of an issue for the World Bank Agricultural Services Project to monitor, but USAID's own interests require at least some understanding of the

way in which extension agents spend their time. This may be especially important as the IFAD project moves into implementation. It is understood that IFAD intends to negotiate the dedication of at least one extension agent per 15 very small smallholder burley clubs for a period of three years.

4. **Analyze the pro's and con's of the mixed club issue**

Burley clubs visited almost always wanted to be considered a maize club as well and get credit adequate to cover inputs for both crops at the same time. This would offer some efficiencies in time and organization. On the other hand, there are lots of people in maize clubs who are not members of burley clubs, so restricting maize inputs in a particular village only to those individuals who are members of the burley club would be unfair. There are a number of logistic and management problems which need to be looked at in greater depth to resolve this issue satisfactorily. SACA and RFC (see the next recommendation) should, however, have an interest in it and may be in a position to act on the basis of recommendations developed in the study.

5. **Analyze current constraints to expanded marketing of "traditional" agricultural commodities, not including maize, in both domestic and regional markets**

This recommendation essentially proposes that the study included in tranche 2 of the policy matrix be enlarged beyond the indicated "Legislative/administrative barriers to smallholder crop production and marketing" and that the "crop diversification study" be incorporated into the expanded examination of commodity marketing issues and options.

This is such an important area for potential Phase II focus, it may, in fact, be necessary to undertake a series of studies to really understand the constraints and how they affect the prospects for expanded agricultural marketing. Starting with a couple of detailed case studies of commodity markets which are currently dominated by private traders would be helpful, e.g., potatoes, rice, and beans. One could look at licensing, marketing strategies, capitalization, concepts of the markets, regulatory concerns, market information source and reliability, producer linkages, buyer linkages, and risk management approaches in some detail to identify those factors which come most into play. Then one could undertake more formal studies of each of the areas identified as constraining in some way.

6. **Undertake an "industry outlook" study for Malawi's principal tobaccos.**

The industry perspective was given less attention in the design of the ASAP than

that of the smallholders. Implementation of the Program, however, has demonstrated that it is important to understand how the international tobacco market works and what it means for Malawi's prospects. In addition, there is some evidence that one of the opportunities for smallholders to draw on their burley experience in expanding cash crop production and incomes might be other kinds of tobacco. For these reasons, it would be helpful to have an independent look at the industry and its potential for Malawi as part of the studies leading up to ASAP II.

The study should be carried out by a team of topflight industry specialists who are not linked with the specific firms involved in Malawi but possess the requisite degree of insider knowledge as well as adequate objectivity.

C. Other Studies

1. Studies to assist women's participation in the clubs

There are a number of ways in which women may be at a disadvantage in getting into clubs or in participation fully in the clubs. The proposed study would look into these issues, for example, attempting to understand more fully the categories of women who are members and those who are not. It should also address women's constraints such as sheds, credit, labor, and intercropping; ideas for resolving these would be of immediate and practical advantage to women and help in fulfilling the aim of the program related to women's effective participation.

2. Studies to Project/Understand Market Demand

Utilizing the data from the national household budget study expected to be completed relatively soon by the National Statistical Office, carry out analyses to provide basic parameters for demand by various groups. Commission a market demand study to determine the domestic demand for processed and un-processed traditional agricultural commodities.

The extent to which the results of the household budget survey and the sample agricultural survey can be combined should be explored. This would contribute to a better understanding of demand and supply and the potential for rural-rural trade.

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## A Mid-Term Evaluation of the Agricultural Sector Assistance Program (ASAP) in Malawi

### I. An Overview of the Agricultural Sector Assistance Program (ASAP)

#### A. Background to the Program

In the 1970s and 1980s, Malawi was generally characterized as having a fairly successful "dual" agricultural economy. One subsector of this economy was in the hands of a relatively small group of people -- fewer than 300 in 1970; some 1,500 in 1980; and about 15,000 in 1990.<sup>1</sup> With substantial support from the Government, this subsector included the highly successful commercial producers who fueled a four percent annual increase in Gross Domestic Product (GDP). They operated relatively large landholdings (called estates) under freehold or leasehold tenure arrangements using labor organized in a tenancy system peculiar to Malawi as well as wage laborers. Legislation designated that Malawi's most profitable crops (burley and flue-cured tobacco) were to be produced exclusively by the estate sector.

The second subsector of the farm economy, managed by the heads of more than a million households, occupied small landholdings (often of two hectares or less) on the customary land.<sup>2</sup> They produced almost enough maize to feed the nation as well as a variety of other food and cash crops, but did not increase this production at a fast enough rate to keep ahead of the 3.2 percent annual growth in population. Over the 1980s, it became increasingly clear to donors that, even with substantial levels of external assistance, this second group was losing economic ground.

Growing concern with their poverty resulted in another look at the Malawian agricultural economy and its "dualism." Somewhat unexpectedly, the analyses resulted in the finding that, while the dualism persisted, the estate subsector was growing rapidly, with more and more individuals who looked like smallholders in production terms establishing themselves as estates. The analyses demonstrated that the organization and

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<sup>1</sup> Mkandawire, Richard, Steven Jaffee, and Sandra Bertoli Beyond "Dualism": The Changing Face of the Leasehold Estate Subsector of Malawi. Institute of Development Anthropology. 1990.

<sup>2</sup> World Bank Malawi: Food Security Report. No. 81510MAI, June 27, 1990. p. 24 citing Ministry of Agriculture, 1989.

operation of the estate sector was largely focussed on capturing the profits to be had from burley production, rather than responding to opportunities to produce a variety of crops with greater economies of scale.

Because of the gains to be had in burley production, the strong incentive for people to form new estates continued throughout the 1980s. This resulted in an increasingly diversified estate sector and a significant decline in average estate landholding size (from 345 hectares in 1970 to 53 hectares in 1989).<sup>3</sup> The smallest estates were virtually indistinguishable from the larger smallholdings, with one exception -- owners of estates had the legal right to grow burley tobacco and smallholders did not. Since the returns to a hectare planted in burley tobacco are estimated to be eight or nine times higher than the returns to a similar area of hybrid maize and 24 to 30 times higher than a hectare of cotton, it was obvious that the right to grow burley was a right to be pursued.<sup>4</sup>

In short, the estate sector had expanded *at the expense of* the smallholding sector. Customary land as well as state land was alienated into estates, yet, on a comparative basis, many estates were using land inefficiently. Excess rural labor in the densely-populated areas of the South could find employment generally only as tenants or laborers in service of estate-owners. Without changes, there seemed to be little real hope for improving the standard of living of the poor.<sup>5</sup>

In 1990, applications for estate status were still pouring into the Ministry of Agriculture. As a result of the analyses, however, both the World Bank and USAID began to recognize that improvements in the standard of living of the majority of Malawians would require explicit efforts to address the inequities built into the agricultural sector. Given the high returns to burley and the "Dutch disease" effects that

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<sup>3</sup>Mkandawire et al. *op. cit.*, p. 13

<sup>4</sup> Fitch, James, and Joe Carvalho Estate Farm Management in Malawi: Considerations for Policy Formulation. Institute for Development Anthropology, April, 1991. pp. 50, 51.

<sup>5</sup> The Mkandawire, Jaffee, Bertoli paper, *op. cit.*, reports the seminal findings of empirical analysis on estate productivity conducted in August, 1989. Earlier studies by Christiansen and Kydd were important in laying much of the groundwork. The World Bank Food Security Report (for which Christensen was a principal author) summarizes the case from the smallholder perspective.

burley was having on other parts of the economy,<sup>6</sup> it was inevitable that equity concerns led them to efforts to open up access to the production and marketing of burley to farmers on customary lands. The Government endorsed this view, requesting USAID support for assistance which would permit realization of "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."<sup>7</sup>

The World Bank-supported Agricultural Sector Adjustment Credit (ASAC) became effective in March, 1990. Continued registration of estates was suspended in densely-populated areas to avert additional alienation of customary land. A pilot scheme for smallholder burley production was initiated with the 1990/91 production season. The USAID-supported Agricultural Sector Assistance Program (ASAP) came onstream in September, 1991. USAID support to the smallholder burley program may have arrived at a key moment. The pilot group of smallholders had not yet received full payment for their 1990/91 crop and, with only the initial payment in hand, could not pay their earlier credit off in time to get additional credit for the new production year. The entry of USAID support drew attention to this problem and payments were made. By offering smallholder burley clubs direct access to the auction floors in 1991/92, ASAP addressed issues of equity in marketing as well as production arrangements.

#### B. Implementation of ASAP to Date

**Implementation of the closely-related ASAC and ASAP programs in the course of the three cropping seasons of the 1990s has transformed the outlook for farmers in Malawi.**

- ◆ In 1990/91, with ASAC support, a "pilot" group of independent farmers with small landholdings were granted the right to grow burley tobacco legally and were

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<sup>6</sup> The "Dutch disease" phenomenon derives from the experience of Holland in the early years of North Sea oil exploitation. Returns to oil investments were so extraordinary that both investment and human capital were disproportionately drawn into the sector, starving other sectors of needed resources. Burley production has had much the same effect on investments in Malawi. Throughout the 1980s, the importance of burley as an export crop has continually increased and most new investments in the country -- the world's largest auction floor, for example -- have gone to support the further development of this sector.

<sup>7</sup> Letter from the Secretary of the Treasury, Mr. G. B. Chiwaula, to USAID regarding the Agricultural Sector Assistance Program. 19 September 1991.

provided Ministry of Agriculture extension and credit support to do so. Burley exports had been the engine driving income growth among the small group of larger commercial farmers and world demand and prices were still on the rise. An overall increase in Malawi's export volumes was projected. Extending the right to grow burley to smallholders was not, therefore, expected to crowd out the established estate-growers but would provide a new income source for cash-starved smallholders. The smallholder experience in this pilot year was mixed. There were the usual teething problems on the extension and input delivery side. The prices that the state marketing agency, ADMARC, paid to the farmers for their output were disappointing. But there were enough small farmers who made enough money in marketing their 2.3 million kilograms (kg) of burley to want to try again.

- ◆ In 1991/92, with added ASAP support, licenses to produce 3.5 million kg of burley tobacco were offered to smallholder farmers. The services were provided more effectively by the Ministry of Agriculture staff in 1992/93, but drought conditions seriously affected all agricultural production. The output of maize, the staple food of all Malawians, dropped to about 650,000 metric tons (MT) -- just half of the 1.3 million MT grown the year before. The burley production was lower than expected, but the 2.6 million kg of burley marketed by smallholders generated 11.5 million kwacha in revenues -- and reportedly helped many to survive the effects of the decrease in food production.<sup>8</sup> The major innovation in the smallholder burley program in 1991/92 involved inviting groups of smallholders organized in clubs to market their output directly on the competitive auction floors in Lilongwe and Limbe. Almost 40 percent of the smallholders responded and averaged a price of 6.19 kwacha per kg for their burley (compared to the 2.28 kwacha/kg they received from ADMARC).<sup>9</sup> Use of both marketing channels resulted in an average price per kg for all farmers in 1991/92 which was roughly 60 percent higher than the year before.
- ◆ In 1992/93, the number of farmers asking for burley licenses greatly exceeded the number available -- even though the quota for smallholder producers was doubled to 7.0 million kg. Burley production seemed as desirable as a goose laying golden

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<sup>8</sup> The Malawi kwacha/U.S. dollar exchange rate has been modified continuously throughout the period as a result of the Government of Malawi's managed exchange rate policy. In 1991, it was 2.803 kwacha/dollar; in 1992, two devaluations in March and June took place and the rate fell to 4.3517 kwacha/dollar by November, 1992; at the present time, it is just over 4.4 kwacha/dollar.

<sup>9</sup> Report prepared for USAID by Benson Phiri from MOA information. 1993. See also Annex E Table 5.

eggs. Rains so far have been good, yields are projected to be up, and smallholders' enthusiasm is high. There are over a 1,000 burley clubs in operation this season; many have stated their intention to market the crop directly on the auction floors. Their expectation is that the price differential observed last year will obtain again in 1992/93 and they are looking forward to improving their houses, increasing their margin of food security, and other investments.

The total number of smallholder farmers involved in this program is still relatively small (some 29,000 out of 1.8 million rural households, with about 12.5 percent of the participants women farmers). Their estimated total production is but a fraction of the total burley output of the country (7.5 million kg out of a projected 120 million kg in 1992/93). But for the first time in independent Malawi, at least some members of the majority of the population have been given access to the cash crop opportunities formerly restricted to the privileged few. The basis for a true transformation in Malawi's agricultural economy has been laid. That this transformation will actually be achieved is still far from clear. Nevertheless, the first step has been taken, there is widespread commitment to continuing down this path, and there are significant benefits to be achieved.

#### C. The Objectives of this Evaluation and Methodology Used

This evaluation was conducted to assess the effects of USAID's Agricultural Sector Assistance Program (ASAP) to date (i.e., Phase I) and to suggest next steps which the Mission might take in moving toward the envisioned Phase II of the six-year Program.

Since September, 1991, USAID has provided \$4 million in nonproject assistance (NPA) support and just under \$3 million in project assistance to the Government of Malawi (GOM) under ASAP's first phase. A second tranche of NPA assistance, of \$6 million, is planned for release by April or May, 1992. Each of the NPA disbursements has followed Government's completion of agreed-upon policy and institutional reforms laid out in the Program Agreement<sup>10</sup>. A third tranche of \$10 million is as yet unscheduled but likely to happen by the end of calendar year 1993. The disbursement of this tranche will complete Phase I. This evaluation was principally concerned with the nonproject assistance and its effectiveness.

Four approaches to information gathering were used to carry out this evaluation:

- ◆ Review of secondary materials prepared by the Ministry of Agriculture, USAID/Malawi, and other analysts;

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<sup>10</sup> Annex A reproduces the Policy Matrix of the Program Agreement.

- ◆ **Interviews with a broad range of knowledgeable individuals in Ministries, the private sector, and USAID;**
- ◆ **Field visits, in which a rough approximation of rapid rural survey techniques were applied to group interviews over a ten-day period; and**
- ◆ **Comparative analysis of personal observations made in previous time periods and during this trip as well as with similar experiences elsewhere. This latter was facilitated by the inclusion of two of the original ASAP design team members on the evaluation team.**

The literature on Malawi's rural sector is relatively rich and provides a good basis for understanding the recent changes in the agricultural sector. The statistical information base still needs strengthening. The Ministry of Agriculture's Management Information System, intended to track and support ASAP implementation, is still new; statistical methodologies and definitions need refinement. Using the data available, therefore, requires a certain amount of interpretation. We do not guarantee that we have always made the correct assumptions here; we have tried, however, not to go beyond the reasonable. All of the literature sources consulted are noted in the references in Annex B. Tables compiled from available quantitative information are found in Annex E.

Interviews with key individuals in a variety of public and private agencies were useful not only for providing basic information about how things work in Malawi's agricultural sector but also in providing a sounding board for evaluation team members to test out our interpretations of what we were seeing and hearing elsewhere. The opportunity to get such knowledgeable and frank feedback was invaluable.

The field visits were carried out principally between February 23 and March 5, 1993 in Lilongwe, Kasungu, Mzuzu, Liwonde, Zomba, and Blantyre Agriculture Development Districts (ADDs) (Map 1). Two additional days (March 8 and 9) were spent with women burley growers in Zomba and Phalombe. Our own field interviews were enhanced by a series of USAID/Malawi staff trip reports recounting findings of visits to many of the same areas visited by the evaluation team; the trip reports have been prepared since October, 1991. A three-day January, 1993, field trip by the evaluation team leader and the regional adviser on women in development issues provided additional input. The schedule of field visits and list of individuals and groups contacted is found in Annex C. Overall, the visits were most informative. Time did not, however, permit adequate consultation with smallholders who were not participating in the smallholder burley program and tenants.

Ministry of Agriculture staff from the headquarters in Lilongwe as well as the relevant ADD, Rural Development Project (RDP) and Extension Planning Area (EPA)

accompanied the evaluation team to all farm-level interviews. No formal questionnaires were used, but a series of fairly standard questions were asked at each type of interview. In all, 13 owners or managers of burley-producing estates were interviewed; it was possible in only one case to talk with tenants of these individuals. Well over 200 farmers in 13 smallholder burley clubs were met and interviewed in groups. A number of individual farmers were also met in their fields or houses. More than 15 women were interviewed individually.

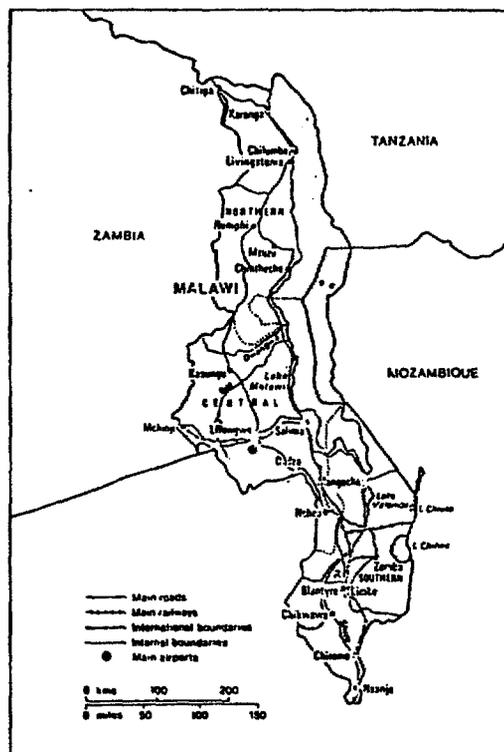
The fact that two of the evaluation team members had participated in the design of the ASAP just over two years ago made it possible to undertake a certain number of "then and now" comparisons. These were particularly important in view of the political nature of the changes introduced by ASAP and the simultaneous changes taking place in the political environment as a whole. Close reading of background analyses conducted for the design also gave some comparative perspective on the degree of change effected to date.

#### D. Organization of this Report

Initial reforms have focussed on the expansion and institutionalization of the smallholder burley program which was introduced with World Bank ASAC support in the 1990/91 pilot phase and continued with ASAP support in 1991/92 and 1992/93. As the sketches above indicate, significant positive impacts are now being widely felt by the farmers participating in the smallholder burley program. The report commences, therefore, with a detailed review of progress and impact (Section II).

Section II also deals more generally with the first theme of the ASAP: liberalization of the production and marketing of crops. An underlying expectation of the ASAP was that it would lead to opening up opportunities for Malawian growers to produce and market crops other than burley as well. Section II considers, therefore, some of the evident difficulties in going "beyond burley" in the next years of the ASAP implementation.

Map 1.



Source: EIU, 1993

Other elements of the ASAP -- intended more broadly to improve smallholders' access to agricultural inputs, output markets, cash crop production alternatives, and labor market information -- are less advanced in terms of conceptualization and implementation. Sections III, IV, and V provide, therefore, only a first look at experience so far with regard to implementation of ASAP's other themes. Bringing about improved efficiency of agricultural input and service delivery systems is the subject of Section III. Questions of increasing equity in the agricultural sector, some of which are initially raised in Section II, are addressed in greater depth in Section IV. Section V draws on the "beyond burley" discussion of Section II to dig more deeply into the issues which need to be considered by USAID and the Government of Malawi as they jointly seek to expand commercial agriculture and crop diversification opportunities.

In all sections, the evaluation team has attempted not only to describe what has happened so far, but to convey our understanding of what the implications of the incredibly rapid changes associated with the smallholder burley program might be for more general changes in the agricultural sector. These conclusions are pulled together in a summary in Section VI.

Recommendations for future action in ASAP implementation are presented in Section VII.

## II. Liberalization of Production and Marketing of Crops: Findings and Assessment of the Implications of the Program To Date

### A. The Smallholder Burley Program

The initial focus of the Agricultural Sector Assistance Program has been the smallholder burley program. It was asserted in the design that "once opportunity is felt through Malawi's most lucrative crop, application to other agricultural activities is expected."<sup>11</sup> While, as will be considered below, there is some question as to whether this assertion on the demonstration effect is justified, there is no question at all that burley is indeed "Malawi's most lucrative crop."

It is lucrative to the nation. Burley exports accounted for 60 percent of all tobacco exports and about 45 percent of total commodity exports in 1990.<sup>12</sup> 43,500 metric tons of processed burley accounted for some \$143 million in foreign exchange in

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<sup>11</sup> Scope of work for this evaluation prepared by USAID/Lilongwe.

<sup>12</sup> IMF Statistical Annex to the Staff Report on the 1992 Article IV consultation. January 14, 1993. pp. 26 and 27.

that year. The tobacco production, marketing, and processing sectors (in which burley is the single most important kind of tobacco) employed almost 700,000 people in Malawi in 1990/91. By the estimate of the Tobacco Association of Malawi (TAMA), more than four million people, or just under half of Malawi's current population of nine to ten million, are "fed, housed, clothed and otherwise sustained by the tobacco industry."<sup>13</sup>

Burley is particularly lucrative to the grower. As already noted, there is no other crop which returns as much revenue per hectare.<sup>14</sup> In 1990 prices, the production of 1,350 kilograms (kg) of burley per hectare was estimated to result in a gross margin of 4,598 kwacha per hectare (or approximately 3.65 kwacha per day for the 1,260 days of labor invested). The production of 3,600 kilograms of hybrid maize was expected to yield a gross margin of 422 kwacha per hectare, or a return of 2.59 kwacha per day for an expenditure of 163 days of labor. Groundnuts were estimated to yield better returns than maize in terms of labor use (2.88 kwacha/day cf. 2.59 kwacha/day) but groundnut production is highly unfavorable in terms of use of land. The gross margin from 1,200 kg of groundnuts was only 473 kwacha per hectare, or only 13 percent of the return to burley.

Yet, as was noted in the background section above, all Malawian smallholders were legally prohibited from growing burley tobacco until the beginning of the ASAC pilot program in 1990/91. They were encouraged to grow maize, or groundnuts, or even cotton (with a gross margin per hectare less than five percent that of burley). They were permitted to grow other types of tobacco (oriental, sun-air cured, dark-fired) but they were required to market these crops through ADMARC, which purchased them at fixed prices which were rarely more than 30 percent of the price which ADMARC itself received by selling these tobaccos on the auction floor.<sup>15</sup>

Estates, on the other hand, were given the exclusive rights to grow burley and flue-cured tobaccos and to market these crops themselves through the competitive auction floors managed by a private corporation (Auction Holdings Ltd.) in Limbe and Lilongwe. Burley production was more or less controlled by an annual quota-license allocation system based on the notion that production greatly in excess of the demand

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<sup>13</sup> Central and Southern Africa Region of the International Tobacco Growers' Association The Economic Significance of Tobacco Growing in Central and Southern Africa. n.d. (1992) It should also be noted that Malawi is the world's second largest exporter of burley -- second only to the U.S.

<sup>14</sup> The numbers cited here are taken from Fitch and Carvalho, 1991, p.51.

<sup>15</sup> World Bank Agricultural Sector Adjustment Program Report. P-5189-MAI, March, 1990., p. 23.

levels articulated by the Malawi-based buying agents on behalf of their international customers would drive prices down. Limiting burley production to estates was also felt to result in better quality burley, again supporting higher prices and more clearly establishing a distinctive niche on world markets for the Malawi "style" of burley.

Permitting smallholders to grow burley and to market it through the auction system was, therefore, providing smallholders an enormous economic opportunity. To judge by the discussions that we held with smallholder burley clubs throughout the country, smallholders are not only aware of the magnitude of this opportunity but they are determined to take advantage of it to better their lives. When asked what they were spending their earnings on, they replied with the basics: housing, food, clothing, school fees, bicycles, agricultural inputs, and animals. As might be expected, the desire for even greater returns has led to a certain amount of "cheating" to secure quota and to a growing vociferousness in smallholders' demands for support services from the Ministry of Agriculture as well as more quota.

Discussions with estate-owners, who, it must be remembered, still account for 95 percent of the burley quota allocations, clearly indicated that they are beginning to feel the competition from the smallholder burley growers. Many estate owners and managers immediately went on the offensive in discussions with us, criticizing the quality of smallholder production (a criticism not supported by auction floor price data) and smallholders' lack of crop management skills (which may have some basis as extension officers providing advice to first-time burley growers appear to be stretched). Others noted their own need for additional quota to meet their income needs. They deplored the indiscipline of smallholders in keeping to their assigned quotas (well known to many estate owners who have, in the past, purchased from illegal smallholders in order to fill their own quotas). Still other estate-growers cited the possibility of increasing problems with the tenants on whom their own burley production performance depends. This complaint highlights raises a distinct irony: The prices paid to tenants have historically been but a fraction of the auction floor price<sup>16</sup> and the owners have historically reaped the lions' share of profits.

The Tobacco Association of Malawi (TAMA), as the organization representing the growers' interests, has annually published an agreed-upon schedule of tenant prices as maximum prices which estate owners are expected to pay tenants. Smallholders, as independent producers although similar in other respects to tenants, are now able to claim the auction floor price themselves. This differential is encouraging some tenants to think about working their own small farms and others simply to market a portion of the crop they have produced for the estate-owner through other, illegal, channels. TAMA has attempted to respond to this in 1992/93. The TAMA schedule for 1992/93

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<sup>16</sup> See Annex E Table 6.

suggests to estate owners the optimum prices they should pay to tenants for their output. Unfortunately, no one can explain what this new word means. It is likely, when the schedules get out to the estate managers, that it will be interpreted as it has been in the past, as a maximum.

In the sections which follow, the findings of the evaluation team with regard to specific aspects of the burley program are coupled with observations regarding the implications of these findings for increasing the smallholder impact of more effective liberalization in the production of marketing of other agricultural crops as well as burley.

#### 1. Permission to Grow

The permission to grow burley in Malawi is provided through the allocation of licenses which establish a quota for marketing. The authority for allocating quotas currently lies with the Ministry of Agriculture in Lilongwe. The total amount of the quota is theoretically set by the Ministry in April/May for the production season which begins in September/October. Information from "the industry", particularly the Malawi-based buying companies who buy for export, regarding likely customer orders for the coming year is said to be a key element of this aggregate quota-setting exercise.

There seems to be wide agreement among the leaders in Malawi's tobacco industry -- the Tobacco Control Commission (TCC), TAMA, Auction Holdings Ltd., the Tobacco Exporters' Association of Malawi (TEAM), and the Ministry of Agriculture -- that Malawi should guard against over-production of burley in order to maintain its market niche and prices. Accomplishing this objective has proven, however, to be difficult.

Quota allocations have increased substantially over the last decade or so and appear to have gotten way ahead of market projections in the last two years. For 1992/93, initial quota allocations of some 147 million kg were apparently given out by the Ministry of Agriculture although industry demand was said to be in the 100 million kg range; a revision process since then has reduced the allotment to 119 million kg, a level similar to that approved in 1991/92. However, 1992/93 weather has been considerably more favorable than that experienced in 1991/92. Even with drought conditions in 1991/92, Malawi marketed its greatest volume of burley ever (just under 100 million kg) in 1992. Marketing in 1993 is now likely to be closer to (or even higher than) the amount which was licensed for production.

It is difficult to say objectively whether this steady and substantial increase in burley quota licensing -- in contravention of conventional wisdom -- is good or bad. In some years, increases in Malawian production have been associated with price falls on the auction floors; in others, increased production and marketing have been associated

with rises in prices, both locally and internationally (Table 1).

Table 1. Malawi Burley Sales, Volumes and Prices, 1984 - 1992

Year	Volume Sold on the Auction Floors (million kg)	Auction Floor Price (kwacha/kg)	Auction floor price (U.S. dollar equivalent)	Export Price (U.S. \$)
1984	29.98	1.725	1.22	2.27
1985	30.37	1.816	1.06	2.05
1986	30.19	2.914	1.57	2.72
1987	36.79	3.963	1.79	3.01
1988	45.54	5.245	2.05	3.70
1989	61.21	3.700	1.34	3.16
1990	64.01	5.173	1.90	3.35
1991	70.11	6.824	2.43	3.91
1992	99.00	6.579	1.79	3.54

Sources: Economist Intelligence Unit, IMF, Cameron, Malawi Tobacco Directory

However, it was noted by many of the people consulted that there is now a lack of rationality in the quota allocation system. Quota allotments have not necessarily been made to give preference to high-quality producers. Estate growers who have not met their quota-level of production are widely said to have purchased illegally-grown smallholder burley in order to protect their quotas -- but there is no way of tracking this definitively. Other estates have consistently over-produced their quotas and have been given almost automatic approval from the Ministry of Agriculture in the middle of the marketing season to sell the excess -- and to get larger quotas the next year. Only rarely have penalties for marketing in excess of quota been imposed without question.

Currently, a proposal to decentralize the quota allocation system to the Agricultural Development Districts (ADDs) is on the table. The evaluation team was not, however, able to get any information on how this might affect the overall structure of the system or result in better controls on the global levels.

a. The Smallholder Quota

The smallholder quota was added to the quota allocation process at a time (1989-1990) when it was envisioned that the overall quota for burley production would be

increased substantially. This was important in permitting the smallholder burley program managers to portray the extension of permission to grow burley to smallholders as a win-win situation. Both estate-owners and smallholders would receive increasing allotments over the 1990-1995 period (Table 2).

Table 2. Burley Quota Allocations, Actual and Projected  
million kg

Year	Estate Quota	Smallholder Quota
1984/85 (mkted)	30.4	0
1985/86 (mkted)	30.2	0
1986/87 (mkted)	36.8	0
1987/88 (actual)	56.9	0
1988/89 (actual)	64.7	0
1989/90 (actual)	72.4	0
1990/91 (actual)	102.4	3.0
1991/92 (actual)	118.2	3.5
1992/93 (est)	118.9	7.5
1993/94 (proj)		8.5
1995/95 (proj)		9.2
1995/96 (proj)		10.7

Sources: MOA and USAID ASAP PAAD, p. 4. It should be noted that other sources note the 1991/92 quota allocation for estates at some 120 million kg and the 1992/93 quota at more than 140 million kg.

While there were some arguments made at the outset of the smallholder program for using a percentage-of-total-quota approach to determining the smallholder quota level, the Government of Malawi ultimately negotiated absolute levels for annual smallholder quota targets with both the World Bank and USAID/Malawi. The initial level of 3 million kg of burley quota in 1990/91 was to be increased to 3.5 million kg in 1991/92, 7 million kg in 1992/93, 8.5 million kg in 1993/94, 9.2 million kg in 1994/95 and 10.7 million kg in 1995/96.

The Government of Malawi has adhered to the agreements. If the prices received in 1993 are encouraging, however, there is likely to be substantially increased demand for smallholder quota in 1993/94 and the GOM will find itself hard-pressed to stick to the 8.5 million kg in the agreement. Evidence provided to the team in one highly-productive tobacco growing area during the field visits indicates, for example, that almost nine times

as much quota was desired by smallholders as was actually provided.

b. Establishment of a System to Implement the Smallholder Quota

The GOM established in 1990/91 a registration system to enroll the "pilot" customary landholders who would receive individual quotas to produce burley tobacco. The maximum size of individual quota was 600 kg (assumed to be the product of 0.4 ha of burley production); the most common quotas were 300 kg and 150 kg (from 0.2 and 0.1 ha, respectively).<sup>17</sup> In places where more people registered than quota was available, a uniform quota of 150 kg has been commonly extended. In 1990/91, smallholders were only permitted to market their burley through ADMARC. In 1991/92, however, with ASAP support, an additional marketing channel was added and smallholder growers could market their burley either through ADMARC or directly on the auction floors.

Through this system, 3.5 million kg of quota were registered to customary landholders in the 1991/92 season and 7.0 million kg were allocated for the 1992/93 season. The process began with local registration of farmers in selected ADDs, RDPs, and EPAs.<sup>18</sup> The actual recruitment of farmers was done by field extension agents (FAs); they identified farmers interested in growing burley tobacco who also fit the eligibility criteria which were covenanted in the agreement between the GOM and USAID.

The criteria used to select individual farmers were provided to each ADD (and downward through the extension system) by the Secretary of Agriculture (Annex D). The criteria reflected USAID's objective of ensuring that incomes would be earned by those who needed them most while still ensuring that the technical requirements for sustainable agricultural production would be met. The main criteria were:

- "1. Consideration should be given to only those farmers interested to grow the crop.
2. Consideration should also be given to only growers with landholding

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<sup>17</sup> The rationale for limiting the quota was based on two factors: (1) to discourage farmers with small landholdings from putting "too much" of their land into burley, thus diminishing their capacity to produce food crops and threatening land degradation by planting a tobacco crop on a specific parcel more often than deemed environmentally sustainable (once every four years); and (2) to spread the potential wealth around.

<sup>18</sup> These acronyms are used in the order of the hierarchy. Agricultural Development Districts (ADDs) include a number of Rural Development Projects (RDPs) and each RDP includes a number of Extension Planning Areas (EPAs).

size of 1.5 hectares or less.

3. It must be observed that the prospective grower plans to grow tobacco on no more than 25% of his/her landholding to allow for a four year crop rotation.
4. Each year the proportion of smallholder quota allocation to women and to those with less than 1.5 hectares should increase."

Once the farmers were identified using these criteria and registered, the FA was expected to organize them into clubs for purposes of organizing the delivery of credit (in-kind), providing extension advice, and, in 1991/92, collectively marketing their crop. The applications for quota of registered individuals then worked their way up the system to the Ministry of Agriculture in Lilongwe. Based on additional geographic targeting criteria as well as the smallholder applications, the Ministry then allotted the entire quota out to the ADDs (Table 3) who then reallocated it back down to the RDPs, EPAs, and, ultimately, clubs.

Table 3. Smallholder Burley Quota Allocations by ADD, 1990/91 - 1992/93  
'000 kg

ADD	1990/91	1991/92	1992/93
North:			
Karonga	194	207	220
Mzuzu	360	582	752
Central:			
Kasungu	225	720	1414
Salima	0	0	288
Lilongwe	440	528	824
South:			
Liwonde	515	954	1848
Blantyre	500	510	1144
Ngabu	0	0	269

Source: MOA.

In 1991/92, there was little difference between "interested smallholders" and "quota recipients" but in 1992/93, the number of quota applicants in some places greatly

exceeded the number of quota recipients so that the targeting criteria had a greater effect. We return to this point in Section IV.

One other "criterion" for smallholder allocation was also commonly added by the MOA staff involved. Because the field staff (correctly) perceived the license to grow burley to be so valuable and the quota allocations in each area were so small, some of them reportedly made an attempt to distribute quota widely among eligible villages. The more separated the growers, of course, the more difficult was the effective operation of the clubs.

c. Performance of the Smallholder Quota Allocation System

At most of the ADDs visited in the evaluation, the staff had a general awareness of the criteria, although only one ADD was actually able to come up with a written copy. When asked about the criteria for selecting individual quota recipients, most MOA staff knew that they were to try to include an increasing number of farmers with total landholding of less than 1.5 hectares and that they were supposed to include more women in the program. Another common response was that they were supposed to select "resource poor" farmers. There were varying definitions for all these criteria. "Resource poor", for example, appeared to imply reaching "those who have been left out of the system". However, all criteria had various interpretations and didn't seem to be implemented in any systematic way by FAs in different localities.

Spot checks on the registration data, for example, showed large inconsistencies involving landholding size, estimated yields and actual sales figures. General knowledge of the "1.5 hectare" target apparently led most farmers to self-report landholdings of this size. Field assistants were not able to verify reported landholding sizes and often registered people with farms much bigger than that. Many farmers, it appears, have no accurate idea of the size of their landholdings. There was also some degree confusion over what constitutes an individuals' actual landholding (some land is farmed on behalf of others).

Based on random interviews with members of the burley clubs visited, it appears that most of the participants have landholdings greater than 1.5 hectares. In some areas of the central and northern ADDs, where land is less densely populated, this might well be expected. In others, it indicates that those relatively well-off (although by no stretch of the imagination anything but poor) were selected over those who conformed more closely to the criteria. Field surveys conducted by the MOA in December, 1992, suggest

that average landholding sizes were above 1.5 for all ADDs.<sup>19</sup> The largest average land size was 5.5 hectares in relatively land-abundant Kasungu and the smallest was 1.6 hectares in land-short Liwonde. In light of the evaluation team's interviews, however, even these numbers are suspect.

According to MOA data, there was also considerable regional variation in the number of women participating in the program in 1991/92 (Table 4).

Table 4. Womens' Participation in the Smallholder Burley Program

ADD	1991/92	1992/93
North:		
Karonga	5.1	14.5
Mzuzu	18.5	14.5
Central:		
Kasungu	3.7	7.7
Salima	--	17.4
Lilongwe	14.9	15.2
South:		
Liwonde	8.8	16.8
Blantyre	3.8	6.1
Ngabu	--	15.2

Source: MOA Reports

It turns out that even the apparently simple criterion of "femaleness" was less specific than it was initially thought to be. There was a design assumption that the women selected should be heads of households but this was not explicit in the MOA memo. Field interviews indicated that many of the women growers were not, in fact, heads of households -- although, indeed, many were. One case revealed that a man and his four wives were all members of the same burley club. The problem appears to be

<sup>19</sup> Cameron, Laurie "Preliminary Results from the Smallholder Burley Survey." Conducted by MOA on behalf of USAID, November-December, 1992. See Annex E, Table 7.

the lack of a clear definition of what constitutes a female head of household. Again, we return to this in Section IV.

In sum, we found that:

- ◆ There is a growing sense of competition between smallholders and estates./ This needs to be recognized and explicitly addressed by Government leadership, especially in the event of a bumper harvest in 1992/93. This could lead to lower prices and to some estate-grower backlash against the smallholder program. The discussion must, however, be refocussed on the more fundamental underlying issue of quota allocation and the expectation that a protected market can be extended, even to inefficient producers, indefinitely. The MOA has in recent years allocated quota in excess of industry targets. This is now being corrected in an effort to assure that prices and quality are maintained. As quota allocations for 1993/94 get underway, however, it will be important to take another, hard look at the economic outcomes of alternative approaches to quota allocation and to make the choice less on history and more on performance.
- ◆ The Ministry of Agriculture's system for allocating burley quotas to smallholders needs to be adapted to reflect: (1) growing interest among smallholders in burley production, to the point that the problem is no longer finding enough interested smallholders but rationing quota among an increased number of applicants; (2) the fact that criteria and methods for targetting quota to selected groups of smallholders have not worked as well as hoped; and (3) more effective use of an improved management information system.
- ◆ The ADDs need additional support to assume the responsibilities of burley quota allocation to both smallholders and estates. Data collection and management functions will need to be strengthened and additional staff assigned to carry out data verification activities. Ministry of Agriculture criteria regarding individuals' eligibility for quota as well as policy regarding total quota establishment need to be clarified.

## 2. Access to Open Markets

In the pilot year of the smallholder burley program, 1990/91, all quota-holders were required to sell their crop to ADMARC. This marketing approach was consistent with that which had been applied for years to smallholder production of other kinds of tobacco (oriental, sun-air, and dark-fired). ADMARC had consistently made substantial profits from its monopsony position by paying farmers prices pegged well below the

auction floor price. ADMARC had then used the revenues to cross-subsidize other ADMARC operations which normally lost money (particularly having to do with food distribution and the maintenance of remote marketing centers).

According to the agreement negotiated with the World Bank under the ASAC, ADMARC was to make an initial payment to smallholder burley producers equivalent to 45 percent of the three-year average auction floor price for burley at the time of purchase (April - September). This initial payment was to be followed by a second payment, commonly called the "bonus", the size of which would be determined once ADMARC had closed its books for the year. The bonus was to reflect a share of ADMARC's net profits. The fact that the bonus was not paid until the 1991/92 burley crop was in the ground had three effects: first, many farmers whose first payment had not covered their loan costs either defaulted on their loans or decided not to grow burley at all in 1991/92; second, many farmers interpreted the first payment as "the ADMARC price" of burley and "the bonus" as a free gift somewhat unlinked from the burley market; and, third, it stimulated smallholders' interest in the possibility of marketing their 1991/92 burley crop through the auction floors.

In 1991/92, as ASAP came onstream, the option of burley clubs' auctioning their burley on the auction floors was added to the pilot program. ADMARC increased its first payment in the 1991/92 marketing year and retained some of its former clients. But almost 40 percent of smallholder production was graded, baled, and sent to the auction floor by burley clubs.<sup>20</sup> The successful use of the auction floor option has, in the view of the evaluation team, been a key factor in making this program successful and sustainable.

By almost all accounts, many smallholder farmers who grew burley in 1990/91 and were forced to sell to ADMARC were extremely disappointed and discouraged; in many cases, smallholders reportedly were unable to recover production costs.<sup>21</sup> Further, ADMARC buyers were accused by smallholders we met of systematically downgrading smallholder burley in terms of quality classification and paying prices well below those which could be obtained on the auction floor. Since the average auction floor prices are announced on the radio on a daily basis, even the most remote burley growers were able to monitor the difference between ADMARC's offers and their likely receipts from the auction.

Smallholders we met in Kasungu, who had had trouble finding transport to the floors in 1991/92 and had elected to sell to ADMARC, now noted that they had "given

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<sup>20</sup> See Annex Table 5.

<sup>21</sup> See various trip reports prepared by the USAID/Malawi staff.

up hope" of the bonus from ADMARC and were busily organizing to make sure they could go to the auction floors themselves in 1993. This reaction was not atypical. In its field visits, the evaluation team encountered expressions of considerable resentment of ADMARC and a commitment of most burley clubs who had had a year of burley experience to market directly to the auction floor.

The initial plan under the ASAP had been that, by the time of marketing the 1991/92 crop, it would also be legal for smallholder growers to sell their burley to estates within the estates' own quota. This additional marketing channel was thought essential to address the transportation problems faced by many burley clubs. It would also not be inconsistent with past (illegal) practice and with estate owners' interests (as it would help them protect their quotas even if they under-produced). The actual announcement for this action did not, however, take place until December, 1992. In theory, the ADMARC and auction floor channels were the only ones opened for the 1991/92 crop marketing.

However, given that 1991/92 was a drought year, many estates did not reach their quotas, and, illegal or not, sought out participants in the smallholder burley program for additional supplies. They offered good prices in general -- higher than ADMAR's first payment although lower than the auction floor, accepted rough-graded or ungraded tobacco, paid cash on the barrel head, and assured transport to the auction floors. Comparing reported production in 1991/92 with reported marketing through ADMARC and auction floors, it would appear that just about half of the smallholder burley produced in 1991/92 went to market under estate quotas.

On December 22, 1992, the Ministry of Agriculture issued a statement in the Daily Times declaring that estates could now (for the 1992/93 crop marketing year) apply for licenses to legally market smallholder burley within the estate quota. The actual procedures for awarding licenses have not, however, been thoroughly worked out. Estate owners who have applied for them have found the conditions difficult to meet.

One of the MOA's first conditions for allowing estates to buy is that the buyers and sellers must declare their mutual intention prior to the marketing season. This, we found, may defeat the purpose of trying to establish competitive marketing options for the smallholders. It is obvious that most smallholders would like to have a feeling for auction floor prices before deciding whether what an estate-owner is willing to pay is attractive enough. Upfront registration also works to the disadvantage of estates as it requires them to commit to a price before they know what the market is likely to pay. Further, it requires them to commit part of their own quota to smallholder purchasing before they know how much their own estate will produce. Since many estate owners are predicting over-quota production from their own lands in 1992/93, this automatically reduces their interest in committing to marketing smallholder burley. Upfront "registration" of clubs as a condition for licensing an estate buyer also implies a

substantial volume of paperwork which may, in the end, turn out to be useless if their price offer turns out to be too low and smallholders go to the auction floors anyway.

It is no wonder that estate owners consulted expressed themselves confused about how to proceed. Smallholders are equally confused. In part, this is because their advisors from the MOA are still uncertain about the legality and terms and conditions of selling to estates. Although the evaluation team was assured by some MOA staff members that it is now legal for estates to buy and sell burley within their existing quota, not all ADD personnel were certain of this. Where MOA field staff have tried to get burley clubs to declare how they intend to market their leaf in 1993, only a limited number have actually specified the estate route. Yet, in the view of the evaluation team, it is likely that, in the end, quite a number of clubs and individuals will try to use the estate route -- but not following the approach and procedures now being suggested by the MOA.

One creative solution was brought to the evaluation team's attention by the General Manager of Press Agriculture, Ltd. Press was recently given permission to go ahead and make plans to buy smallholder burley with the stipulation that they will provide the information on quantity and source after the transaction has taken place. If this model is acceptable to the Ministry of Agriculture in the case of Press, this information should be made available to others as soon as possible in order to alleviate confusion and allow them to take advantage of similar arrangements.

The policy matrix for ASAP states that for the disbursement of the third tranche, the GOM will, pending analysis, have worked out a system where smallholders wishing to sell to estates can transfer their quota to the estate owner so that he can add it to his overall allocation. This seems desirable. Permitting estates to act as agents for smallholders would make the transaction more attractive to estate managers and could provide some help to smallholders who are having problems of locating transport, grading services, etc. On the other hand, it would reduce smallholder control of the processes. The pro's and con's deserve more thought.

With the advantages of hindsight, it appears to the evaluation team that:

- ◆ The decision to allow smallholders to market their burley through the auction floors has been the key element in making the smallholder burley program as successful as it has been. Not only has it resulted in higher prices (on average) but it has increased farmers' awareness of quality premia and the competitive nature of the burley market. Such access must continue to be assured and support provided by the extension service to enable clubs to take full advantage of the auction floor process.
- ◆ Figuring out how to allow estate owners to play a supportive role in

marketing of smallholder burley, especially in areas ill-served by transporters, would provide an additional boost if the transparency of the auction floor pricing can be maintained.

### 3. Support Services to Producers

#### a. Extension

The Ministry of Agriculture extension staff have been responsible for organizing the burley clubs and training the smallholder burley growers in everything from the establishment of the seedling nursery to accessing the auction floor. This required the MOA to conduct special courses for their extension staff in handling the burley crop. Local currency generations from the ASAP nonproject assistance have been used for conducting staff courses, field demonstrations and field tours.<sup>22</sup>

As evidenced by smallholder burley production in 1991/92 and the prospects for the 1992/93 season, the MOA extension agents have met the challenge. The quality of smallholder production was as good or better than that of the average estate. While estate owners visited often complained of smallholder crop hygiene practices (particularly uprooting of old stalks), and there is some evidence that smallholders are not applying recommended levels of fertilizer<sup>23</sup>, visual scanning does not reveal a marked difference between tenant-grown estate burley and that grown by independent smallholders.

While the accomplishments of the extension staff to date have been remarkable, a closer look reveals considerable room for improvement. Not all clubs have members who have been sufficiently trained in grading. Some clubs complained of not being able to carry out proper record keeping and ASAP technical advisors confirmed that club management skills were still very weak.<sup>24</sup> There were also questions regarding the dissemination of technical information regarding burley production. This may not have been as critical in 1991/92 when the total number of licensed smallholders was more limited. Many of these smallholders were in fact experienced tobacco producers (having

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<sup>22</sup> Annex E, Table 9

<sup>23</sup> Cameron, Laurie "Preliminary Results from the Smallholder Burley Survey" Conducted on behalf of USAID by the MOA, Dec. 1992

<sup>24</sup> Crane, Don and Gavin Olney Smallholder Burley Clubs' Organizational and Training Needs Assessment. Agricultural Cooperative Development International (ACDI). December, 1992.

grown another kind of tobacco or having worked either as tenants or illegal growers of burley in the past). However, as the smallholder burley program expands beyond the current total of nearly 30,000, it is believed that more and more first-time growers will enter the program. This will make the effective dissemination of technical production information more crucial.

It now seems, from brief conversations and from observation of MOA staff in evaluation meetings, that

- ◆ The MOA may now be facing the problem of an overburdened and strained extension service. Many FAs have too many farmers scattered too widely to do an adequate job both on burley and on everything else.
- ◆ Transport is a perennial problem and affects the abilities of the ADD, RDP, and EPA staff to do their jobs adequately.
- ◆ And those in Liwonde and Blantyre ADDs may soon be called upon to redouble their efforts to implement a burley-maize extension initiative funded by IFAD. A close eye on the development and implementation of this project with regard to the burden it may place on the extension services is mandatory.

b. Input Supplies and Credit

The provision of production inputs and credit are inextricably linked in the smallholder burley program. The MOA's Smallholder Agricultural Credit Administration (SACA) and ADMARC have worked together to manage the supply system. The MOA/SACA extension agents charged with credit and marketing functions have played a principal role at the farmer contact level. MOA staff up and down the line have been involved in trying to get the right supplies to the right places at the right time -- and to collect the money when the crop is sold.

The burley program has been able to benefit from the past experiences of SACA and ADMARC in working out a system to provide credit and inputs to maize growers. In a similar fashion, SACA personnel were able to work with the burley clubs (once they had been organized by MOA field assistants) in setting up basic record systems by providing training to two members who had been nominated to manage the accounts of the club. Once this had been done, input requirements for the club were determined and credit, in the form of inputs, was provided through ADMARC.

The overall effectiveness of this system must be evidenced by the fact that farmers

received their inputs and were able to produce in 1991/92 and 1992/93. These inputs included seed, fertilizer, packing materials (sacks, hessian, paper), shed construction supplies (plastic sheeting), and capital items such as baling presses and scales. However, in some cases, inputs for nurseries arrived critically late. Often this was attributed to quota allocations from MOA headquarters arriving late. Everywhere we went during this evaluation farmers were complaining about the late arrival of the plastic sheeting to waterproof the curing sheds. Such delays have a real cost. The late arrival of nursery supplies, apparently, contributed to use of non-certified seed and non-use of recommended chemicals. This raises some issues regarding crop diseases (wildfire, bushytop) and the potential to spread from farm to farm. Waterstaining causes severe losses in quality and price. The late arrivals of capital items (e.g., plastic, balers, scales, hessian) in 1992/93 is said to be the result of importers having a difficult time getting the foreign exchange allocation needed -- illustrating the importance of the macroeconomic picture to agricultural production in a very graphic way.<sup>25</sup>

In most cases, however, the smallholder farmers and ADD personnel felt input supply and credit allocation functioned well considering the taxing nature of the program. Some clubs requested that a few other items be included in the credit package, such as sheets of corrugated zinc roofing material to be used on grading sheds in areas where termites were a problem. Smallholder burley growers did express that they were having problems in getting cash to finance peak season transport and labor costs. Women growers, in particular, felt that cash loans to enable them to hire labor to build their curing sheds would be helpful.

In 1990/91, credit recovery for the burley program was severely hampered by the fact that most smallholders ended up selling to ADMARC at prices (i.e., the first payment) which were too low to allow clubs to recover all their costs or, illegally, to estates. The very illegality of this latter route may have contributed to reluctance to repay the "official" system for credit. In 1991/92, the situation improved dramatically, in spite of the drought, since farmers marketed mainly to Auction Floors and estates and got substantially higher prices than the year before. The recovery rate in 1991/92 was 70 percent for burley clubs; the maize clubs also served by SACA/ADMARC only managed a 30 percent recovery.

In general, we found that:

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<sup>25</sup> While we do not deal in depth here with the current macroeconomic difficulties of Malawi, they stem from two sources: the aftermath of the drought in 1991/92, which caused expenditures to skyrocket, and donor suspension of new nonproject assistance over questions of human rights. The impact of these factors has led to a severe shortage of foreign exchange and a relatively high degree of inflation in the economy.

- ◆ The recommendations of the ACDI team<sup>26</sup> with regard to strengthening of burley club administration would also go a long way to improving the club's abilities to ensure input supply and credit management (and, at the same time, reducing the extension service burden).
- ◆ While the SACA system has worked reasonably well so far, there is some concern that as the Rural Finance Company (RFC) is phased in over the next year or so<sup>27</sup>, there will be new, unforeseen glitches in the administration of the program which could affect smallholders. SACA staff have always been an integral part of the MOA structure; once outside, communication difficulties, for example, are likely to surface. Some operational and contingency planning involving both USAID and the World Bank as well as the Ministry of Agriculture should get underway as soon as the RFC agreement is signed.

c. Marketing Services

Marketing services needed by smallholder burley growers are related to the channels they choose to take. When selling to ADMARC, smallholders automatically receive transportation and grading services free, although they ultimately "pay" for such services in the size of the "bonus" or second payment received. However, ADMARC has a reputation for grading smallholder burley as of relatively poor quality and for paying low prices. Even if the convenience factor is weighed, it is the opinion of the evaluation team that smallholders pay dearly for the marketing services ADMARC provides.

Smallholders selling directly on the auction floors must belong to a club (which has membership fees), do their own grading (in some cases paying for the construction of an appropriate grading shed and procuring the baling equipment), and make their own arrangements for transportation. Some clubs are capable of doing the grading services for themselves and others must hire someone to do it for them (usually someone who grades for estates and moonlights for extra income). The availability of graders for hire can cause delays, particularly in peak periods. The major marketing problem faced by clubs trying to send their burley to the auction floors, however, is that of transport.

The "transport problem" has four dimensions.

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<sup>26</sup> Crane, Don and Gavin Olney Smallholder Burley Clubs' Organizational and Training Needs Assessment. Agricultural Cooperative Development International (ACDI): December, 1992.

<sup>27</sup> Discussed further in Section III below.

-- First, many transporters are simply uninterested in carrying the small and variable volumes of burley that most clubs send to the floor at any one time. Contracting with ADMARC or large estates for large loads and a full season of employment is clearly more attractive.

-- Second, many transporters require smallholder burley clubs to pay for the load before the trip is made. While there is a procedure for Auction Holdings to pay transporters delivering tobacco to the floors or the satellite receiving stations operated by Auction Holdings and to deduct this cost from the sellers' revenues, this procedure does not always seem to work for smallholders.

-- Third, much of the available transport gets tied up in the heavy marketing season with long delays at the Auction Holdings satellite stations and the main auction floors. This is attributed to lack of discipline in growers delivering to the auction floors according to the established delivery quotas. There is a great incentive for all sellers (especially large estates) to try to get great volumes of tobacco to the floors early in the selling season (April - June) when prices tend to be higher than they are later in the season. Last year (1992), additional congestion in the delivery yards at Auction Holdings was caused by a workers' strike for higher wages, a temporary suspension of trading due to a devaluation of the kwacha, and a higher-than-normal volume of rejected sales by the growers (who recycled their tobacco at later dates for higher prices).

-- Fourth, although transportation costs in given regions are fixed so that they can be paid by Auction Holdings and deducted automatically after sales on the floor, smallholder burley clubs reportedly are often asked to pay an additional fee in cash to get transporters to come to more remote locations.

Some smallholders, in convenient locations, were able to access rail links in order to ship their burley to the auction floor and thus avoided the transport problem associated with trucks. However, in the 1991/92 season, some clubs complained that they lost money due to long delays in the rail system. One club stated that it took two months for their burley to get to the floor and in that time period the average price had dropped dramatically.

At the risk of overstating the obvious, transport and other marketing services are critical to successful smallholder marketing of burley through the auction floors.

- ◆ The transport constraint is real. Even if the Auction Holdings management and TCC manage to work out a delivery quota schedule which eases congestion at the receiving areas, smallholders are likely to continue to experience high costs and inadequate service until the transport sector is better developed. More attention should be directed to increasing incentives for greater investment and competition in this area, particularly for domestic haulage.

- ◆ The proposal to expand the number of Auction Holding satellite receiving stations deserves serious consideration.

d. Information

In general, most smallholders interviewed stated that access to market information was not a problem. Regular radio broadcasts relay daily auction floor prices during the marketing season. Most smallholder burley growers were aware of the regulated transport prices. However, a few clubs expressed their fear of the auction system for marketing and their inclination to continue to use the ADMARC route, even though they were not happy with the services provided or the price received. The video which is to be made in April, 1993, of the auction floor operation should provide additional information on the process to the extent that equipment for showing it to remote rural clubs can be found.

Information on technical matters and the handling of pests and diseases is handled by the MOA extension personnel as already discussed. In addition, there is substantial farmer-to-farmer communication on tobacco production techniques. The fact that nurseries must be located near a water source (they are planted before the rains begins) means that groups of farmers are in close proximity to each other during the beginning of the season. We were unable, however, during this short evaluation period, to identify particular pieces of information which had been transmitted effectively through this channel.

The Estate Extension Service Trust (EEST) is another potential source of information for smallholders. EEST was established as a private extension service to serve the needs and interests of estates. It is paid for by a small cess levied on tobacco sales at the auction floors. Thus, while estate-owners are their principal clients, smallholders marketing their burley through the floors contribute to the EEST. And EEST staff feel that the smallholders do benefit from their services. They cited MOA extension agents attending their field demonstrations on an informal basis. Since smallholder burley growers are now paying for these services, it may be appropriate to make the arrangements between MOA extension personnel and EEST more formal and regularized.

Somewhat surprisingly, the evaluation team found that information flows within the Ministry of Agriculture and between "the industry" and the estate-owners could be substantially improved. Arguments among MOA staff about whether estates could or could not legally purchase smallholder tobacco and the inability of MOA staff to cite their source of information on criteria for selection of participants in the smallholder program were only examples which highlighted the tip of the iceberg. The inconsistencies in the data provided, the inability of many ADDs to construct an

adequate record of their implementation activities, and the general compartmentalization of information on tobacco vis a vis other crops were other cases in point. Decentralization of the quota allocation system to the ADD level will place a premium on good and timely information and good communication and feedback from the MOA headquarters. Without it, the quota allocation system could become even more politicized and chaotic than it now is.

Estate-owners were often as much in the dark as the MOA staff about issues of importance to them: the possibility of legally marketing smallholder tobacco, the amount of quota allocated nationwide, the optimum tenant price set by TAMA for 1992/93, and so forth. In general, it appeared that relying on the newspaper to get important news out was not the most effective means of communication.

The smallholder burley program has had the unexpected, but important, impact of making the operations of the burley industry more transparent. Smallholders are now demanding information and services which they barely knew existed three years ago. Overall consciousness of the lack of equity in the historical structure of the agricultural sector has been raised. The viability of smallholder models as alternatives to the tenant system or the direct labor system practiced by the estate sector is now open for debate. The success of many participants in the smallholder program is also making itself felt in political terms -- coming, as it does, just as other pressures to permit open discussion of political and social issues are being exerted.

- ◆ Continued support for efforts to make relevant information more available to a wider group of people is clearly needed.

e. Research

There are presently no research activities which are directly targeted to the smallholder burley producers. However, they do benefit indirectly from research that the Tobacco Research Institute of Malawi (TRIM) conducts on behalf of the industry: seed varieties, fertilizer recommendations and other technical improvements. Smallholders marketing at the auction floors pay for these services through a cess (levied at a rate of 1.0% of gross returns). TRIM receives two-thirds of the total amount of the cess; the Estate Extension Service Trust operates with the other third.

The evaluation team did not have adequate time to take a close look at the effectiveness of TRIM, specifically with respect to smallholder production conditions. This might be the subject of future analysis or evaluation.

#### 4. Performance of the Smallholders and the Impact on their Incomes

Given permission to grow burley and the support services just described, smallholders have proven their capability to produce a good quality product. The burley which ADMARC marketed on behalf of smallholders in 1990/91 sold for an average price of 7.29 kwacha per kg; this compared favorably with the average auction floor price for the year – 6.87 kwacha per kg. In 1991/92, smallholders who marketed through the auction floors, as described below, received an average price of 6.19 kwacha, compared to an overall auction floor average price of 6.52 kwacha per kg. While this would seem to indicate an overall slip in quality, evidence seems to point to delivery rather than production problems as the explanatory factor. Early in the marketing year (up to July 13) the smallholder average auction floor price was 7.51 kwacha per kilo compared to the overall average price of 7.01 kwacha/kg. Due to congestion at Auction Holdings satellite receiving depots and the auction floors in the early part of the season as well as to problems in arranging transport, many smallholders experienced delays in getting their tobacco to the auction floors. This resulted in their tobacco arriving late in the season when prices had begun to drop.

Rough estimates indicate that total gross revenue going to smallholders in 1990/91 was around 6.4 million kwacha.<sup>28</sup> This implies net returns to individual farmers in the neighborhood of 500 to 600 kwacha for an average quota of 300 kg. This compares to an annual income of about 500 kwacha for full-time wage labor, estimated at the minimum rural wage rate of 2.09 kwacha/day. In 1991/92, smallholder farmers made out much better. Sales through all channels add up to estimated total gross smallholder returns of 11.4 million kwacha. This implies average returns of about 1000 kwacha per 300 kg quota.

The main reason for the low returns to burley in 1990/91, even though auction floor prices were strong, was the low prices which farmers received for their crop. The price noted above to substantiate the comparatively high quality of smallholder burley was not paid to the growers themselves. ADMARC's price schedule for burley involved two payments, the second of which was not paid until six months or more after the burley was sold. This approach permitted ADMARC's costs to be totally covered, but it meant that, out of the average 7.29 kwacha per kg which ADMARC/smallholder sales earned on the auction floors, producers only received 3.97 kwacha per kg on average. Some smallholders avoided ADMARC and sold their tobacco illegally to estates. These farmers fared even worse, reportedly getting around 2.5 kwacha per kg on average.

In 1991/92, thirty-nine percent of the crop was sold directly to the auction floors where it got an average price of 6.19 kwacha/kg. This was clearly a big price gain over

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<sup>28</sup> See Annex E Table 8 for these calculations.

the year before. Fifteen percent was sold to ADMARC at a first payment price of 2.28 kwacha/kg; since no second payment has been made yet, and there is some doubt that one will be paid, farmers who sold to ADMARC last year are feeling worse off. The remaining forty-six percent, however, probably sold to estates at an estimated average price of 3.50 kwacha (reflecting, perhaps, the shortfall in estate production in 1991/92 and their eagerness to protect their own quota by marketing as much of it as they could).

Averaging the 1991/92 revenues received so far over approximately 7,200 smallholder growers shows average gross returns to each farmer of around 1,580 kwacha. Net income to farmers, on average, probably ranged between 800 and 2,000 kwacha as quota sizes varied. This is consistent with the anecdotal reporting of farmers interviewed for this evaluation. This level of earnings for burley production alone suddenly makes independent agricultural production look good by comparison to a minimum wage full-time rural job!

That said, there is some evidence to suggest that the benefits to all smallholders in burley clubs have hardly been uniform. This is not surprising since the burley growers are drawn from a very diverse group of farmers, who have little in common except their status in farming on customary land. In general, it appears that club participants tend to be drawn from the better-off members of local communities on the customary lands. This is not surprising, especially when the burley club experience is placed in the broader context of the expansion of burley production in recent years.

There is evidence that club members from the northern part of the country have been more successful than participants from the southern part of the country. In the north, the overall quality of burley production was higher, as was the percentage of clubs marketing their output through the auction floors. The individual quotas also tended to be higher in the north, as was the opportunity for "illegal" production. In general, accessing auction floors depends upon achieving a high degree of group solidarity that enabled collective action. In particular, it necessitated club members being willing to merge their output and to defer income that could be more immediate through the ADMARC channel. Initial evidence indicates that there may be a correlation between "wealth" and ability to undertake collective action through the burley club mechanism. If there is difference between clubs, there is also difference within clubs. While the evidence here is much softer, there is little doubt that some proportion of the clubs are operating in ways that skew the benefits towards the wealthier members of the clubs.

Nevertheless, it is unquestionably the case that smallholder burley club participants have benefitted from the program. While the most important benefit may be the cash income, a second is that participants can purchase sufficient fertilizer for expanding yields on hybrid maize varieties. Yet a third is learning directly about participating in a competitive market-oriented environment. All are critical inputs into continued restructuring of the agricultural sector and its diversification beyond burley.

As already noted, an assumption underlying ASAP is that "once opportunity is felt through Malawi's most lucrative crop, application to other agricultural activities is expected." In the next section, we explore the extent to which this assumption is justified. A concluding section reviews the interests of various groups which have emerged as a result of the smallholder burley program's success to date.

### B. Beyond Burley?

It is relatively easy to construct a story of how the economic opportunity of the smallholder burley program might translate into more broad-based, sustainable agricultural growth in Malawi. Here's how that transformation of Malawian agriculture might develop:

*The government recognizes that the costs to the economy of the operational principle of maximizing estate profits have become overwhelming and intolerable. The government is particularly concerned to diminish the economy's overwhelming dependence on burley and to promote a two-pronged strategy of export- and domestic demand-led diversification into other crops and agriculturally-based industries.*

*First, the government decides to address the domination of burley in economic choices by moving in an orderly way to lower individual producers' returns to burley through increasing the burley production target, primarily by accelerating the expansion of the smallholder burley program. The assumption is that expanded burley production will force Malawian exporters to develop customers who will only be willing to buy at lower prices. The lowered returns to burley will then begin to weed out inefficient producers (probably those in highly leveraged and/or relatively new estates), who will find it in their interests to look elsewhere for economic opportunities. For individual smallholders in the burley program, the returns also diminish, but the coverage of the program is expanded, so the total cash inflow into the poor communities farming the customary land is substantially increased.*

*Expanding the production target thus creates the space for reestablishing the effectiveness of the control mechanisms over production through a politically-sustainable rationalization of the quota allocation process, focusing on the themes of efficiency, transparency and equity. An aggressive public education campaign is mounted to explain why the quota is needed and exactly how it works. This ensures that prices and quality do not collapse and make everyone worse off.*

*Second, the government decides to provide incentives for diversification of both export- and domestic-market oriented production and, especially, "market creation" efforts. Those inefficient burley producers who are looking for other opportunities are likely to be those who would benefit from export-related incentives (which could range from monetary incentives, such as foreign exchange retention accounts or export bonuses, to the provision of support*

*services, such as assistance from EEST in the production and marketing of other crops or an expanded foreign market information service).*

*Smallholders are able to utilize the cash income from burley to purchase sufficient fertilizer to expand their yields from hybrid maize beyond household consumption levels which, in turn, provides additional cash incomes. Alternatively, smallholders increase their maize production by using hybrid varieties but limit the amount of land planted to such varieties to that amount needed to assure household food supplies. The "released land" is then planted in other cash and food crops which improve the overall standard of living either indirectly (as income) or directly (through consumption of the production). The goods and services which they purchase from others increases income-earning opportunities off the farm.*

*Thus, the increased purchasing power in the hands of customary landholders has several positive effects on other segments of the population as well. First, it puts upward pressure on both tenant prices and on wage levels in the estate sector; second, it provides a market for a wide range of simple consumer goods and incentives for expanding the transportation sector and the marketing nexus serving the rural economy; and, third, it increases the employment opportunities within villages farming the customary lands by providing a context for micro-enterprise expansion.*

The scenario just described suggests perhaps the most "natural" way for the Malawian economy to go "beyond burley", that is, using the incomes generated by expanded production of burley to stimulate the growth in production of other goods and services. It was not, however, a familiar scenario to most of those we consulted.

Rather, two other approaches seem to be common among those thinking about economic diversification. The first approach centers on the search (hope?) for another economic "silver bullet" like burley -- a crop with a solid world market that Malawi, with unique advantages, can capture; the second group adopts a production-oriented approach in which physical climate and soil capacities figure strongly. Those analysts thinking along the "wonder crop" lines tend to be focussing on alternative, generally high-value, export possibilities -- macadamias, cashews, horticultural products. Those thinking in terms of farmers' technical capacity to produce are inclined to focus on domestic consumption needs (hybrid maize for food, cotton for textiles, soybeans and sunflower for vegetable oils), although exports are not excluded in this view.

Neither of these two common approaches appears to focus on: the problems of market development; the competitiveness of Malawian producers vis a vis other potential producers/exporters; and the organizational restructuring of Malawian agriculture and trade structures implied.

Yet it would seem that the lessons that the burley experience has to offer so far revolve around these issues. In the next section, we explore this assertion further by

examining three principal lessons and their wider applicability in plotting out possibilities for diversification beyond burley. We return to the challenge of crop diversification in Section V.

### 1. The Lessons of the Burley Opportunity

- ◆ **Extraordinary profits at the grower level can provide extraordinary incentives to produce. In the case of burley, producers have responded strongly to these profit incentives.**

This obvious lesson needs to be stated upfront. In part, of course, the high value of burley tobacco comes from the world tobacco market: cigarettes are widely consumed; worldwide demand is high; and Malawian tobacco apparently has a particular quality -- or "style" -- which complements the tobacco produced by the U.S., the leading manufacturer of cigarettes. The economic rents to producers in Malawi are also high compared to the next best crop alternative because: burley can be grown almost anywhere in Malawi as the soil and climate are well-suited to it; it takes very little capital to get started; it can be produced in small as well as huge quantities as there are few economies of scale at the producer level; and local marketing and processing facilities have been well-developed over more than 60 years of burley production for export and they operate efficiently. Faced with this situation, quotas, land registration requirements, and other controls do little to deter the quantity being produced and/or marketed. The profits have brought out production which is legal, i.e., grown by a licensed quota holder, and illegal. Estates as well as smallholders have responded to the stimulus. In the past, estates have been able to market up to 15 percent over quota without being penalized and, as noted, many have secured additional quota allocations mid-way through the marketing season so they have never even had to pay the 40 percent penalty which is theoretically imposed. Where there are profits to be made, there are interests to be served.

- ◆ **The structure of the burley market, both in Malawi and in the world, is unique. Malawi has, apparently, found a niche in this market although the door is guarded by an effective buying cartel. Producer access to this market is well-mediated by an effective, profit-making auction market.**

The world market for burley tobacco is one of the more well-known imperfect markets, controlled by a few major manufacturers and a relatively limited set of tobacco brokers. The cartel of local buyers/exporters, TEAM, in itself does not face an open market situation. Rather, it purchases much of the Malawian crop

on behalf of a limited number of customers, often using funds advanced by the customers. An additional amount appears to be purchased by exporters, using their own financing, for sale to a broader, but smaller and somewhat more price elastic, set of customers. Although the Malawian production is sold in an "open market" on the auction floors, it is not possible for growers to see much of a relationship between local supply and local price on the floors although there is some perception of the quality-price relationship. Price determination on the auction floor is more of a function of TEAM members' interests in maintaining a satisfactory flow of Malawian tobacco to their customers, their understanding of other competitive sources of supply (Mexico, Thailand, the Philippines, Argentina, and, to some extent, Brazil), their judgement as to what price local producers will bear, and the capacity of the processing companies (which they own). Since burley can be stored, inter-year market management (speculation) is possible. While there is, therefore, some question as to the fairness and competitiveness of prices paid on the floors, there is no doubt that the marketing system for burley is highly developed, highly sophisticated, and well-integrated into the world tobacco manufacturing sector.

- ◆ **The burley sector within Malawi is well developed organizationally, with effective organizations supplying everything from research to production support to up-to-the-minute market information. This has led to a well-articulated sector in which distinct special interests routinely come together to negotiate for position.**

The Government of Malawi has thrown its political as well as economic weight behind the production and marketing of this crop. Private production, marketing, and processing entities have been allowed to operate. Other private or quasi-private support organizations have been developed to serve the needs of growers (banks for financing, insurance companies to mitigate risks of crop damage, transport companies to haul the output, a privately-funded extension and research service). This has resulted in an industry with firm backing of both producers and marketers. It has also resulted in a tightly-linked set of organizations who have strong, clearly-defined interests. Until 1990, when the smallholder burley program broke the monopoly on production held by the estates, the Malawian tobacco industry had been controlled by a relatively small coterie of individuals and organizations. TAMA, representing the interests of the estate growers, took the lead.

## 2. The Wider Applicability of the Burley Lessons

Even a superficial examination of the Malawian economy shows that no other agricultural or industrial sector possesses all the characteristics associated with the success of the burley sector:

- ◆ excellent producer price incentives for crops which have flexible production requirements well-suited to Malawi's physical resource base;
- ◆ a strong market demand, backed by international financing, with local market access managed and maintained by a profit-oriented marketing organization; and
- ◆ a well-articulated, effective organizational structure to both lead and support the sector as a whole.

However, by holding up other oft-suggested alternative crops against this list, it is possible to identify what will need to be done to develop viable options for Malawian farmers and the Malawian economy to go beyond burley.

#### a. Other tobaccos

Other tobaccos can be produced in Malawi; they appear to be attractive candidates as alternatives to burley as a source both of farmer income and export earnings. Other tobaccos can be handled, processed, and marketed by the same system which is in place for burley. However, there are some differences. One big difference lies in the pricing policy applied to non-burley tobaccos produced by smallholders. There are also differences in terms of inputs and capital requirements which affect costs of production.

Until 1990/91, smallholders were only 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 produced 15.0 million kilograms of dark fired, sun-air cured, and oriental tobacco on 30,000 hectares.<sup>29</sup> All the smallholder production from these four types of tobacco had to be marketed through the parastatal marketing corporation ADMARC, which, in turn, took all but the oriental tobacco to the auction floors. The Ministry of Agriculture personnel provided extension and credit services as needed. There were no individual farmer quotas on these types of tobacco although farmers were required to get licenses from ADMARC to market their product. However, smallholder production of these tobaccos has been highly variable, with sun-air reportedly decreasing since the 1970s. Discussions with members of TEAM indicated that these tobaccos, particularly oriental, had good markets and that they were willing to increase purchases.

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<sup>29</sup> The PAAD for ASAP. Page 18 in the EIU report gives somewhat different figures: 13.55 million of NDDF, 450,000 of SDF, and 1.4 million of sun-air with no accounting for oriental.

The viability of these crops as alternatives to burley appears to hinge on producer pricing rather than the world markets. Fuelwood costs and availability might also play a role in the variable or declining dark-fired production. But it is pricing which stands out as the problem. ADMARC's monopsonistic pricing policy on these tobaccos has historically returned only a fraction of the auction floor proceeds for these tobaccos to the farmers.<sup>30</sup> In 1989, production of all these tobaccos (not including oriental, for which our database is lacking) dropped precipitously. The price incentive has not, therefore, engendered smallholder interest in the same way as burley has. This could, however, be changed if smallholders were allowed to market sun-air and dark-fired tobaccos directly to the floors as they can with burley.

Private exporting companies (Intabex Dibrell, Stancom, and Universal) have already started to take steps to make oriental production more attractive by launching campaigns, with some additional farm-level support, in Mzuzu and Kasungu ADDs. In some ways, the approach being taken resembles contract farming, with input supplies and output marketing being guaranteed by the contracting firm. However, prices are still fixed by government fiat and ADMARC is doing the collection and delivery of the oriental crop for a fee.

Flue-cured tobacco has long been alternative to burley for estate growers although, at this time, the level of production demanded by TEAM buyers is not forthcoming. Estate owners cite four problems with flue-cured production which are not encountered with burley: it is more difficult technically to grow and process correctly; one cannot rely on tenants to produce a good crop of flue-cured tobacco so it requires more expensive wage labor and more management time; the capital requirements for construction of the drying barns are high; and it requires fuelwood. However, some estate-owners opined that the time may be ripe to increase flue-cured rather than burley production, taking advantage of the unlimited quota, the strong export demand, and the fact that wage-labor with some skills is available. The marketing system and other support structures in place for burley also handle flue so there is no problem on that side.

As in the case of burley, if alternative markets for other kinds of tobacco were opened up to the smallholders, such as marketing these tobaccos directly on the auction floors, the level of production would probably return to at least 1980 levels. For those types whose production is not constrained by fuelwood supplies and costs, such as oriental and sun-cured, overall output would probably surpass former production levels. Production of those tobaccos requiring fuelwood in the curing process will continue on the estates which have adequate areas for producing fuelwood and will be replaced by burley in the smallholders production package.

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<sup>30</sup> World Bank Agricultural Sector Adjustment Credit. P-5189-MAI, 1990. p. 23.

### b. Food crops for the local market

Considerable smallholder production of food crops was observed during the evaluation field work. Our extensive windshield surveys conveyed the overwhelming dominance of maize in the cropping pattern -- not surprising given the dominance of maize in the Malawian diet. But burley club farmers interviewed reported production of cassava, sweet potatoes, beans, groundnuts, sunflowers, and vegetables such as okra, tomatoes, melons, squash, and cabbage as well. Neither production capacity nor interest of smallholders seem to be principal constraints to increased production of food crops in generating additional smallholder income. The increase in production of hybrid maize over the last few years<sup>31</sup> provides significant evidence in support of farmers' capacity to respond to the availability of new, appropriate technology and buoyant demand (including from within their own households), especially when there are organized services available to support that increase (which is provided by the MOA/SACA through maize clubs as well as seed and fertilizer being available on the open market).

But the lack of active formal and informal markets in most crops and the difficulties of finding transportation to what markets there are in the rural area were strongly suggested by the farmers themselves as prohibiting major increases in the production of the alternative commodities. Explorations as to why markets for alternative cash crops were not more active and what was preventing potential investors from providing the kinds of transport services which farmers expressed a need for were tentative and fairly general. Discussions with major processors of agricultural commodities provided additional insight.

Our findings, however:

- ◆ confirmed the conclusion of the Food Studies Group in its "Study of the Impact of the Liberalization of Smallholder Agricultural Produce Marketing" with regard to maize: "...the role played by private trading has remained limited in a number of respects. First, in many areas (the exception being in densely populated areas of the South) the main trading activity is bulking up maize for delivery to ADMARC depots which offer the depot delivery premium...Second, private trading remains insignificant in the North of the country and in areas of thin population and limited transport facilities. Third, traders do not generally play a significant role in

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<sup>31</sup> Hybrid maize area increased more than 4.5 times since the low point of 1986/87 which spurred the article by Kydd in the Journal of International Development. While estimates for 1992/93 are not yet out, informal reports indicate even greater expansion of hybrid maize plantings this year as MH-17 and MH-18 have gained popularity. See also the most recent articles by Smale et al.

either seasonal storage activities or in supplying rural households who are purchases of maize...ADMARC still dominates the market for maize." <sup>32</sup> It was our impression that this conclusion could be extended to virtually all commercializable food crops;

- ◆ suggested that trader licensing procedures at the ADD are cumbersome at best and completely inhibiting to development of a competitive market at worst. The revision of the procedures currently under consideration by the MOA is a commendable move in the right direction, but may not be adequate;
- ◆ demand for food crops which could be processed for local consumption is soft. In part this is due to Malawians' relative low purchasing capacity (the most popular size packet for cooking oil is a 50 gram sachet costing 59 tambala). In part it is due to the fact that input for common processed food products (e.g., cooking oil) can be imported more cheaply than it can currently be purchased in Malawi. Crude soybean oil from Argentina is reportedly less expensive than sunflower or groundnut oil produced from Malawian raw materials. This accounts for processing firms being less interested and aggressive in developing local suppliers than they might be expected to be; and
- ◆ underscored an unfamiliarity in Malawi with the process of "making a market." The ADMARC habit is well-ingrained. ADMARC buys what it has funds to buy at prices the GOM establishes (on an abstract analytical basis) in places where it is mandated to buy (including places where it loses money and its costs are covered on the grounds of its playing a "social function"). The Food Studies Group gives some case studies of private individuals in the "liberalized" market actually trying to arbitrate between producers' and consumers' interests but the only commodity in which this seemed to be occurring on a significant scale was potatoes.<sup>33</sup>

In sum, we found few of the characteristics of the burley system in operation for any other food crops. Price incentives are blunted by ADMARC controls, soft demands, and high costs; access to the market is inhibited by the lack of entrepreneurial traders and the access to transport; and what organizational structures that might stimulate and support the production and marketing of other food crops are, with a few exceptions,

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<sup>32</sup> Food Studies Group. *op cit.*, p. 6.

<sup>33</sup> Food Studies Group case studies. See Scarborough and Kaluwa.

distinctly uninterested. Smallholders are, therefore, unlikely to find commercial production of food crops to be terribly attractive as an income source. Even estate owners, at this point, are hard-pressed to name a food crop -- beyond hybrid maize -- which might produce economically interesting returns for them.

One final point: In conversations with many individuals, the possibilities for getting smallholders to produce more poultry and to manage dairy herds were repeatedly promoted. These products not only suffer from the constraints which affect the outlook for food crops, but they are highly susceptible to disease (and the veterinary service is reportedly unable to support all current production), they require substantial amounts of land to produce feed, and the market outlets are currently very limited. Overcoming the transport bind for a perishable commodity like milk would be a major problem. This said, it may be that these food commodities might be more interesting commercially to estates -- who generally control bigger areas of land including grazing land, can achieve some economies of scale to reduce vet service delivery costs, and would be in a better position to borrow financing to ensure transport if independent services were not available.

#### c. Agricultural crops for export

Estates would also appear to be the logical candidates for taking the lead in introducing non-traditional agricultural commodities with potential for export in the production system. This has historically been true -- for the development of tobacco, tea, sugar, coffee and, more recently, macadamias and cashews. Currently, there are reports of cut flowers, spices, peppers and vegetables being produced in limited quantities by estates and shipped to markets in Europe. The Estate Extension Service Trust is supposed to provide technical support for such activities. While we encountered few estate-owners who were actively thinking of such alternatives, this might be simply the result of "burley block." It is true that price incentives are not good for most of these crops at the moment, there is heavy competition for most of them on the world market, and the organizational support structures in Malawi are virtually nil.

Could these crops be expanded more profitably if smallholders took them up? Tree crops in general are not suitable for smallholder production primarily due to the small landholdings and the fact that tree crops require a least five years of care before bearing a marketable harvest. However, coffee and tea production are being undertaken by smallholders, so the option should not be tossed out without further examination. Efficient smallholder production will, however, be limited by the existing processing and marketing structures, all of which at this time are monopsonistic/monopolistic enterprises.

Malawi, however, might think about looking at the prospects for the export of traditional food crops as a source of both smallholder and estate incomes. The rapid

adoption of hybrid maize by smallholders over the last several years should allow Malawians to resume limited exports of maize to neighboring countries. Although not a commodity with unlimited export potential, maize is the primary subsistence commodity for the region as well as Malawi. Smallholders, due to their efficient production practices, should benefit the most from the resumption of maize exports. Beans and cowpeas of various sorts have also been suggested as candidates for export. Pigeon peas and red beans have both been exported in the past and, according to some traders, could provide a small but steady source of export earnings.

One anecdote relayed by a trader who had engaged in exports of groundnuts and beans for some years in the late 1980s, however, highlights, again, the marketing problems. Although the trader was paying producers above the government-fixed ADMARC buying price for groundnuts and beans, ADMARC itself was not able to procure enough to fulfill the demands of public institutions (hospitals, schools, prisons) at its price. Exports of food were forthwith completely banned and the trader lost money. Now he deals only in crops which ADMARC does not buy and makes sure that he coordinates with ADMARC on any planned export.

### C. Beyond Smallholders?

The ASAP program has already affected a range of interests and groups in Malawi which goes well beyond the 29,000 or so program participants. While ASAP is currently moving toward the achievement of its goal (increased agricultural productivity, employment, and incomes for smallholders), it is far from clear how broad the impact will be and whether or not it will be sustainable. There are still major questions as to how the next stages of the agricultural restructuring spurred by the smallholder burley program will go. The sections above underscore just how difficult it will be to go beyond burley.

In this section, we review briefly who -- besides the smallholder burley growers themselves -- has gained and lost from the program so far and speculate on how their interests might play out in defining future agricultural change in Malawi.

#### 1. Non-participating Smallholders

In general, the smallholder burley program appears to be a positive-sum game for the poor communities within which it is operating. While the supportive evidence is still quite limited, it does appear that non-participating individuals and households in the customary lands may be gaining benefits from the program as well. The main mechanism through which this takes place is the creation of employment on smallholder burley plots. Of smallholder participants interviewed, nearly one-half reported hiring

labor to assist them. The actual figure may even be higher, since there was some indication that some participants might have felt that such hiring violated the rules of the program. It does not yet appear that the program has affected overall wage levels in the rural areas, although should it continue to expand it clearly has the potential to do so. Another way in which the program might be assisting non-participants is by providing a market for crops that they are growing. A final way is by facilitating the diffusion of hybrid maize. Non-participants are able to see directly on their neighbors' farms the benefits of hybrid production.

But there may be some zero-sum elements to the program as well. If the program continues to expand, it might divert the resources of ADD staff away from their other activities, such as those that have focused on the diffusion of hybrid maize varieties and are targeted on a wider group of farmers. At the same time, there is little doubt that the smallholder program is a source of conflict within the communities in which burley clubs have been formed. Non-participants do feel excluded, and the club mechanism does provide the opportunity for corruption in that clubs do exert some control over access to economic rents.

## 2. Small Estates

It is not easy to generalize about the small estates. They appear to include both some of the most efficient "graduated smallholders" as well as some of the least efficient farmers. It is often hypothesized that the latter group includes those who owe their access to an estate license and burley quota to nothing more than political connections but it may also include those who have not yet gotten access to enough operating capital to enable them to farm effectively or are just plain bad managers. For many, small estates are an adjunct to other businesses. Others have fallen between the cracks in terms of access to both finance and extension services, being ineligible for the SACA finance and ADD extension services which are targeted to smallholders, but incapable of accessing commercial finance and not being reached by the Estate Extension Services Trust.

Earlier research has suggested that, in general, the small estates both are less efficient than larger estates and are more dependent upon low wages and low tenant prices for their profitability.<sup>34</sup> Many will not be well-positioned to diversify if the returns to burley diminish. Those small estates who fit that mold are likely to be losers from the smallholder burley program as it will increase the competitive pressure on them, but it will not, as it is now constructed, provide them any assistance to diversify.

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<sup>34</sup> Mkandawire et al., 1990

### 3. Large Estates

Large estates tend to be more efficient than smaller ones, many are less dependent upon low wages and tenant prices for profitability, and nearly all are better positioned to diversify into other production without any special assistance. For all of these reasons, they are less fundamentally threatened by the smallholder program. In general, the large estate operators express views towards the smallholder program that are less hostile than small estate operators.

Large estates perceive themselves threatened by the smallholder burley program, however, but for quite different reasons than those held by the small estates. The first fear is that the smallholder program will exacerbate the problem of loss of control over the level of production, raising uncertainty for the industry as a whole. The second, and really the more direct fear, is that the smallholder program facilitates "wandering tobacco", i.e., the sale of estate tobacco by tenants to smallholders, who then can either market it directly as part of their quota or sell it back to the estate operator. The "wandering tobacco" problem derives from the large differential between the tenant burley price and the price that smallholders can fetch by selling to the auction floors. One possible answer to this is a modification of tenancy arrangements that would limit the incentives for such behavior.

### 4. ADD Staff

ADD staff, in general, appear to be very supportive of the smallholder program. The program provides them an excellent "product" to promote, and the general success of the program increases their sense of job satisfaction. In that sense, the ADD staff has been a "winner" from the ASAP program. As the program evolves, however, there is a danger that it could overwhelm the ADD staff in a number of ways. As mentioned above, the least desirable effect is the potential diversion of ADD staff attention away from hybrid maize and towards tobacco. A second is the heavy involvement of ADD staff in complex and difficult problems of quota management, both for the smallholder program and also for the estates. A third would be having to deal with complex issues of club organization and management, for which ADD staff are neither effectively trained nor inclined to undertake, but which might be forced upon them by circumstances.

### 5. Ministry of Agriculture Senior Staff

In the past, the Ministry has accommodated itself to the operational principle of maximizing estate profitability. The ASAP program, along with other donor activities and the general process of both socio-economic and political change, has put the question of alternative approaches on the agenda. The Ministry has, so far, met the

challenge by delegating authority to the ADDs and by supporting the credit program in an effective way. As the environment continues to evolve and new questions and issues emerge, the smallholder burley program provides the opportunity for the Ministry, and its senior staff, to play a much greater role in redefining public policy in a way that is both more equitable and more economically dynamic.

It is not yet clear whether and how the Ministry will respond to this opportunity. The reorganization of the credit operation (transferring SACA to the Rural Finance Company) and the decentralization of the quota allocation process will be two key tests of leadership and management.

## 6. ADMARC

ADMARC played the historic role of taxing smallholder production of tobacco (through its pricing structure) to support the expansion of the estate sector (through its formerly extensive investments in estates). Thus, ADMARC had a major role in the creation of Malawian "dualism". In recent years, as part of a series of World Bank policy reform operations, the role of ADMARC has evolved. It no longer has a major investment role, and its official monopoly in a series of commodity markets has been withdrawn. ADMARC's main role is now food security and price stabilization although ADMARC continues (or would like to continue) to operate a profitable commercial account in tobacco.

ADMARC has been a "loser" from the ASAP program in two ways. First, the program has facilitated a shift out of non-burley tobaccos (the source of ADMARC's marketing profits) towards the production, both legal and illegal, of burley. Second, with regard to burley, by opening multiple marketing channels, the ASAP program has diminished ADMARC's market share of smallholder burley and forced it to be more price competitive, also reducing its marketing profits.

## 7. Tenants

In the thinking incorporated in the design of the ASAP program, tenants on estate farms were identified as a major beneficiary group. The tenants were to benefit in two ways. First, the program sought to make transparent, and enforce, a set of standards in the terms and conditions of employment and in the determination of prices paid to tenants for tobacco. Second, the program sought to put upward pressure on tenant prices through the competitive effects of the smallholder program. Unfortunately, the elements of the program that are directly focused on tenants have been slow in implementation and it is increasingly unclear whether the changes envisioned (public posting of terms and conditions for employment) will go far enough. The major impact of the smallholder program on tenants is likely to be increasing tenant awareness of the

prices which they receive for their crop compared to those being received by smallholders going directly to the auction floors. Some estate owners already said they were noting the effects of the smallholder program: in an increasing incidence of "walking tobacco" (sold illegally by tenants to other estates or even to their own estate-owner via a smallholder) and a few tenants' leaving their employ to become independent smallholders.

The full indirect impacts of the smallholder burley program on tenants can only be expected to be felt after a time lag. It has been suggested, and we concur, that the level of price increases for tenant tobacco that TAMA has announced for this growing season may be higher than would have been expected in the absence of the smallholder program. This may provide some real gains to tenants, generally improving equity in the society. On the other hand, if the announced prices prove to be "too high" once the auction prices are established on the floors in 1993, there could be additional resentment from TAMA (on behalf of its clients) regarding the smallholder program or, more seriously, severe effects on the overall viability of marginal estates and the availability of tenancy jobs in the future.

#### 8. The Tobacco Industry

The tobacco industry in Malawi is neither a winner nor a loser from the smallholder burley program. The "industry" comprises a wide range of players, from exporters to processors to transporters to financiers. In general, the industry recognizes that the burley tobacco sub-sector is in flux, and is faced with some fundamental problems. But the industry is also very flexible so long as tobacco is produced. It can accommodate itself to a wide range of outcomes in terms of who grows the crop and how it is marketed. The "industry" in that sense is not committed to maintenance of the status quo. Many representatives in the industry recognize that in many other countries, burley is predominantly a smallholder crop.

Broadly speaking, the industry is worried about the maintenance of quality and the maintenance of a coherent process of marketing. They worry that the overproduction of burley may be the source of growing chaos in the marketing arrangements. Certain elements of the industry (especially the banks) are also very concerned about price trends, given that they are highly leveraged, in some cases against what are admitted to be not very efficient producers.

### III. Improved Efficiency of Agricultural Input and Service Delivery: Findings and Implications of Current Changes

Utilization of fertilizer and high yielding varieties of seed are seen as essential to increasing agricultural production and productivity in Malawi. The provision of credit,

production inputs (fertilizer and seed), and extension services are all important components of the package needed to increase the usage of improved inputs. Attention prior to the initiation of the smallholder burley program had been directed, by the Ministry of Agriculture and many donors (including USAID), to the provision on inputs for the production of hybrid maize, principally through farmers' clubs (or, more specifically, maize clubs). Changes had been made in the formulation of fertilizers imported in an effort to get the cost per gram of nutrient delivered down as much as possible; while subsidies for fertilizer had been reduced, those who argued that they needed to be continued in order to boost productivity of the staple food crop and to guard against environmental deterioration carried the day.<sup>35</sup>

Other input and service delivery innovations affecting smallholder access to improved inputs and extension services have been made in the last several years. These involved: the establishment of a Smallholder Farmers Fertilizer Revolving Fund and a fertilizer buffer stock; and setting up an extension service for estates which was privately funded, thus freeing up the MOA extension service to concentrate more fully on the smallholders. In the last year or so, private sector suppliers of seeds, fertilizers, and agricultural chemicals have been allowed to operate in competition with parastatal entities as well as to serve as sources of supply to other public entities (e.g., the privatized National Seed Company of Malawi (NSCM) is owned by Cargill and provides hybrid maize seed to ADMARC for its distribution through the MOA system).

It was envisioned in the ASAP design that studies of various aspects of the input delivery system would be undertaken in the third year of the Program and would lead to concrete action plans for improving the efficiency of the system in Phase II of the Program. None of the studies have been started as yet. To offer some observations which might tighten the focus of the studies, or even recast them more effectively, the evaluation team asked questions about the functioning of the input, credit and extension service delivery systems and weighed these in considering how the effectiveness of these systems might be affected by changes underway: increasing the estate role in marketing and increasing interest of private companies in input supply.

#### A. The MOA/SACA System

In order to assist smallholders in accessing credit and improved inputs the Smallholder Agricultural Credit Administration (SACA) was established in 1987 within the MOA. SACA provides credit in the form of inputs to smallholder farmer clubs throughout the country. As elsewhere, it is said that lending through clubs lowers the administrative costs of lending to smallholders, removes the collateral requirements and

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<sup>35</sup> World Bank Agricultural Sector Adjustment Program. Report P-5189-MAI, 1990. pp. 25 ff.

increases smallholders' access to credit. The MOA/SACA system relies heavily on field extension agents. Over 430 field credit assistants organize clubs, administer credit, and deliver inputs which are distributed solely by ADMARC. From the farmers' perspective, it is the FAs, working with the RDP/EPA credit/marketing officers who make sure the clubs receive their inputs from ADMARC on time and follow up to see that loans are repaid.

SACA has expanded its seasonal credit allocation from 27 million kwacha in 1987/88 to almost 90 million kwacha in 1991/92. The bulk of this lending has been for maize production, with recent expansion into burley tobacco. The amount of credit extended to burley clubs by SACA in 1992/93 was 8.3 million kwacha.

In order to maintain its revolving funds, SACA claims it needs to have a recovery rate of at least 80 percent. This smallholder credit delivery program has been exceptionally successful in terms of credit recovery. From 1987/88 through 1990/91, SACA's recovery rates were between 79.9 and 91.1 percent. According to SACA, the main reason for this success is that they were able to use club peer pressure to encourage repayment. SACA policy states that if even one member of a club defaults on a loan, that entire club will not be allowed to borrow again.

In recent years, however, the MOA has put pressure on SACA to be more lenient in its policies. In 1991/92, the drought caused most of the maize crops to fail; a 30 percent recovery rate for maize credit caused SACA to go against its policy and reschedule the debt for many defaulters. Burley growers, helped by strong prices on the auction floor, fared much better in the drought of 1991/92 and SACA concluded that year with a burley credit recovery rate of around 70 percent. Many burley producers reported that they used some of their burley profits to help pay off their maize loans, so even the low rate of maize loan recovery was better than might have been expected. However, other burley clubs found that some members were granted credit in 1992/93 while others, who had not repaid, did not get any. This is somewhat contradictory to the notion of group solidarity and peer pressure.

SACA has reported, too, that collection problems arise as a result of extension workers not being properly informed about the program and the slowness of ADDs in setting up the clubs. Other efficiency problems in input supplies have occurred as a result of shortages of foreign exchange to purchase imported inputs, delays in allocating quotas by the MOA, and late arrival of funds to run the program. Local currency generated by the ASAP NPA has, in fact, funded some of these costs.

According to the evaluation team's discussions, the MOA/SACA system appears to be working fairly well although complaints about late arrival of supplies were ubiquitous. It has served some 13,000 clubs with over 350,000 members (more than a third of the eligible population). The system has incorporated the 1,000-plus burley clubs

without too much difficulty, and appears to be prepared to take on the additional smallholders to be incorporated under ASAP. SACA presently provides training for club members in the fundamentals of group dynamics, responsibility and obligations, cohesiveness, internal loan administration, and supervision of group activities. It has also been reported that one of the reasons that smallholders have done so well in producing burley tobacco (producing good quality and receiving good prices) is because SACA credit has ensured that, on the whole, smallholders do use tobacco compounds and top-dressings.<sup>36</sup> Leakage from burley to maize has been noted but has not been as serious as it might be.

Continued expansion of the number of smallholders producing burley tobacco and utilizing improved varieties of maize and fertilizer will require both improvements in the efficiency of present operations, and, in the view of the evaluation team, more extensive training programs and hiring additional MOA and SACA field staff. The focus for interventions to increase the efficiency of input and service delivery further should be the burley club. ASAP technical analysts correctly, we think, recommended that considerable effort still needs to be made in improving the record keeping capabilities of the clubs.<sup>37</sup> It was evident in our discussions, too, that some clubs were having serious problems in distributing revenue to individual members based upon actual production, quality and quantity sold. Others were having similar problems sorting out payment for bales which contained more than one farmer's tobacco. Management of the joint account for joint investments (such as hiring transport or constructing a grading shed) was not even considered yet to be an option by a few of the clubs with whom we discussed the issue. If, however, the flow of incomes from burley is sustained, club members may find it in their interests to think of their mutual, as well as their individual, interests.

However, it looks as though the current system is about to be replaced. As the evaluation was being carried out, key MOA personnel were in Washington negotiating the start of a new World Bank-supported program to develop an Rural Finance Company (RFC) which will incorporate SACA functions but operate independently of the MOA.<sup>38</sup> While the full transition is not to be accomplished for three years, ADD credit/marketing staff are expected to be transferred to the RFC by October, 1993, and MOA staff are intended to be relieved of their credit functions starting in 1993/94.

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<sup>36</sup> Olney, Gavin Consultancy Report on Smallholder Burley Marketing for the ASAP. ACIDI. October, 1992.

<sup>37</sup>Crane and Olney, op. cit., 1992.

<sup>38</sup> World Bank Staff Appraisal Report. Malawi Rural Financial Services Project. Jan. 29, 1993

## B. Post-MOA/SACA: Toward an Independently-Administered Rural Credit System

The evolution of SACA as a credit services agency within the MOA has played a significant role in the conduct of agricultural extension services. Initially extension officers used the group, or club, mechanism to facilitate largely technical contacts with farmers at the village level. However, with the increasing availability of MOA administered credit in the late 1980's, field extension staff reoriented their work programs to spend more of their time on credit-related activities. The expansion of the MOA/SACA credit services has been at the expense of other multi-purpose extension services.

The MOA has now committed itself to plans to delink extension services from credit activities and for extension agents to focus their work on technical training. It is intended that the new Rural Finance Company will increase the coverage and effectiveness of rural financial services in Malawi as an independent entity. Just how the MOA extension service's refocussing will affect the ability of the new RFC to provide credit with substantially less assistance from MOA extension staff is unclear. There are also questions about the sustainability of rural credit activities in the new institution, which is expected to be profit-making, as SACA is still heavily subsidized by the government and requires donor assistance to finance new entrants into the system.

The World Bank project and local (so far, public sector) investors will finance the initial cost of converting SACA into the Malawi Rural Finance Company.<sup>39</sup> Ultimately, it is expected that the RFC will become a limited liability company with private sector (farmers clubs) and government as shareholders. As part of the agreement with the World Bank, the GOM is to provide assurances that the RFC will be transformed into a rural bank over a 3 year period. It is envisioned that the bank would consist of a head office and six branches located in rural areas. The branches are to be treated as separate profit centers responsible for lending activities. These branches are to be supported by 25 satellite offices that will serve as operational centers for field staff. Staffing of each branch or office is expected to be based on volume of the lending portfolio; however, it is expected that total company employment will not exceed 450 employees (not that many more than the current SACA field staff).

SACA will become one of four divisions in the new bank. The other divisions will be for: servicing small estates, who now fall between the cracks of the larger banks and SACA; servicing small scale non-agriculture loans; and rural savings mobilization. The SACA-based division will function pretty much as SACA does now to serve smallholder agricultural interests. While this proposal has some major advantages,

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<sup>39</sup> World Bank. Agricultural Sector Adjustment Credit Report, 1990.

including providing some financial services to the small estate sector and, possibly, to a new group of rural entrepreneurs, some problems are envisioned in loan preparation and supervision with the projected number of farm-credit staff, unless burley clubs improve their own credit-management skills enormously -- and rapidly.

### C. The Private Sector Trade in Agricultural Inputs and Services

Private sector trade in agricultural inputs and services is underdeveloped largely due to constraints which affect all private sector trading in Malawi: decentralized licensing; regulation of buying and selling prices; restrictions on locations in which trading activity may occur; and restrictions on the use of transport for the movement of produce. The established system for providing credit to smallholders is inextricably linked to ADMARC, making it difficult for private sector agents to compete for these markets. Although some private companies have recently entered into the input trade, there are still many official and unofficial barriers to entry.

On the agricultural inputs side, the private multinational Norsk Hydro has been working on getting into the supply of fertilizer and, to a limited extent, the supply of seeds and hand tools. After a difficult time in getting through the regulatory system, they have managed to establish 13 retail outlets since 1991. Plans are to expand that to 20 in the near future. Norsk Hydro retail outlets are strategically located in relation to ADMARC, that is, where demographic shifts have created new opportunities and where ADMARC has not moved in. In 1991, the company managed to lift 5,000 MT of fertilizer; this increased to 12,000 MT in 1992; and a target of 40,000 is set for 1993. If Norsk Hydro reaches this target, it would constitute around 20 percent of the present market. Norsk Hydro estimates total demand to be in the neighborhood of 800,000 MT (how much of that is effective demand is uncertain) and feels that growth in this sector is unlimited.

Norsk Hydro presently sells about 70 percent of its fertilizer to estates and about 30 percent to smallholder farmers. They feel they can effectively compete with other fertilizer suppliers (e.g., ATC, Optichem, ADMARC), especially in servicing the large estates which have access to credit in cash. Those smallholder farmers who have access to cash are also potential clients for Hydro. Hydro's other major problems are getting foreign exchange and being able to buy forward on dollars in order to hedge against further devaluations in the Kwacha.

Another private sector actor in the agricultural inputs business is ATC (Agricultural Trading Company), a wholly owned subsidiary of Auction Holdings Ltd. ATC is a profit making company and handles all inputs associated with growing tobacco. It provides inputs to smallholders as well as estates, appears to be best suited to servicing bigger clients. It has nine depots (Mzuzu 1, Central 4, South 4) with the head office

located in Lilongwe. It is able to offer transportation services for fertilizer purchases of over 100 bags (first 20 km free) and can arrange to deduct input costs at the auction floor (20 percent interest rate).

Lever Bros. and Cargill are both private agri-business corporations with some years of experience in Malawi and actually compete with each other in certain lines. Both are currently involved in hybrid maize seed production, Cargill as the owner of the National Seed Company of Malawi (NSCM). One might expect that their business development interests (in soap making, edible oil manufacture, etc.) would lead them to some degree of interest in developing local supplies of agricultural commodities which are input to their major product lines. However, even these corporations use ADMARC as their principal agent in distribution of inputs or procurement of commodities, rather than engaging in such trade directly and competitively.

An area for growth for all input suppliers is the small estates. Currently, these estates have difficulties in getting seasonal financing. The establishment of the Rural Finance Company, which will incorporate SACA, is also to provide lending to small estates. This may help improve their situation and strengthen the overall private input supply business. Further gains in efficiency may be achieved if, as apparently happened in a few places in 1992, private sector dealers as well as ADMARC are allowed to contract to deliver smallholder credit in-kind.

#### IV. Increased Equity in the Agricultural Sector

ASAC and ASAP have taken on the challenge, as well as the complexity, of encouraging the introduction of greater equity into an economy marked by a tradition of inequality in terms of access to productive assets and wide differences in wealth. The significance of the challenge cannot be understated.

At one level, it involves the reversal of an historic process that originated in the colonial system of production and has continued, even intensified, during almost three decades of political independence. In that process, a very small elite came to arrogate to itself all of the major components of political power and economic privilege: substantial tracts of land as "estates", market monopolies, access to cheap labor, preferential access to capital, and control of major posts in the government. Three specific components of this systems were: the estates' exclusive rights to grow burley tobacco, the sole crop which accounted for almost half of exports; the requirement that smallholders sell their crops at fixed prices only to a state-owned agency, ADMARC; and very tight control over wages paid to labor and prices paid to smallholders and estate tenants. ASAP, in supporting the expansion of the smallholder burley program, has successfully challenged all three, laying the groundwork for increasing equity in the agricultural sector.

At another level, concern for equity has called for proactive steps to ensure that, within the smallholder community, women and those with more limited access to land are given equal access to program participation. This "targetting" may have resulted in a wider representation of these groups, and less domination by local smallholder elites, than would have otherwise been the case.

In this section, we review our findings regarding the Program's efforts to increase equity in the Malawian agricultural economy. Within a framework that focuses on estates and smallholders, it is very clear that ASAP has responded very effectively to the equity needs of the country. It faces new challenges, no less important, but possibly more complex in trying to sustain that concern with equity among smallholders themselves. We further attempt, therefore, to identify the new sets of questions to which the next phase of the program should give urgent attention.

#### A. Estates and Smallholders

ASAP's central thrust of opening up burley to smallholders and ending ADMARC's monopoly of purchasing smallholder burley (and the secondary objective of improving conditions of estate tenants and laborers) amounts to a very profound challenge to the historical extremes of inequality that have characterized Malawi's economy. ASAP is therefore a production program that has equity at its core. But the very extremes of poverty and inequality in Malawi complicate the equity agenda. ASAP's very positive achievements and its future concerns need, therefore, to be understood in a broader and longer term context.

In the 1970s and 1980s, Malawi implemented a systematic economic growth policy based on support for large estates at the expense of smallholder farmers, all within a very strictly and comprehensively regulated environment.<sup>40</sup> The benefits conferred by the policy were sufficiently attractive to spur substantial increases in the number of Malawians seeking them through the formation of estates. In the 1980s, there were two major waves of estate creation. By the end of the decade, the number of estate-owners had grown from 1,200 (controlling about 300,000 hectares of land) to approximately 14,500 (operating some 800,000 ha).<sup>41</sup>

Many of these newest estate owners, particularly those with less than 30 hectares, were established by progressive smallholders, registering customary land which they and,

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<sup>40</sup> Kydd, J. and R.E. Christiansen "Structural Change in Malawi since Independence: Consequences of a Development Strategy based on Large Scale Agriculture", World Development, Vol. 10, No. 5, pp. 355-375.

<sup>41</sup>Mkandawire, et al. op. cit., 1990.

frequently their relatives, had been cultivating for many years. They lacked all or most of the characteristics usually associated with the idea of estates (i.e., salaried managers, a high degree of cash crop specialization, and large permanent work forces). Yet these two waves of new estate creation did change the face of the estate sector. Extremely important production and marketing benefits were spread from a minuscule economic elite of very large estates owners to include farmers with less than 20 hectares of land.

On the other hand, it did little to change the face of the smallholder sector. There were a total of 1.1 million smallholder households in 1980 and 1.3 million in 1990. While the estate sector grew by some 13 or 14 thousand owners, the number of smallholder farmers increased by an estimated 200,000. Thus, while we witnessed an expansion of the estate sector from 0.11 percent to 1.12 percent of households, a small but significant change, 90 percent of the rural population continued to cultivate customary landholdings which diminished slightly in size every time a new estate or a new smallholder household was formed. The point of presenting these figures is to illustrate, in possibly over-simplistic terms, the complexity of seeking greater equity in Malawi.

#### B. Among Smallholders: Targetting the Smaller Landholders

The smallholder sector represents almost 90 percent of the rural population; some 11 percent of that population works as tenants or wage laborers in the estate sector. Within the smallholder sector, there are considerable differences in terms of landholding size. 80 percent of smallholders are considered to have less than 2 hectares (ha) of land, and 75 percent less than 1.5 hectares. 20 percent have between 1 and 1.49 ha (and are considered subsistence farmers able to produce a small surplus in good years), and 55 percent have less than one ha (which at current productivity levels is thought to be capable of supplying a maximum of 75 percent of the family's basic nutritional needs). 23 percent live on less than 0.5 ha which yields only 27 percent of their consumption requirements.<sup>42</sup>

In response to this pattern of landholdings, the ASAP design expressly signalled an intention to ensure that farmers who have between 0.8 and 1.5 hectares, i.e., enough to allow for sound rotation and the production of other crops, had access to burley quotas. The Program Agreement does not require that all burley club members (with access to both burley and the auction floors) belong to this category of farmer, but the MOA was expected to make specific efforts to increase the number and percentage of farmers of such farmers in clubs.

Less explicit in the Program design was recognition that landholding sizes vary by

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<sup>42</sup>World Bank Food Security Report. 1990.

region within the country. Thus, smallholders in the relatively land-abundant north and central regions (Karonga, Mzuzu in the north; Kasungu, Lilongwe, and Salima in the center) have larger holdings on average than those in the south. No distinctions were made in the discussions with the MOA, apparently, on revising the 1.5 ha target to be more appropriate to specific regions.

So far the program has registered between 26,000 and 29,000 smallholder farmers, all of them operating within clubs. In terms of both technical training in burley production and in club formation, this is a major achievement for which both the ASAP program and the Malawi agricultural extension service deserve credit.

Participation rates of farmers with less than 1.5 ha in these clubs are reported to be as follows, by ADD:

North:	Karonga 95.3%	Mzuzu 98.8%	
Center:	Kasungu 4.9%	Salima 98.4%	Lilongwe 78.0%
South:	Liwonde 74.6%	Blantyre 87.5%	Ngabu 47.7%

Taken at face value, these figures are, with the notable exception of Kasungu, very satisfactory, indicating considerable success in targeting to farmers with smaller landholdings. There appears, however, to be good reason to believe that they are of dubious value and that in many clubs, if not most, many, and probably most, members hold more land than is being acknowledged. In a number of meetings, farmers said as much; in other cases, it was clear from the quantity of tobacco produced that many of the landholdings were far larger. This assessment is supported by the fairly common practice of ex-members of maize clubs becoming members of burley clubs and where this occurs this would definitely limit membership to the top 20 percent of smallholders. Given the longer experience of earlier club members and their better connections with the extension service, it is likely that burley club membership, particularly in the Northern and Central Regions of the country, may be even more limited than this.

The reality is that the larger smallholders who were too small or too late to register as estates, but too large to satisfy the smallholder burley program criteria, are inevitably going to provide a powerful local upward pressure on this landholding size criterion of access to burley production. Burley is too uniquely valuable to expect them to passively accept the present dispensation. The extension service does not appear to have the political muscle to prevent this, and it lacks the resources to verify and enforce the requirements.

Does this apparent failure to target on landholding size indicate that the effort to include smaller and well as larger smallholders should be abandoned? There is one obvious approach, which has already been implemented by the Program in 1992/93, to retain the targeting objective but to make "cheating" in terms of landholding size more

difficult. Since regional land pressures are skewed, one possibility is to concentrate on those areas where most of the smaller landholdings are found, most specifically in the Southern Region where 50 percent of the population resides on 25 percent of the land, and land shortage has long been considered critical. The predominant proportion of smallholders with landholdings of over 2 ha will be in the Northern Region and, to a lesser extent, in the Central Region.

By directing 48<sup>6</sup> percent of the smallholder quota allocation to the South, with the North receiving just 13 percent and the Central Region 40 percent, this has already been done. The impact of this on overall efficiency and quality of production, however, cannot yet be assessed as the 1992/93 production and sales results are not yet in. This should, of course, be examined after this season's sales are complete. Another point must also be taken into consideration. IFAD is currently designing a Very Small Smallholder Burley Program which is, according to one of its design team members, intended to reach the smallholders with landholdings between 0.5 and 1.0 ha and to provide them a maximum 100 kg quota. To accomplish this, the IFAD Program intends to focus regionally in Liwonde and Blantyre ADDs only.<sup>43</sup> Increasing the ASAP smallholder burley program quota in the southern regions then may become more complicated administratively.

Given the realities and limitations described, and given the fact that the program has already had considerable impact, how should ASAP proceed to deal with the question of targeting?

For a start, there seems to be a need to clear up the confusion at the ADD level about how to implement the <1.5 ha "preference" criterion. Is the idea that increasing numbers of farmers of this kind be targeted or should all members belong to this category? Is measurement of the farms necessary, or, given the evidence to the contrary, should farmers' self-reported land sizes be accepted? Further, there remains some confusion among farmers over the imperial system of acres and the metric system of hectares. To some extent there may be genuine misunderstandings over these interpretations; in others they may provide opportunities to circumvent the principles of the system.

The definition of a household is unclear; if one's grown son still lives and farms on the same property but eats from a different pot, should that family be considered to be two households and therefore able to obtain a double quota? Certainly, greater clarification would be helpful.

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<sup>43</sup> More recent information indicates that this decision may be changed and the program focus broadened to include the whole country. This would further complicate targeting in both the ASAP and IFAD programs.

There are strong arguments for leaving the system to work itself out. First, most of those >1.5 ha farmers in the clubs are still small farmers, particularly so in the South. It may be that the somewhat larger smallholder has greater capacity to make the program work in such a way as not only to benefit his/her household but to stimulate the secondary impacts on the rural economy which are so central to the ASAP initiative. Second, it may also be that it is only this category of farmer who can afford the risk of such a large credit package, and have the capacity to wait out the period for payment from the auction floor - a basic requirement for the effective operation of the club. Third, the limitations on the extension service which have been discussed in an earlier section will make effective targeting unrealistic. Fourth, to overstress the <1.5 ha criterion also leads to consistent biasing of information as all actors from FAs to farmers strive to satisfy the formal requirements of the program. Mzuzu ADD's report that 100 percent of its farmers in each of the RDPs fulfill the requirement is given as an example of this kind of bias.

On the other hand, unless the program retains the criterion, and attempts to exert pressure of some kind to conform, it may find, particularly in the Northern and Central Regions, that it is assisting a far larger category of farmer than was intended, and that equity within the smallholder population - that is, 90 percent of the population - is not being promoted to the extent intended. In the long run, too, ASAP will remain uncertain about some key lessons that could be learned from this program about poor smallholder production, credit and club management.

Losing sight of the <1.5 ha criterion will also complicate the effective participation of the second target group, that of women farmers. As will be discussed in the next section, women, particularly female heads of households, tend to operate on the smallest of landholdings. The more the burley clubs consist of men with larger smallholdings, the more likely that the already existing gender influence differentials will be exacerbated within those clubs.

### C. Men and Women Smallholders

In addition to its declared intention to benefit smallholder farmers, ASAP has a clear intention to include an increasing proportion of women farmers in this undertaking. In the first season of the program, it was reported that 10 percent of members were women. In the second season, after initial hopes of a 14 percent membership, the figure appears to be about 12.5 percent, distributed across ADDs in the following manner:

North:	Karonga 14.5%	Mzuzu 14.5%	
Center:	Kasungu 7.3%	Salima 17.4%	Lilongwe 15.2%
South:	Liwonde 16.8%	Blantyre 6.1%	Ngabu 15.2%

12.5 percent represents something less of an increment than may have been anticipated, and some of the ADDs, in particular Kasungu and Blantyre, ADDs, in which patterns and sizes of landholdings differ markedly from each other, provide very disappointing results. The team was convinced that in the second year of ASAP, in those ADDs visited, the extension service had made a serious attempt to include women. But more will need to be done in this regard, and urgently so.

Some of the difficulties in the way of women's fuller participation need to be better understood in order to achieve more effective results.

- ◆ Because of domestic responsibilities, rural women in Malawi do tend in general to be more risk averse than men. They, therefore, tend to be more conservative about responding to new opportunities. As a result they have been slower in volunteering for burley production, and this puts them at a severe disadvantage as clubs close up very quickly. Since club quotas are then set on the basis of club membership at the time of registration, clubs are reluctant to expand membership unless their quota, too, is increased. Given the demand for new clubs, such increases for established clubs will almost definitely be refused.

It is likely that if new clubs are opened in new RDPs, so the introduction of burley clubs will amount to a new activity in the new area, women will once again be left behind. In this process, it is possible that women farmers will be excluded permanently from the full benefits of burley farming. In regard to women therefore, an unwritten but significant component of the various quota rationing processes under way relates to time.

- ◆ A second concern for women is the size of the credit package for the production of 300 kg of burley. This could amount to 250 kwacha. In addition, a woman is likely to need cash to pay for materials and building of the curing barns and for the transport of inputs and at least the first deliveries of her bales (in the range of 20 - 30 kwacha per bale). These are very large sums for women, particularly female heads of household with less than a hectare of land. Ten years ago, most women farmers of this category feared taking the maize package credit valued at about 30 kwacha<sup>44</sup>.
- ◆ In general, too, women farmers are shorter on labor than men. This is particularly true for female heads of household who will lack a man in the household - specifics will depend on the number and age of her children and the

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<sup>44</sup> Hirschmann, David and Megan Vaughan Food Production in Malawi. Women Farmers in the Zomba District. Berkeley: University of California, Institute of International Affairs.

exact nature - de jure or de facto - of her headship of the family.

- ◆ Finally, tobacco more than any other crop in Malawi, has long been regarded exclusively as a man's crop.<sup>45</sup> Far fewer women have been engaged in tobacco production than men as cash producers, registered tenants or full time laborers. Many members of burley clubs appear to have had some experience with tobacco growing, and women's comparative lack of experience puts them at a disadvantage. Finally, it was also the case that in the first year at least the need to include women was not consistently encouraged. One very successful club in Zomba RDP claimed not to have heard that women could be members; they also had not heard that women were members in any other club. (They did say they were now more than happy to have women as members, but definitely not if they had to work within the same quota.)

#### D. Equity among Women

In trying to better understand the position of women in burley production, certain characteristics of women farmers as a category, as well as differences between them, need to be noted. 30 percent of rural households are headed by women. 72 percent of them have less than 1 ha. 42 percent of households with less than 0.5 ha are female heads of household; 34 percent of those with between 0.5 and 0.99 ha are headed by women; and 24 percent of those with between 1.00 and 1.49 ha are in womens' hands. By contrast, only 8 percent of those with more than 3.00 ha are female heads of household.

Even among female heads of household, distinctions need to be drawn. One study suggests that 40 percent of such households are headed by women who have been divorced or widowed and 40 percent by women 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 African-based migrants have an average income double that of other women-headed households and 40 percent higher than the rural average (Peters and Herrera 1989, cited in ASAP Annexes).

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<sup>45</sup> Vaughan, M. and G.H.R. Chipande "Women in the Estate Sector of Malawi: The Tea and Tobacco Industries". World Employment Research Paper, Geneva: ILO, 1986.

In her 1992 study of Zomba South, Peters<sup>46</sup> found that female-headed households are poorer on average than male-headed households and are disproportionately concentrated in the bottom 25 percent of the income distribution. However, she also found further distinctions between de facto female headed households, which she defined as those where the husband is absent at least fifty per cent of the year, and de jure households. She observed, for example, that de jure female headed households were the only category of farmers who, in the period between her two surveys, neither increased their maize harvests nor retained stocks of home produced maize. She also found that children of de jure female-headed households appear to be more stunted than those in male headed or de facto female-headed households.

This raises a further equity concern. Women who head their own households but are married to South African-based migrant workers may be seen as a relatively privileged group with access to another source of cash. On purely equity grounds, they may be less deserving than a <1.5 ha joint household without that access. Were one seeking equity based on income, these women should not be included in the program. On the other hand, if one seeks greater equity between the sexes, then, given the realities discussed above, principally that >1.5 ha farmers are participating actively in the program, omitting them would amount to discrimination against women among the better-off smallholders, and certainly reinforce unevenness within clubs.

There are other complications in implementing this aspect of the program. Some ADDs assume they should be seeking out women who head their own households, while others are encouraging women farmers who they see as farmers 'in their own right' even if they are not heads of households. In the case of a monogamous marriage a wife may not be a burley club member. In a polygamous marriage, at least the second and later wives may be as they are seen as having separate households. The exact definition of a female headed household is also unclear. One officer was very unclear about this, but eventually put forward a definition of a situation in which the husband was away a minimum of three months a year. In the Ministry of Agriculture, they refer to the regularity of visits by the husband: fewer than twelve visits a year would place the wife in the category of a female-headed household. Others may demand much longer periods of absence, even a de jure definition, i.e., a widow, divorcee, or a woman who has never married. There is also anecdotal evidence, observed by Culler<sup>47</sup> and in the course of the interviews with women farmers in Zomba and Phalombe, that the absent men may

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<sup>46</sup> Peters, Pauline "Monitoring the Effects of Grain Market Liberalization on the Income, Food Security, and Nutrition of Rural Households in Zomba South, Malawi." August, 1992.

<sup>47</sup> Culler, Carol "Female Farmers' Participation in the Smallholder Burley Scheme." For USAID/Malawi. January, 1993.

return to the farm once the burley starts bringing in returns. The woman may marry or remarry.

Progress has been made in getting the extension service to work on the inclusion of women farmers in the burley program. Now, a clearer sense of what ASAP is trying to achieve with its focus on women, and of possible priorities among women, would assist the extension service in fulfilling this aspect of the program.

#### E. Within Clubs

In seeking enhanced equity within clubs, one is not aiming at strict equality of benefits between members. Nevertheless, for a variety of reasons, including those of justice, solidarity, accountability and sustained effectiveness, there is need for some degree of fairness in the distribution of club benefits. Some distortions of the equity objectives of the program, some of them potentially damaging to the purpose and management of the clubs, were observed by the team as well as by Olney and Crane in their study.

There are a number of ways in which members may take advantage of other members to benefit themselves disproportionately and at the expense of other members, as well as potential members. Some of these advantages may result from a circumvention of club rules, others from having greater resources or better information. The following are examples: including family members such as wives or sons as members and thus obtaining additional quota; harvesting earlier in the season and therefore having access to the first deliveries of tobacco to the auction floor; getting such access because of better information or personal connections with truck drivers; reliance on better levels of education and therefore a better understanding of the system and how to use and abuse it; stronger networks or connections outside of the club which may lead to advantages in regard to extension advice, procurement of plastic for curing barns, permission to increase quota, transport and transport information; and also greater influence over club decisions.

There are mixed findings on practices within clubs, but certainly both kinds of extremes have been observed; those in which dominant members have taken advantage of their positions to gain far larger benefits from the club than smaller members leads in some cases to a very skewed distribution of benefits. There are examples of a few big men dominating sales and early deliveries. The situation is analogous to the top and tail enders in irrigation schemes. The advantages of getting in line early are often better prices, the ability to go over quota and then to leave the last minute late arrivals of bales to weaker members of the club. In one example the tail enders were left having to pay the fine for being over the club quota as well as getting a lower price for their crop.

On the other hand, it was also obvious to the team that there were clubs where

the rules and principles were generally being observed. The women farmers interviewed in Zomba and Phalombe seemed to feel that club benefits were being fairly distributed. This did not mean there was strict equality in the sense that all farmers were making equal profits, but rather that all members had a reasonable opportunity to sell their quota over the period of the selling season.

From a gender perspective, it must be assumed that there is potential for women to be disadvantaged in this process. They would have many of the weaknesses of the poorer club members, plus some specific problems deriving from gender relations within the rural sector. For cultural reasons, in some parts of the country, women do not have experience in building and therefore this tends to mean they have to engage in extra early season expenses in employing someone to build this for them. Since this work is related to burley production, even family members sometimes expect payment for helping with this. It is also probable that women heads of households will both have more domestic responsibilities and less labor than the men in the club and will therefore harvest their crop later and consequently be at a disadvantage in the queue for transport. They will tend to have less access to information and outside actors, such as transport drivers and extension officers, because of lack of mobility, social reticence, lower education and literacy levels and non-membership of club committees. Possibly being less assertive and educated could lead to being discriminated against in receipt of plastic for barn roofing, in grading and payment as well. In general, women in the rural areas of Malawi are less mobile than men, and this will hinder their full participation in clubs, particularly those based on a membership that is geographically scattered.

#### F. Within Households

Much of the discussion so far in this section has been concerned with differences between men and women in the rural areas, with an emphasis on women who head households. The program has to a large extent focused attention on this latter category of women because typically they are extremely resource poor farmers surviving in the most difficult of economic situations. If in the second year of the program women made up 12.5 percent of those registered in the clubs this means that 3,312 women are participating. It also means that of the 23,148 men participating, most will have wives who assist them. Farmers who were asked about this said that their wives were fully involved in all tasks except building barns, and that sewing of the leaves was specifically a woman's task. While a detailed understanding of the sexual division of labor would require much more careful analysis, it was clear that women were fully involved in burley production.

Given the high rate of return on burley, it must be assumed that wives and children of male members of burley clubs are receiving some of the benefits which

derive from the profits. However, some caution in drawing over-optimistic conclusions is in order. If one looks at the history of development projects which have focused on male household heads, a very common if subtle impact has been for the wives to be relatively disadvantaged in comparison to their husbands; the husbands gain more technical expertise, more experience with credit and management, more funds to control, more status for bringing in more cash, while the woman's contribution with her own less profitable crops becomes downgraded. It also means that the wife lacks the expertise and contacts if her husband leaves her for one reason or another through death or divorce, or to work elsewhere. This pattern of differential benefits deriving from projects has been so typical that his program should take this possibility seriously. In emphasizing the 3,312 female heads of household, it should not disadvantage 23,148 wives.

Burley is at this time a very profitable crop and in the short run there would probably not be too many wives who would complain. There does not however, seem to be a major problem in the way of giving attention to wives. Either women could attend at least some of the extension meetings together with their husbands or on their own. When a men-only club was asked about this they were enthusiastic about the idea because they acknowledged the role of their wives. (Earlier this club had responded to the question of whether their wives worked on tobacco by saying that 'even as we attend this meeting they are on the farm working on the tobacco'). They applauded enthusiastically the suggestion that their wives should attend meetings to learn how to farm burley.

#### G. Estate Tenants and Laborers

A specific category of the poor upon which ASAP intends to focus as an important but indirect beneficiary of the program is that of tenants on estates. The anticipation seems to have been that as burley production became more attractive to smallholder farmers, at least some tenants would be attracted back to their small holdings (having experience with tobacco would put them at an advantage in this regard), and consequently estate owners would need to make working conditions and prices more competitive than they are now. In addition, the GOM undertook to inform estates that they were required to publish on the estate the full conditions of their tenants' contracts, in order that all parties would know their rights and responsibilities.

There is some evidence to support the idea that estate owners have lost some of their tenants to smallholder farms and are having to make conditions more attractive, but this requires far more careful study. On average, tenants receive considerably more than the minimum agricultural wage. But there are marked differences among tenants. Those on large estates generally do better than those on small estates. A very high turnover of tenants of 31% is however indicative of unsatisfactory estate-tenant relationship.

In addition to the 166,000 tenants and their families working on estates there are also some 91,000 permanent laborers and large numbers of casual laborers. It is estimated that 8 percent of full time workers on estates, 32 percent of casual laborers and a very small percentage of registered tenants are women. On average, women earn 40-50 percent less than men. Over 20 percent of both full and part time labor is made up of children. ASAP should consider focusing not only on tenants but also on laborers both full time and casual. Their situations, conditions of work and payments are all interrelated. It is possible, for example, in response to competition for their tenant labor, that estate owners may not pay more to tenants but increase the number of permanent and part time laborers, as the smaller estates do.

The study by Mkandawire et al found that 49.5 percent of laborers were paid less than the minimum wage, and 32 percent were paid less than 30 kwacha per month. Children were paid less than 20 kwacha per month. Often laborers are paid at the end of the season. Housing conditions and facilities are generally very poor for workers and tenants alike.

While women make up only a very small percentage of tenants it is known that estate owners prefer married tenants with families because of the additional labor provided free by the family. Therefore there are probably close to an equivalent number of women working in tenant households for estates as there are men. In Vaughan and Chipande's survey, all farm managers interviewed agreed that they would not employ a man without a wife, and all the women interviewed noted that it would be impossible for their husbands to fulfill their role as tenants without the wives.

What we know about their predicament indicates that women are more exploited and discriminated against than men and that is no mean achievement. The tobacco estates illustrate how the sexual division of labor effectively eliminates women from full time employment. They are assigned the least secure and least well remunerated tasks. It is interesting that this sexual division of labor appears to break down when male labor is scarce or when, in the case of tenants, the household is the basic unit of production. Their unpaid domestic and agricultural labor is crucial to the viability of the whole estate system of production. Successful burley production requires a great deal of labor which needs to be mobilized at short notice and for long hours during crucial periods. These women have no rights to the land they farm, no legal recourse except through their husbands and no security in land except through their marriage, and generally continue to be responsible for the children even as they work. They are also more likely to be given task work, that is, work that has to be completed each day for the employee to receive the full salary for the day, for example, tying a certain quantity of tobacco leaves.

Labor on the estates is, therefore, a complex phenomenon and ASAP analysis of the estates needs to take account of laborers as well as tenants, and to include permanent and casual labor, and also men, women and children. From a gender

perspective, this broader view would acknowledge the contribution to estate burley production of approximately 160,000 women in tenant households, about 7,000 women full-time laborers and many more thousands of women who, as part-time workers, contribute essential services during peak periods of labor demand. If we add the 23,000 wives of burley club members and the 3,000 women club members, let alone the women involved in illegal burley production, the notion that, in Malawi, tobacco is a man's crop becomes a very dubious proposition. It may have some validity insofar as we consider only those who are included in official figures as registered tenants or full-time laborers or as receiving cash payments, but it is misleading in terms of the overall production process.

#### V. Expanded Crop Diversification Opportunities

Since 1980, the diversification of the economy has been on the GOM and donor agendas. During the decade, however, dependency on burley as the major source of foreign exchange earnings has grown and production of domestically-traded crops (such as groundnuts) has stagnated. While there is some evidence that neighboring countries are using Malawi's primary products as inputs to other manufacturing processes, there has apparently been little research done 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. Although many, if not all, legislated disincentives for investment have been removed, investment in the agricultural sector which would lead to an exportable agricultural commodity does not appear to have increased.

##### A. The Concept of Diversification

Agricultural diversification in any context can mean a number of different things: substituting the production of one crop for another; adding a complementary crop to a production pattern; adding a completely new crop to a production pattern; developing new post-harvest processing options so that the same crop results in one or more new, higher-value products; or a combination of all of these things. Each of these approaches to diversification implies that one is seeking somewhat different objectives through the diversification process: more efficient use of a fixed set of resources (land, labor); increased investment in resources to spur a net increase in output; risk-minimization by the production of commodities which have different resource requirements and/or different market outlooks; etc. The diversification concept which seems to be most widely shared in Malawi is that of adding new crops to the production pattern in order to increase export earnings. The objective of adding new high-value crop/livestock activities to smallholder production enterprises to increase household incomes also seems to be common.

For the production of high-value non-traditional agricultural commodities to find a successful niche in a diversification strategy for Malawian agriculture, the producer/investor must have the resources to establish both the production and marketing systems for the commodity. As discussed, an active marketing sector, ready to respond to the possibility of new production, simply does not exist in Malawi. The basis for diversifying into non-traditional agricultural commodities would, therefore, be the generation of sufficient returns on total investment, not just the incremental profit derived from commodity sales. Thus, a commitment to produce high-value non-traditional agricultural commodities implies an investment decision which would require substantial capital and resources. In our view, only the larger estates currently have the backing for such a decision. We return to this in Section C below.

However, little evidence exists indicating that the absorptive capacity of the domestic markets in Malawi for traditional agricultural commodities has been met. This suggests that an initial thrust of a diversification strategy might usefully focus on the production of traditionally-produced commodities for domestic consumption and export. This would permit small to medium size estates and smallholders to initiate production in the short term; following the analysis above, however, this would imply that further development of the domestic markets would be the target for their diversification program. How this would work is outlined in the next section.

#### B. Burley as a Means for Diversifying Smallholder Incomes

With the present level of economic profits being obtained from burley production, there are, in reality, no alternative substitutable agricultural commodities for the smallholder producers to grow. This does not imply that smallholders should not diversify beyond burley. In fact, smallholder burley producers are in a good position to diversify. They have low overhead costs; they are efficient producers; and, most importantly, they have obtained a large income increment from the burley production which can cushion further risk and provide investment capital. If a functional marketing system is in place to handle the marketing aspects, burley-generated resources and experience could be used to excellent advantage in developing additional production of other crops, such as in the production of vegetables for the local market.

Based on observations to date, there seems little doubt that smallholder producers who diversify their income sources by producing their burley quota will first diversify further by increased utilization of hybrid maize seed. If maize production is automatically doubled by using hybrid seed, then smallholders could divide their maize land allocation in half and still maintain the same amount of production. This would then permit use of the other half for other cash-generating production activities -- the beginning of more serious diversification of production and incomes. In the end, the smallholder would have a stable amount of maize for consumption and, at the same

time, have a sizeable cash remuneration from the burley and other cash commodities.

For smallholders unable to obtain a burley quota, then the hybrid maize option might, in itself, be adequate to support an initial diversification of income. With the higher yield levels, hybrid maize could free up land that could be used to produce more profitable commodities. However, short-term financing and, particularly in the south, land availability may limit the ability of farmers with very small landholdings to successfully pursue this strategy.

C. Estates as Innovators and Leaders in Diversification of the Sector and Exports

While, as we have indicated above, it is logical to assume that only estates have adequate capital and land resources to take the risks of innovation in various crop/livestock enterprises, there is some evidence that estates in Malawi at this time are highly unlikely to do so.

There are several reasons for relatively low risk-taking attitudes on the part of estates, the strongest of which is that estate owners are heavily invested in a tobacco-based system which works well for them. Virtually the entire cash flow of most estates currently revolves around burley or flue-cured tobacco production. It is in the estate's interests to keep that cash flow moving smoothly and reliably so production strategies tend to be centered on tobacco production. Small amounts of maize, either hybrid or local varieties, are produced to meet tenant requirements and agro-forestry activities are pursued to assure the production of fuelwood associated with flue-cured production. In addition, the estate owners can currently rely on the strong, well-developed market system to handle their production at relatively low cost. Until forced to do so, estate-owners are likely to be reluctant to consider alternatives.

The Estate Extension Service Trust (EEST) has a mandate, however, to pursue the diversification issue with regards to small and medium size estates. EEST is looking at diversification in terms of introducing crops in addition to tobacco that would provide a significant return to an estate. Their initial efforts have been with promoting hybrid maize, dairy, poultry, oilseeds, and beef production. In essence, what EEST is proposing are livestock and crop production activities which would require minimal capital investments, and, to a large extent, minimal labor investments. Further, EEST is focussing on commodities which it assumes have fairly large un-met domestic markets.

Discussions with various estate owners, however, gave some indication of the difficulties which these diversification options promoted by EEST might face:

- ◆ EEST is focussing its efforts on the small and medium size estates where

fluctuations in tobacco prices are anticipated to have the most impact on current incomes. Many of these estates were established -- and many got bank financing -- on the basis of projected tobacco incomes. If tobacco prices were to fall, many of these estates would find themselves in almost immediate financial crisis. While other crop options would become more attractive compared to tobacco, estates capacity to undertake the new investment to switch production might be limited. For example, EEST considers the market system in Malawi adequate to handle modest increases in production of livestock, poultry and dairy products. The first question would be whether the estates could afford the needed capital stock. However, if estates must also take the initiative to develop marketing options for these alternative commodities, this may pose a substantial difficulty for many of them.

- ◆ Estates diversifying into the production of other commodities would initially probably look to the involvement of ADMARC. ADMARC's track record in the past has not been admirable, however, in terms of supporting producers. Survival/success of the activities in the long-term would depend on other trading opportunities opening up in the market system.
- ◆ Major diversification efforts by the GOM have focussed on expanding production of non-traditional export crops such as cut flowers, macadamia nuts, cashew nuts, spices and specialty vegetables. The group targeted to implement this expansion has been the larger estates. The larger estates have well established capital bases, although their operational overhead may be quite high. They are looking for alternative cash crops to offset the anticipated fall in revenue resulting from the projected decline in burley tobacco prices or general declines in estate revenue as variable and fixed costs increase over time. To date, there have been few interested estates and of those that have become involved, few have been successful/survived.

D. Agro-Processors as innovators and leaders in diversification of the sector and exports.

With the wide array of agricultural commodities being produced by smallholders and small estates, the opportunities for processing these into more storable, higher-value commodities for the domestic market seem unlimited. Groundnuts, sunflowers, and soybeans are often cited as commodities which are well-known to small producers, can be produced successfully, and which could be processed into edible oil. Sweet potatoes, cassava, and cassava are also cited for potential. Other vegetables which also have

processing potential, such as tomatoes, are being produced in limited quantities mostly for the fresh market.

Discussions with agro-processing firms indicated, however, current constraints to their interests in taking the lead in processing these commodities for the domestic market. First, they cite the high costs of collecting small amounts of product from large numbers of producers. This, they reason, is why they must deal with ADMARC, which has the nationwide seasonal market infrastructure to undertake such collection. Second, they cite the competitive prices of imports from other countries. Argentinian soybean oil c.i.f. Blantyre, for example, is cheaper than locally-procured sunflower. Third, they cite the need to develop their own processing capacity; for Lever Bros., this was the principal constraint which caused them to drop out of the local sunflower market expansion effort two years ago. Imports of equipment take a long time and require foreign exchange (currently short). Finally, the agro-processing firms note the lack of purchasing power. The fact that the most popular size for cooking oil is a very small packet tells one something about cash availability.

On the export side, tobacco remains as the number one commodity for processing for export. However, coffee, tea, groundnuts, oilseeds, and sugar cane have the potential for being processed for export marketing. The limiting factor lies in the investment required for establishing the processing capacity. Investment capital in Malawi is limited to those select individuals with the right ties to foreign investors and the banking establishment. It is not those individuals who are likely to be willing to assume the risk of starting-up a new enterprise, such as processing of agricultural commodities for export. In addition, there seems to be a prohibition on external investment into the agricultural sector which needs further investigation

#### E. The Outlook for Diversification

Although increased crop diversification is one of the four principal themes of the ASAP, there is little evidence today that such diversification is going to be induced simply by passing information to potential producers on crops they can grow or commodities (such as milk) that they can produce. While there is some reason to believe that burley production, particularly in the hands of smallholders, will lead to expanded incentives to diversify agriculture, there are a number of other constraints which need to be considered. Most of these constraints derive from the undeveloped market structures for all crops other than tobacco.

Without a means to get the crop to markets, either domestic or export, and without a steady purchasing clientele, producers will not be able to turn their production capacity into incomes. Yet, as we have seen, formal and informal marketing institutions other than ADMARC are largely absent in rural Malawi. In addition, the fleet of small

commercial transporters that also service the formal and informal market system are virtually non-existent. Thus, if Malawi is to diversify its agricultural production to supplement the income generated from the cash cow, i.e., burley tobacco, the initial thrust should be directed in opening up and/or expanding the formal and informal rural market system.

A fundamental aspect of this process is removing the barriers to regional trade. Of these, restricted licensing for trading in agricultural commodities with the potential for export, the questionable convertability of foreign exchange received, the high transportation costs associated with transporting agricultural commodities to neighboring markets, and the GOM's frequent intervention into the export trade prohibit traders and investors from entering into the export market system.

In short, we are reasonably confident that Malawian farmers can produce a wide variety of agricultural commodities but they do not have the wherewithal for marketing the commodities either in domestic or export markets. Real possibilities for broader diversification of smallholder incomes, estate production patterns, agricultural products available in domestic markets, and agricultural export earnings remain tied, therefore, to progress in market development.

#### VI. Summary of Conclusions with regard to the Program's Goal and Purpose

The ASAP has already begun to contribute in a measurable way to the achievement of the purpose and goal set out in the PAAD.<sup>48</sup> By increasing smallholder access to the output market for a single agricultural commodity, burley tobacco, smallholder incomes were raised by some 10 million kwacha over two years (from 1990/91 and 1991/92 marketing). Additional incomes realized by the smallholder sector from burley production and sales in 1992/93 could be as much as 10 to 12 million kwacha. So far, the effect of this income boost has been restricted to a very small segment of the smallholder sector. Nevertheless, the smallholder experience in burley production has clearly begun a process of agricultural change which offers some prospects for achieving the Program purpose and goal on a broader basis. It has brought a significant, if small, number of farm households into the cash economy; it is providing important experiences in competitive marketing.

Reaping full advantage of the burley initiative, however, will require the development of product markets outside of the tobacco sector. Such development could

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<sup>48</sup> The ASAP purpose is: To increase smallholder access to agricultural inputs, output markets, cash crop production alternatives, and labor market information. The goal is: To increase agricultural productivity, employment, and income.

be spontaneous -- in response to people with increased incomes from burley production seeking to purchase expanded volumes of goods and services and other people responding to supply them. It is our conclusion, laid out in more detail here, that spontaneous development is too much to hope for. Rather, we argue, it will take deliberate action on both the part of Government and the private sector to bring it about.

The reasoning behind these conclusions is recapped in the following sections.

A. Smallholder Burley Production as the Beginning of Major Agricultural Restructuring

The provision of burley production quota to smallholders has engendered an astonishingly rapid supply response. In less than three years, demand for Program participation exceeded capacity of the Program to provide quota licenses. The key accelerator in the smallholder response has been allowing burley clubs to market their product directly on the competitive auction floors. While many problems remain to be resolved if the current level of success on the auction floors is to be sustained, the burley experience has already provided a graphic demonstration of the power of markets (both price and organization) in facilitating and stimulating rapid production growth. It has also highlighted the facts that the stagnant performance of the smallholder sector and the inequities in the Malawian agricultural economy are, to a large extent, the result of former tobacco policies: prohibition on smallholder production of burley and monopsonistic smallholder tobacco purchasing by ADMARC.

The burley smallholder program is, in our view, not reversible at this point. Continuation of the annual increases in smallholder quota allocation in line with ASAC/ASAP agreements promises further progress in reducing the inequitable dualism in the Malawian economy. But the burley experience has raised a host of new questions and tough challenges which the Government of Malawi must face. Among those we find most critical:

- ◆ **Quota concerns:** Can the national quota be brought back under control? Should it be brought under control? What is (should be) the position of Malawi in the world tobacco market? How much economic power are the estates willing to allow to be shifted to the smallholder sector? Can the cap on the smallholder burley quota allocation be maintained in the current political environment?
- ◆ **MOA priorities and time:** Can the Government entities involved in the burley program, particularly the various field levels of the MOA, assume new responsibilities for serving smallholder burley growers and yet devote

adequate attention to the production of other food and cash crops? Is it realistic for MOA support to the input delivery/credit system to be scaled back as SACA moves into the Rural Finance Company?

- ◆ **Information:** Can the information flow be improved to sustain and improve the efficiency of the burley sector as a source of national and individual economic growth even if quota allocation authority is decentralized to the ADDs? Should concrete information on various criteria be used to drive the smallholder selection process or should self-selection be allowed to play a major role?
- ◆ **Tenants:** How will or can the tenancy system respond to the clear challenge posed by expanded, successful smallholder burley production? Will estate owners take the lead in restructuring the tenant system in a way which recognizes the new choices that smallholders have?
- ◆ **Diversification:** Can/should the smallholder burley phenomenon lead to the development of a new national export strategy in which other tobaccos are given more explicit emphasis and/or markets for other crops suited to smallholder production are encouraged and developed?

#### B. The Missing Link: Dynamic, Competitive Markets

Malawi's tobacco market operations are complex, sophisticated, and effective in linking the Malawian farmgate to the international consumer. The lack of active and competitive markets for other crops is striking. It is our view, however, that if the burley phenomenon is to translate into broader income and employment opportunities for the majority of Malawians on customary lands, the development of markets which will provide outlets for commodities which they can produce and which will channel them efficiently to people with effective demand must be allowed and encouraged.

The "Smallholder Agricultural Produce (Marketing) Regulations" established in 1987 give a flavor of the regulatory restrictions which private sector traders encounter. Selected highlights include:

1. Trading must be undertaken at only prescribed markets [a total of 1139 markets are listed, all are places where ADMARC had a market];
2. Buying can only take place at these markets between 6:00 AM and 6:00 PM on any day of the week except Sunday, Martyrs' Day or other public holidays;

3. Only smallholder agricultural produce is covered;
4. The produce must not be bought at a price lower than the price listed in the annual Price Review [these prices are minimum prices, which is generally the ADMARC purchase price];
5. A licensee must submit returns covering each month's trade and stock position to the Licensing Officer (located at the ADD issuing the license).

These regulations serve to exert a lot of government control over the trading environment in an effort to protect smallholder farmers. The main result is that there has been little development in trading in rural areas. A Food Studies Group study<sup>49</sup> on liberalization of smallholder produce marketing indicated that the licensing system was not achieving its objectives nor was it being properly enforced.

Few private sector commercial entities, either formal or informal, provide services to the smallholder sector other than for the marketing of burley tobacco, as already described above. And of those which do provide agricultural inputs or output marketing services, few are truly competitive with the existing public supply/marketing structure which is dominated by ADMARC. Of the many small private traders licensed by ADDs in recent years to trade in maize, virtually all simply undertook farmgate collection operations at the ADMARC-declared price and then sold the volume collected to ADMARC for a depot deposit fee.

The ADMARC presence as a "commercial" but essentially non-competitive entity has, we believe, a negative effect on private market development incentives. It increases uncertainty for private traders as it can intervene in markets without paying attention to normal rules of profit-making operations. But the present private sector commodity traders are tuned to the ADMARC presence; simply clipping ADMARC's wings further will not guarantee a private sector response.

Individual large-scale commodity traders interviewed indicated that, indeed, it made good sense to consult with ADMARC to find out what commodities were in demand before going out to buy them. The Food Studies Group interviews of smaller scale traders indicated that at that level, there is more independence of action, particularly with regard to root crops and vegetables. This independence did not extend to grain crops, however; that market remained dominated by ADMARC.

While our database on Malawi's private sector trade is admittedly thin, two

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<sup>49</sup> Food Studies Group. *op cit.*, 1990.

tentative findings seem justified: first, the concept of "making a market" in agricultural commodities or services other than those related to tobacco is an unfamiliar one in Malawi; and, second, any incipient private sector trader is likely, at first glance, to be hampered in attempts to supply inputs, market outputs and provide transportation services to the agricultural sector by five major factors:

- ♦ **ADMARC's presence.** While, in theory, a more competitive agency these days<sup>50</sup>, ADMARC has several advantages in maintaining an effective system of panterritorial, panseasonal pricing in marketing both inputs and outputs in such a way as to undercut any risk-taking entrepreneurship by private sector traders. As a government institution, ADMARC has better communications with the MOA than anyone else could possibly have. ADMARC also has an almost automatic financial "overdraft" authority when dealing in any food crops or engaging in any activities which affect the food supply of the nation. ADMARC's "social function" can be readily invoked to justify non-competitive behavior and the GOM is obliged to cover the organization's financial losses. Conversely, private traders, especially new ones, have to get their market information on their own (price reporting is limited and late), are considered by all banks to be high credit risks and are unlikely to get credit, and must be able to operate at a profit if they are to stay in business.
- ♦ **The poverty of domestic customers.** Without either a credit facility tie-in or a solid, complementary export market, private traders of agricultural inputs, outputs, and other services will have a hard time developing a smallholder clientele which is large enough and cash-rich enough to be able to support an enterprise of any size.
- ♦ **The generally restrictive nature of the regulatory framework for private trading activities** also appears to be a major constraint for the private sector to increase activities. An entrepreneur wishing to trade in a particular commodity in several ADDs, for example, must apply for separate licenses in each ADD, paying a fee in each one. There are also, apparently, regulatory restrictions on the use of transport for the movement of produce.
- ♦ **Even outside of ADMARC and the general regulatory framework, the GOM has a history of intervening in markets -- banning exports of beans in 1989, for example -- which makes entrepreneurial behavior more risky.**

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<sup>50</sup> World Bank. The Agricultural Sector Adjustment Credit paper discusses the various reforms which ADMARC is to make to become a more commercially-oriented entity.

- ◆ **Transport availability, especially for small traders interested in conveying small quantities, is inadequate.** The Food Studies Group noted two small potato traders in a rural market trying to arrange transport for five days after their purchases were complete. It may also be that there is a **crowding-out phenomenon** at work here -- with burley transport as one culprit and the phenomenal returns to long-distance haulage another. While to the casual observer (such as our team) it would appear evident that there is a lack of small-truck (e.g., up to 3 tons) capacity to serve rural communities on a regular and flexible basis, truckers consulted evinced little or no interest in pursuing such transport operations. Burley, it was noted, is light for its bulk. This means that big trucks, preferably contracted for a season to a large estate, are more cost-effective than smaller ones. Long-distance trucking profits in the range of 50 percent also make that trader, dominated by large trucks in continuous operation to the ports of Durban and Dar, more attractive than a rural pick-up truck-based operation.

In general, it is our conclusion that the investment climate which could lead to expanded private initiative and investment in market development remains poor. This is in spite of efforts to liberalize produce marketing and to provide incentives to domestic and foreign investors (the Banking Act of 1989, Capital Market Development 1990, Investment Promotion Act of 1991). While these may have been important and necessary steps toward market liberalization, review of the impact on the ground indicates that they may not be sufficient. We were pleased to note that revised trading regulations have already been proposed by the Ministry of Agriculture; the draft of the revision which we have seen, however, indicates that even deeper reforms may be needed if a truly dynamic trade in agricultural input and commodity marketing services is to emerge. A whole range of other adjustments in structures which currently regulate trade (the ADD licensing structure, for one) probably need to be made.

Similar review and revision is needed for the transportation sector and agricultural input supply activities. Discussions indicated that incentives for transport investment are relatively good to serve the long-haul export routes and the domestic tobacco transport during the marketing season. There seem to be a number of regulatory and administrative barriers to domestic transport of goods as well as a shortage of vehicle capacity. Further review of possible barriers to entry and efficient operation is warranted.

## VI. Recommendations

The recommendations of the evaluation team fall generally into two categories. We have roughly prioritized the recommendations within each category.

- ♦ **Actions which can/should be taken immediately to strengthen implementation of the smallholder burley program, either within the context of the current ASAP project or in a Project Amendment to be designed in April-May; and**
- ♦ **Actions which should be considered between now and the design of Phase II, some of which will probably require substantial study involving potential implementors.**

In addition, we append some suggestions for studies not mentioned in the PAAD.

**A. Immediate Actions to Strengthen the Smallholder Burley Program**

**1. Move forward with all speed on means to strengthen smallholder burley clubs**

Since club membership is the route by which smallholders gain access both to individual quotas and to the auction floors, burley club functioning is of critical importance to the improvement and sustainability of the smallholder burley program. The ACDI report by Crane and Olney proposes a number of areas in which club skills need to be better developed. We concur in these proposals; clubs need to be better administered if the smallholder burley program is to be sustainable.

Provision of both local currency and technical assistance to the MOA to enable it to provide more training courses for burley club members and more one-on-one support to individual clubs would be a sound investment at this time. Burley groups who have managed to get enough information and to work together well enough to market their burley on the auction floors have clearly benefitted from their club activities. The evidence seems to indicate that the more knowledgeable clubs are about issues such as tobacco grading, financial management, and, in general, the production and marketing of high-quality tobacco, the more sustainable will be the success of the smallholder program to date. Increased group cohesion (based upon good club management and a perception that all members are being treated fairly) will also go a long way in ensuring that the transition from an MOA-based tied credit/input delivery system to a delinked credit and input supply program situation goes smoothly.

We also recommend, however, that means for including more women in the clubs should also be worked out as soon as possible in order to ensure greater equity in the smallholder burley program. Suggestions which could be considered include: establishment of women only clubs with all or part of the incremental quota for 1993/94; cooperating more closely with the Women's Program Office in the

MOA; setting targets for all or for individual ADDs; including women's membership as one of the criteria of a good club; and allowing established clubs to increase their burley quota in proportion to the number of new women members they accept. It is important that, as part of this effort, the intended definition for "women participants" be clarified. It should be possible to develop more detailed guidance for the application of this definition. A principle of prioritization rather than exclusion should be applied.

**2. Strengthen the ADD Tobacco Management Information System**

The ADDs have already gone some distance in implementing management information systems to monitor the smallholder burley program and the importance of these initial efforts must be recognized. Strengthening, however, needs to take place along three dimensions: more systematic reporting of quota allocation, production monitoring, and progress in sales; more timely centralization of information to permit program managers in headquarters to have a bird's eye view of the situation as the season progresses; and increased definitional clarity, particularly with regard to target groups. In preparation for the decentralization of the quota allocation process to the ADDs (see below), it would also be useful for ADD Information Systems on Smallholders to be expanded to include similar information on estates by EPA and RDP.

**3. Link the agroforestry component of ASAP more closely to the smallholder burley efforts**

Since there can be serious long-term environmental consequences from growing tobacco without using proper rotational and soil management techniques, it would be beneficial to focus agroforestry extension activities on the smallholder burley growers. Since the ASAP Project already supports an agroforestry initiative, acting on this recommendation should be relatively straightforward. The agroforestry program would be able to benefit from having the club organizational structure to work with and could reinforce the cohesion and cooperative work habits of the clubs as well to the extent that agroforestry activities would affect more than one farmer. The high profits associated with burley tobacco should also enable farmers to participate in agroforestry practices which may take a few seasons to produce a payoff. The agroforestry advisor felt he could have a package to begin testing with selected burley clubs by the 1993/94 growing season. This should be encouraged.

#### 4. **Facilitate the decentralization of the quota allocation system**

Given the current state of the quota determination and quota allocation system, the ADDs will be put under tremendous pressure by various local interest groups and politically powerful individuals unless an approach to region-based allocation of quotas is carefully worked out. In our view, facilitation of this decentralization process will require at least five things:

- Public education on the concept of the quota;
- Clear policy guidance on the overall level of the quota from the Ministry of Agriculture, with explicit concurrence from the industry, particularly TAMA and TCC;
- A clear and timely system in the MOA to inform the ADDs of the ADD-level quota, with transparent criteria established to determine the appropriate ADD quota;
- A transparent information system including production and marketing performance data for estates as well as smallholders (This should be linked with the Management Information System strengthening in recommendation 2.); and
- A process of regular consultation among ADDs and between ADDs, the MOA, TAMA, TCC, AH, and TEAM.

The ASAP project could provide support for both studies and workshops to accomplish these.

#### 5. **Carry out the study regarding licensing of estates (or other entities) to market tobacco above-(or without-)production-quota**

This study is noted in the policy matrix for ASAP as being a condition precedent for tranche 3. This study of "alternative marketing channels for smallholder producers" must not focus simply on how to control such marketing (e.g., the use of smallholder coupons, pre-registering or post-reporting). Rather, the scope of work has to require the analysts to consider the extent to which there could be economies of scale from such licensing, what the impact on the quota delivery system is likely to be, how smallholders could be assured of maximum prices, etc.

#### 6. **Support the strengthening of EEST capabilities with regard to diversification efforts.**

The Estate Extension Service Trust is a trusteeship established in November, 1990, to provide extension service to freehold and leasehold farms (estates). Their major thrusts are afforestation, livestock, diversification and increasing tobacco productivity. They presently operate on an annual budget of 4.5 million

kwacha largely made up from the cess at the auction floors (0.33% of gross returns).

All the estates the review team visited (large and small) stated that they do have regular contact from EEST. They said that they often have field demonstrations on an estate in the area to which they are invited. The estate owners felt that they have received some valuable information regarding technical information on growing tobacco. In addition, they have been told by EEST field agents that they need to think about growing other cash crops. A couple of the estates stated that they were doing some experiments with alternative crops in conjunction with EEST.

Given the difficulties that the team foresees in going "beyond burley" and the initiative which the EEST has already shown in this area, some support might be given to EEST to expand their efforts in these areas. The estates, particularly the larger estates, are best suited in terms of technical skill and knowledge as well as investment/risk management potential to pioneer export crop diversification and the chance that EEST can help them to do so is a chance that should be taken.

**B. Moving toward a Phase II ASAP**

**1. Clarify the "transport bottleneck" both for burley marketing and for the expansion of other agricultural commodity markets**

Rather than carrying out the study of "Private Sector Maize Marketing" identified in the policy matrix as part of tranche 2, we recommend that a new study of the transport constraints to market development and operation be designed and implemented as soon as possible. The emphasis should be on domestic haulage, particularly for perishables and relatively small volumes. This recommendation is consistent with a concern expressed in the recent evaluation of the Commercial Transport Project: "The MCTP [Malawi Commercial Transport Project] has successfully addressed the need for indigenous Malawian international haulage industry, in particular for petroleum products. However, in the process, it improved the position of international haulers vis-a-vis domestic transporters (lower fuel costs, subsidized capital, secured business, etc.). The MCTP made international transport more profitable than domestic, and in the process might have diverted local capital from the domestic market. It seems that the next step is to address the domestic trucking industry, which is still very backward."<sup>51</sup>

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<sup>51</sup> Adiv, Aaron Final Report. Commercial Transport Project Project Final Evaluation. Draft of August, 1992. p. 47

The scope of work should address, at a minimum: regulations having to do with the import and licensing of vehicles for transport of goods and whether these provide any real barriers to entry; the capital situation, including possible expansion of the leasing business; regulations regarding freight rates and tariffs and their impact on freight hauling patterns and costs; current patterns of transport and costs; ownership/leasing patterns; the extent to which tobacco haulage crowds out haulage for other commodities; and the availability of maintenance facilities and costs.

It should also provide for a specific assessment of the burley transport situation, including: the extent to which the establishment of additional satellites for Auction Holdings would ease the transport constraint on smallholders; the success of the reforms being implemented by TCC and Auction Holdings in 1992/93 to smooth the delivery of quota and ease the congestion at the floors; and the extent to which other management innovations at Auction Holdings (e.g., use of bar codes to register bales) might speed up bale handling and ease congestion overall.

2. **Design an information system which permits assessment of the impact and importance of targetting smaller smallholders and women**

While the ADD-based Management Information System will, if strengthened, provide comparable statistical information on the smallholder burley program, it will not provide much of an understanding of the "softer" issues which have emerged as important to the program -- the impact of targetting, the distribution of benefits, how people perceive the program, etc.. It is recommended that the MOA and USAID/Malawi consider the establishment of "sentinel club" monitoring system, wherein each year a dozen clubs receiving quota would be randomly selected for repeated visits throughout the year. This might be an appropriate activity for Bunda College involvement.

One might envision the definition of a set of standard and special studies which would be carried out each year. The standard studies, over a series of years, would provide a data base documenting club' and club members' responses to a series of events (price rises/falls, transport difficulties, grading mistakes, labor problems, etc.). The special studies could address issues of within-club and within-household equity, the impact of tobacco labor allocations on the production of other crops, household decision-making regarding the use of burley profits, the perspectives of those community members who are not members of the club, etc.

The repeated contacts with the sentinel clubs would permit more sensitive exploration of political and personal issues affected by the burley opportunity and would permit both MOA and USAID to periodically "take the pulse" of the

economy from a grassroots perspective. Some minor compensation for the community might also be envisioned (e.g., an Ambassador's Self-Help Fund donation at the end of the year).

3. **Monitor the transition between the MOA/SACA system and the establishment of the RFC; analyze potential impact of the separation of agricultural extension and credit staff on operations of the burley clubs and the input supply system**

The policy matrix proposes the development of a "Smallholder Credit Plan", with the study to take place between tranche 2 and tranche 3. Given the progress of events with regard to the establishment of the Rural Finance Company, the scope of work for the development of a smallholder credit action plan should be structured to take explicit account of the plans for the transition and carry out an analysis at the RDP level regarding its implications for continuous operation of the credit/input supply system at the burley club level.

It may be that the delinking of credit and technical extension duties will have the desired effect in freeing up the time of extension agents to spend more time on that side of the business. If any monitoring of this is done, it would be important, at the same time, to address whether the provision of extension services for burley production crowds out the provision of extension services for other crops. This is really more of an issue for the World Bank Agricultural Services Project to monitor, but USAID's own interests require at least some understanding of the way in which extension agents spend their time. This may be especially important as the IFAD project moves into implementation. It is understood that IFAD intends to negotiate the dedication of at least one extension agent per 15 very small smallholder burley clubs for a period of three years.

4. **Analyze the pro's and con's of the mixed club issue**

Burley clubs visited almost always wanted to be considered a maize club as well and get credit adequate to cover inputs for both crops at the same time. This would provide some efficiencies for both club members and MOA staff in terms of time and organizational requirements. On the other hand, there are lots of people in maize clubs who are not members of burley clubs, so restricting maize inputs in a particular village only to those individuals who are members of the burley club would be unfair. There are a number of logistic and management problems which need to be looked at in greater depth to resolve this issue satisfactorily. SACA and RFC (see the next recommendation) should, however, have an interest in it and may be in a position to act on the basis of recommendations developed in the study.

5. **Analyze current constraints to expanded marketing of "traditional" agricultural commodities, not including maize, in both domestic and regional markets**

This recommendation essentially proposes that the study included in tranche 2 of the policy matrix be enlarged beyond the indicated "Legislative/administrative barriers to smallholder crop production and marketing" and that the "crop diversification study" be incorporated into the expanded examination of commodity marketing issues and options.

This is such an important area for potential Phase II focus, it may, in fact, be necessary to undertake a series of studies to really understand the constraints and how they affect the prospects for expanded agricultural marketing. Starting with a couple of detailed case studies of commodity markets which are currently dominated by private traders would be helpful, e.g., potatoes, rice, and beans. One could look at licensing, marketing strategies, capitalization, concepts of the markets, regulatory concerns, market information source and reliability, producer linkages, buyer linkages, and risk management approaches in some detail to identify those factors which come most into play. Then one could undertake more formal studies of each of the areas identified as constraining in some way.

6. **Undertake an "industry outlook" study for Malawi's principal tobaccos.**

The industry perspective was given less attention in the design of the ASAP than that of the smallholders. Implementation of the Program, however, has demonstrated that it is important to understand how the international tobacco market works and what it means for Malawi's prospects. In addition, there is some evidence that one of the opportunities for smallholders to draw on their burley experience in expanding cash crop production and incomes might be other kinds of tobacco. For these reasons, it would be helpful to have an independent look at the industry and its potential for Malawi as part of the studies leading up to ASAP II.

The study should be carried out by a team of topflight industry specialists who are not linked with the specific firms involved in Malawi but possess the requisite degree of insider knowledge as well as adequate objectivity.

C. Other Studies

1. Studies to assist women's participation in the clubs

There are a number of ways in which women may be at a disadvantage in getting

into clubs or in participation fully in the clubs. The proposed study would look into these issues, for example, attempting to understand more fully the categories of women who are members and those who are not. It should also address women's constraints such as sheds, credit, labor, and intercropping; ideas for resolving these would be of immediate and practical advantage to women and help in fulfilling the aim of the program related to women's effective participation.

2. Studies to Project/Understand Market Demand

Utilizing the data from the national household budget study expected to be completed relatively soon by the National Statistical Office, carry out analyses to provide basic parameters for demand by various groups. Commission a market demand study to determine the domestic demand for processed and un-processed traditional agricultural commodities.

The extent to which the results of the household budget survey and the sample agricultural survey can be combined should be explored. This would contribute to a better understanding of demand and supply and the potential for rural-rural trade.

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

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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"> <li>- Complete schedule for following studies and for development of associated action plans:                             <ul style="list-style-type: none"> <li>-- Smallholder credit plan</li> <li>-- Private sector distribution of seeds and fertilizer</li> <li>-- Extension modules for small customary landholders</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Complete action plans in following areas, based on completed studies:                             <ul style="list-style-type: none"> <li>-- Smallholder credit plan</li> <li>-- Private sector distribution of seed and fertilizer</li> </ul> </li> <li>- Complete design of study to examine land use &amp; land tenure issues via a via estate registration backing</li> </ul>	<ul style="list-style-type: none"> <li>- Execute study &amp; prepare action plan for land use &amp; land tenure issues</li> <li>- Earlier action plans implemented</li> </ul>	<ul style="list-style-type: none"> <li>- Complete action plan for development and implementation extension modules for small customary landholders</li> <li>- Earlier action plans implemented</li> </ul>	<ul style="list-style-type: none"> <li>- Earlier action plans implemented</li> </ul>

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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"> <li>- Require posting on estates of terms and conditions of tenancy and casual and permanent labor</li> <li>- Smallholder/estate interface study planned</li> </ul>	<ul style="list-style-type: none"> <li>- Clarify adjudication procedures for estate-tenant disputes &amp; estate labour disputes</li> <li>- Evaluate method of establishing prices paid to burley tobacco tenants, and if necessary approve revised pricing structure</li> </ul>			

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"> <li>- Complete schedule for crop diversification study and development of action plan</li> </ul>		<ul style="list-style-type: none"> <li>- Complete action plan to implement crop diversification study recommendations</li> </ul>	<ul style="list-style-type: none"> <li>- Action plan implemented</li> </ul>	<ul style="list-style-type: none"> <li>- Action plan implemented</li> </ul>

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

## ANNEX B

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**ANNEX C**

**People Contacted/Met**

**Ministry of Agriculture, Lilongwe**

Mr. M. Mughogho, Asst. Chief Economist of the Planning Division  
Mr. P. Kamwendo, Principal Economist  
Mr. P. Chirwa, Senior Economist, Pricing and Marketing  
Mr. R. Must, Advisor, Pricing and Marketing  
Mr. E. Mphande, Pricing and Marketing  
Mr. J. A. Mhando, Chief Agricultural Officer  
Mr. E. Kabuye, Chief of Agricultural Extension and Training  
Mr. Chiputu, Smallholder Burley Coordinator  
Mr. R. Mzonde, Economist, Planning Division  
Mr. T. Bunderson, Agroforestry Advisor  
Mr. S. Sichinga, Statistician  
Mr. C. Chiwara, Womens' Program Officer

**Tobacco Control Commission (TCC)**

Dr. E. Chipala, General Manager

**Tobacco Association of Malawi (TAMA)**

Mr. Ntaba, Chairman  
Dr. G.A. Thyangathyanga, Executive Secretary

**ADMARC**

Mr. D.W.L. Gunde, Maize and Rice Controller, Lilongwe  
Mr. D. Sanhkhani, Marketing Information Services Manager, Limbe  
Mr. E. Gulani, Asst. Tobacco Controller, Limbe  
Mr. P. Madala, Assistant Regional Manager, Lilongwe/Kasungu  
Mr. G. Musasa, Tobacco Officer, Lilongwe/Kasungu  
Mr. O. Mzema, Division Supervisor, Kasungu  
Mr. M. Kadwara, Marketing Supervisor, Kasungu  
Mr. D. Mware, General Produce Supervisor, Limbe  
Mr. Kambembe, Tobacco Marketing Officer, Limbe  
Mr. Kwenewere, Senior Marketing Services Officer, Limbe  
Mr. Kapusa, Financial Controller, Limbe

**World Bank**

**Mr. Peter Pohland, Deputy Resident Representative**  
**Mr. Stanley Hiwa, Agricultural Program Officer**  
**Mr. Francis M'buka, Agricultural Services Specialist**

**Tobacco Exporters Association of Malawi (TEAM)**

**Mr. H. Mbale, Executive Secretary**  
**Mr. Clive le Patourel, Intabex-Dibrell**

**Auction Holdings, Ltd.**

**Mr. S. McDougall, General Manager**  
**Mr. G. Msonthi, Deputy General Manager**

**Economic Planning and Development (EP & D)**

**Mr. Milner, Economist, Food Security and Nutrition Unit**  
**Mr. Muloza, Economist**  
**Dr. Charles Mann, Food Security Adviser**

**Estate Extension Services Trust (EEST)**

**Mr. D. Bisika, General Manager**  
**Mr. J. Steele, Head of Technical Services**

**National Bank of Malawi**

**Mr. M. Hatley, Agricultural Management Consultancy**

**Staffs of Various ADDS**

**Lilongwe: Mr. S. Muyaya, Program Manager; Ms. Agnes Mugomezulu, Tobacco Officer; Mr. A. Kumwenda, Divisional Agricultural Officer; Mr. Kachiguma, Assistant Tobacco Extension Officer**

**Kasungu: Mr. D. Yiwombe, Program Manager; Mr. Chirambo, Div. Agricultural Officer; Mr. Chokotho, Tobacco Officer; Ms. Chirwa, Field Assistant; Mr. J.S. Kankwamba, Development Officer;**

**Mzuzu: Mr. C. Kanyenda, Program Manager; Mr. Nerongo, Tobacco Officer; Mr.**

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**Banda, Project Officer, Rumphu RDP; Mr. Halawa, Credit and Marketing Officer, Rumphu RDP; Mr. Chataya, Rumphu RDP; Mr. Matupi, Rumphu RDP**

**Blantyre: Mr. Mphepu, Program Manager; Mr. Mwakalogho, Deputy Agricultural Officer, Mr. Chitonya, Tobacco Officer; Ms. Chipeta, Division Agricultural Officer; Mr. Uomphawi, Senior Evaluation Officer; Phalombe RDP Project Officer; Phalombe RDP Tobacco Officer; a number of Development Officers and Field Assistants**

**Liwonde: Dr. C. Mwiyeriwa, Program Manager; Mr. J. Penembe, Project Office, Zomba RDP; Tobacco Officer; Credit Officer; Development Officer and Field Assistants**

**Estate Owners/Managers**

**Mr. A. Barron, Barron's Estate, Lilongwe  
Mr. D. Pyman, Zomba  
Mr. N. Christie, Press Agriculture Ltd.  
Manguzi Estate, Zomba  
Mr. S. Wallace, Lilongwe  
Mr. J.J. Kamatenda, Owner, Salona Estate, Kasungu  
Mr. Dirophiri, Manager, Salona Estate, Kasungu  
Mr. Yorodani, Kasungu  
Mr. D. Nyasulu, Lukontha Estate, Rumphu  
Mr. Nirenda, Kanyambiri Estate, Rumphu  
Mr. Kayira, Chivungulu Estate, Rumphu  
Mr. B. Mponde, Tayesa Estate, Blantyre**

**Lever Brothers, Blantyre**

**Mr. M. Cheserem, Commercial Director**

**Export Promotion Council**

**Mr. C. Thindwa, Senior Marketing Officer  
Mr. A. Mndalasini, Principal Marketing Officer**

**Ford Foundation**

**Mr. M. Blackie, Field Representative**

**Norsk Hydro**

**Mr. B. Itaye, Chief Executive**

**Private Businessman**

**Chief Kaomba**

**Smallholder Burley Clubs and Individual Burley Growers**

**Lilongwe (Ntcheu RDP):**

**Kasungu (Kasungu RDP): Mthirasembe Club and Bua Club at Lisafadzi EPA; Khuza Club in Chipala EPA; Mtendere Club in Churu EPA; Kadifula Club in East Kasungu**

**Mzuzu (Rumphi RDP): Chalumba Club and Mlangali Club in Mhujū EPA; Tokondwa Club in Bolero EPA**

**Blantyre (Chiradzulu RDP): Mitochi Club and Tiyesenawo Club**

**Liwonde (Zomba RDP): Muta village; Sitinkadziwa Club at Mbiza village;**

**Seven individual women farmers in Zomba RDP**

**Seven individual women farmers in Phalombe RDP**

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ANNEX D. TARGETTING CRITERIA

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it is the agenda  
1/1/92*  
*Done  
29/10*

Ref. No. 38/10/1

22nd April, 1992

FROM : THE SECRETARY FOR AGRICULTURE, P.O. BOX 30134, LILONGWE 3.

TO : THE PROGRAMME MANAGER, LILONGWE A.D.D., P.O. BOX 259, LILONGWE.

(Attention: Mrs. M.A. Mgomezulu)

: THE PROGRAMME MANAGER, MZUZU A.D.D. P.O. BOX 131, MZUZU.

(Attention: Mr. Munyenyembe)

: THE PROGRAMME MANAGER, BLANTYRE A.D.D. P.O. BOX 30227, BLANTYRE 3.

(Attention: Mr. Mwakalagho)

: THE PROGRAMME MANAGER, LIWONDE A.D.D., PRIVATE BAG 3, LIWONDE.

: (Attention: Mr. Chikabadwa/Kumbanyiwa)

: THE PROGRAMME MANAGER, KASUNGU A.D.D., PRIVATE BAG 28, KASUNGU.

(Attention: Mr. E.S. Chirambo)

: THE PROGRAMME MANAGER, KARONGA A.D.D., P.O. BOX 43, KARONGA.

(Attention: Mr. A.J. Kaunda)

cc : The Senior Deputy Secretary (Planning)

: The Chief Agricultural Officer.

: The Principal Economist.(P).

: The Senior Agricultural Officer, (Mr. Chiputu)

LILONGWE AGRICULTURAL  
DEPARTMENT  
27 APR 1992  
P.O. BOX 28, LILONGWE

PILOT BURLEY TOBACCO - CRITERIA FOR SELECTION OF FARMERS

Since the 1992/93 Agricultural Season is at hand, it has become necessary to remind you about the conditions or criteria to be considered in order to register growers who will participate in smallholder burley tobacco production programme.

*Fig*  
*12/30*

*AD*

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This has been necessitated with a view to minimise the inconveniences and problems associated with burley registration as experienced during the past two seasons. It is therefore envisaged that this reminder will serve to facilitate proper and timely registration both in the old areas and the new areas which the Government might identify to participate in the programme.

The criteria in this regard considers the following factors.

- (a) The registration process should be managed by the Ministry of Agriculture through the ADDs using registration forms available at the ADD.
- (b) Consideration should be given to only those farmers interested to grow the crop.
- (c) Consideration should also be given to only growers with Landholdings size of 1.5 hectares or less.
- (d) It must be observed that the prospective grower plans to grow tobacco on no more than 25% of his/her landholding to allow for a four year crop rotation.
- (e) Each year the proportion of smallholder quota allocation to women and to those with less than 1.5 hectares should increase.

Lastly I would like to take this opportunity to inform you that the Government plans to issue to the customary landholders a total collective quota of an amount of not less than 3.5 million Kg. of burley tobacco. The proposals for the quota allocation are being worked.

I trust you will find this information extremely useful.

for:

  
Dr. G.A.A. Thyangathyanga  
SECRETARY FOR AGRICULTURE

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## Annex E. Tables

Table 1.	Estate Sector, Size of Holdings, Growth, 1970-89
Table 2.	Growth of the Smallholder Sector, 1977 - 1992
Table 3.	Burley Production, Exports, Prices, Yields, Growers
Table 4.	Burley Club Membership, 1992/93, By Region
Table 5.	Smallholder Burley Program, By Region: Production, Sales, Prices
Table 6.	TAMA Tobacco Pricing: Burley Tobacco Tenants' Buying Prices. 1984-1993
Table 7.	Reported Landholding Sizes of Smallholder Burley Growers
Table 8.	Illustrative Returns to Smallholder Burley Program
Table 9.	Local Currency Allocations, ASAP Generations
Table 10.	Production and Export of All Malawian Tobaccos, 1986 - 1991

Annex Table 1.

## Estate Sector, Size of Holdings, Growth, 1970 – 1989

Year	No. of New Estates	Area Leased ('000 ha)	Mean size (ha)	GDP of Estate Sector (mn. kwacha % growth rate constant 1978)	
To 1970	229	79	345	--	--
1970-1979	876	176.8	202	--	--
1980	216	17.3	80	53.0	3.3
1981	765	46.9	61	50.4	-4.9
1982	1714	6536	38	61.7	22.4
1983	1006	49.2	49	66.1	7.1
1984	486	24.9	51	65.6	-0.8
1985	363	31.4	87	66.0	0.6
1986	592	26.4	45	65.5	-0.8
1987	1867	70.2	38	70.1	7.2
1988	3839	107.7	28	75.2	7.3
1989	2402	63.6	26	82.6	9.8
1990	--	--	--	90.2	9.2
1991	--	--	--	98.5	9.2
1992	--	--	--	107.4	9.0

Sources: Mkandawire, et al. op. cit. 1990, Table 1.2, p. 13 and Table 1.6, p. 27; IMF, Jan. 1993

Annex Table 2. Growth of the Smallholder Sector

Year	GDP Contribution (mn kwacha, (% annual growth) constant 1978)	
1977	239.0	9.5
1978	246.3	3.1
1979	252.8	2.6
1980	231.2	-8.5
1981	210.6	-8.9
1982	215.9	2.5
1983	223.8	3.7
1984	240.9	7.6
1985	242.4	0.6
1986	244.5	0.9
1987	242.4	-0.9
1988	243.6	0.5
1989	244.0	0.2
1990	235.6	-3.4
1991	269.0	14.2
1992	178.8	-33.5

Sources: IMF, 1993, Table 1; Mkandawire et al., Table 1.6, p. 27

Annex Table 3.

## Burley Production, Exports, Prices, Yields, Growers

Year	Weight sold (million kg)	Revenues (mn kwacha)	Number of growers	Hectarage	Av. price (kwacha/kg)	Av. yield (kg/ha)	Av. revenues per grower (kw)
1985	30.4	55.1	3,309	31,503	1.82	964	16664
1986	30.2	87.9	3,207	28,240	2.91	1069	27416
1987	36.8	145.8	4,152	34,524	3.96	1066	35117
1988	45.5	238.9	5,659	51,898	5.24	878	42210
1989	61.2	226.5	7,593	66,727	3.70	917	29826
1990	64.0	331.1	8,707	55,645	5.17	1150	38031
1991	75.0	511.2	13,450	62,720	6.81	1196	38008

Source: Malawi Tobacco Directory, p. 40

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Annex Table 4.

Burley Club Membership, 1992/93  
By Region

Region/ADD	No. Clubs	No. of Members Women	Men	Av. No. of Members
<b>North:</b>				
Karonga	46	108	637	16
Mzuzu	105	372	2,155	24
<b>Central:</b>				
Kasungu	206	478	5,307	28
Slaima	52	174	813	19
Lilongwe	230	841	4,770	24
<b>South:</b>				
Liwonde	253	1,109	5,268	25
Blantyre	153	355	5,071	35
Ngabu	50	226	1,263	30
<b>TOTAL</b>	<b>1,095</b>	<b>3,663</b>	<b>25,284</b>	<b>26</b>

Source: Extracted by Phiri/Olney table based on MOA/ADD MIS. 1993.

Annex Table 5. Smallholder Burley Program, By Region: Production, Sales, Values

	1990/91	1991/92	1992/93
<b>Burley Quota Available ('000 kg)</b>	<b>3000</b>	<b>3501</b>	<b>7000</b>
North (Karonga, Mzuzu)	620	789	900
Central (Kasungu, Salima, Lilongwe)	740	1248	2792
South (Liwonde, Blantyre, Ngabu)	1640	1464	3308
<b>Burley Quota Allocated ('000 kg)</b>	<b>2260</b>	<b>2615</b>	<b>7000</b>
North (Karonga, Mzuzu)	554	428	900
Central (Kasungu, Salima, Lilongwe)	620	1196	2792
South (Liwonde, Blantyre, Ngabu)	1086	991	3308
<b>Burley Marketed through ADMARC ('000 kg)</b>	<b>455</b>	<b>325</b>	
North (Karonga, Mzuzu)	93	47	n/a
Central (Kasungu, Salima, Lilongwe)	142	185	n/a
South (Liwonde, Blantyre, Ngabu)	220	93	n/a
<b>Burley Marketed through Auction Holdings ('000 kg)</b>	<b>--</b>	<b>1009</b>	
North (Karonga, Mzuzu)	--	252	n/a
Central (Kasungu, Salima, Lilongwe)	--	381	n/a
South (Liwonde, Blantyre, Ngabu)	--	376	n/a
<b>Burley Marketed through Estates ('000 kg)</b>	<b>1805</b>	<b>1281</b>	
North (Karonga, Mzuzu)	461	129	n/a
Central (Kasungu, Salima, Lilongwe)	478	630	n/a
South (Liwonde, Blantyre, Ngabu)	866	522	n/a
<b>Gross Revenue from ADMARC Sales (million kwacha)</b>	<b>1.8</b>	<b>0.7</b>	
North (Karonga, Mzuzu)	0.4	0.1	n/a
Central (Kasungu, Salima, Lilongwe)	0.6	0.4	n/a
South (Liwonde, Blantyre, Ngabu)	0.8	0.2	n/a
<b>Gross Revenue from Auction Holdings (million kwacha)</b>		<b>6.2</b>	
North (Karonga, Mzuzu)		1.5	
Central (Kasungu, Salima, Lilongwe)		2.5	
South (Liwonde, Blantyre, Ngabu)		2.2	
<b>Estimated Gross Revenue from Estate Sales (million kwacha)</b>	<b>4.6</b>	<b>4.5</b>	
North (Karonga, Mzuzu)	1.2	0.5	
Central (Kasungu, Salima, Lilongwe)	1.2	2.2	
South (Liwonde, Blantyre, Ngabu)	2.2	1.8	
<b>Sales price (kwacha/kg) from ADMARC</b>	<b>3.96</b>	<b>2.15</b>	
North (Karonga, Mzuzu)	4.30	2.13	
Central (Kasungu, Salima, Lilongwe)	4.23	2.16	
South (Liwonde, Blantyre, Ngabu)	3.64	2.15	
<b>Sales price (kwacha/kg) from Auction Holdings</b>		<b>6.14</b>	
North (Karonga, Mzuzu)		5.95	
Central (Kasungu, Salima, Lilongwe)		6.56	
South (Liwonde, Blantyre, Ngabu)		5.85	
<b>Sales price (kwacha/kg) from Estates</b>	<b>2.55</b>	<b>3.51</b>	
North (Karonga, Mzuzu)	2.60	3.88	
Central (Kasungu, Salima, Lilongwe)	2.51	3.49	
South (Liwonde, Blantyre, Ngabu)	2.54	3.45	

Source: USAID/Malawi summary from various sources, Ministry of Agriculture, ADMARC, Auction Holdings, e

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Annex Table 6. TAMA Tobacco Pricing: Burley Tobacco Tenants' Buying Prices

Tambala per kilogram (nominal prices)

	1980	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
<b>Flyings</b>											
19" and over	60	74	80	85	n/a	n/a	n/a	n/a			
Under 19"	49	61	65	70	55-77	61-89	79-121	79-121	90-140	110-171	122-19
Clean/broken	26	30	30	32	35	35	40	40	46	46	62
Waterstained	18	18	18	18	20	20	21	21	21	21	29
Badly waterstained		5	5	n/a	n/a	n/a	n/a	n/a			
<b>Light</b>											
No. 1	49	61	65	70	94	108	147	147	175	213	236
No. 2	44	55	60	65	77	89	121	121	140	171	190
No. 3	37	47	50	50	70	77	100	100	115	140	155
No. 4	29	38	40	40	55	61	79	79	90	110	122
Clean/broken	26	30	35	35	38	38	40	40	46	46	62
Waterstained	18	18	18	18	20	20	21	21	21	21	29
Badly waterstained		5	5	n/a	n/a	n/a					
<b>Red</b>											
No. 1	42	48	55	60	84	97	132	132	157	188	207
No. 2	37	43	47	50	62	71	97	97	113	130	167
No. 3	26	30	35	35	50	55	72	72	84	90	136
No. 4	18	21	25	25	40	44	57	57	66	70	107
Clean/broken	11	13	18	18	20	20	21	21	24	24	54
Waterstained	4	4	4	5	10	10	10	10	10	10	25
Badly waterstained		2	2	n/a	n/a	n/a					
Average price at Auction Sale	117.7	172.4	181.6	291.4	396.3	524.4	369.9	517.2	682.4	698.8	
Top tenant price as % of AF €	41.6	35.4	35.8	24.0	23.7	20.6	39.7	28.4	25.6	30.5	

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Annex Table 7.

## Reported Landholding Sizes of Smallholder Burley Growers

Region, ADD	Mean size reported in MOA MIS	Mean size reported by smallholders in MOA Survey, 1992
North		
Karonga	2.6	2.6
Mzuzu	2.0	3.3
Central		
Kasungu	4.6	5.5
Lilongwe	1.2	2.5
South		
Liwonde	0.8	1.6
Blantyre	1.0	2.1

Source: Cameron, Laurie "Preliminary results of the smallholder burley survey," Dec. 1992. Table a-1

Annex Table 8.

## Illustrative Returns to Smallholder Burley Program

Estimated...	1990/91	1991/92
Total burley production ('000 kg)	2260	2615
Average size of quota (kg/producer)	300	300
Number of producers (calculated)	7533	8717
Total gross revenues from sales (million kwacha)	6.4	11.4
Costs of production (million kwacha)	1.9	2.2
Net returns per producer (kwacha per year)	593	1051

Sources: MOA on total burley production, costs of production are recommended inputs costs by SACA and do not include hired labor, production and sales estimates are in Annex Table 5.

Annex Table 9.

**Local Currency Allocations, ASAP Generations**  
(in millions of Malawi kwacha)

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Nov. 27, 1992	
Seed multiplication	1.84
Budgetary support to ADDs	5.04
Smallholder burley support, ADDs	17.11
Price monitoring	0.09
Computer training	0.03
Food and nutrition monitoring	0.30
Total	24.41

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Source: Project Implementation Letter 8

Annex Table 10.

## Production and Export of All Malawian Tobaccos, 1986 - 1991

	1986	1987	1988	1989	1990	1991
<b>Production (million kg)</b>						
Burley	30.2	36.8	45.5	61.2	64.0	75.0
Flue-Cured	21.0	24.5	20.7	19.8	21.8	25.7
Northern Dark-Fired	10.9	9.8	7.7	4.6	13.6	15.1
Southern Dark-Fired	0.5	0.5	0.4	0.3	0.5	0.6
Sun-Air Cured	1.0	0.9	0.6	0.4	1.4	2.0
Oriental	0.1	0.1	0.2	0.3	0.2	0.5
<b>Sales Revenues (million kwacha)</b>						
Burley	88.0	238.9	238.9	226.5	331.1	511.2
Flue-Cured	63.7	109.6	109.6	99.8	141.4	205.8
Northern Dark-Fired	24.8	34.1	34.1	32.2	63.7	51.3
Southern Dark-Fired	0.8	1.2	1.6	1.7	1.6	2.1
Sun-Air Cured	1.6	2.4	2.3	1.9	5.3	7.4
Oriental	0.1	0.1	0.2	0.5	0.4	0.7
<b>Export Earnings (million kwacha)</b>						
Burley	119.2	187.6	282.1	273.8	484.2	
Flue-Cured	89.2	136.9	132.5	152.8	166.1	
Northern Dark-Fired	36.2	48.7	56.4	41.3	80.3	
Southern Dark-Fired	1.2	1.0	1.9	1.0	n/a	
Sun-Air Cured	2.8	3.1	3.4	2.5	6.7	
Oriental	0.4	0.3	0.5	1.1	0.6	

Source: Malawi Tobacco Directory

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