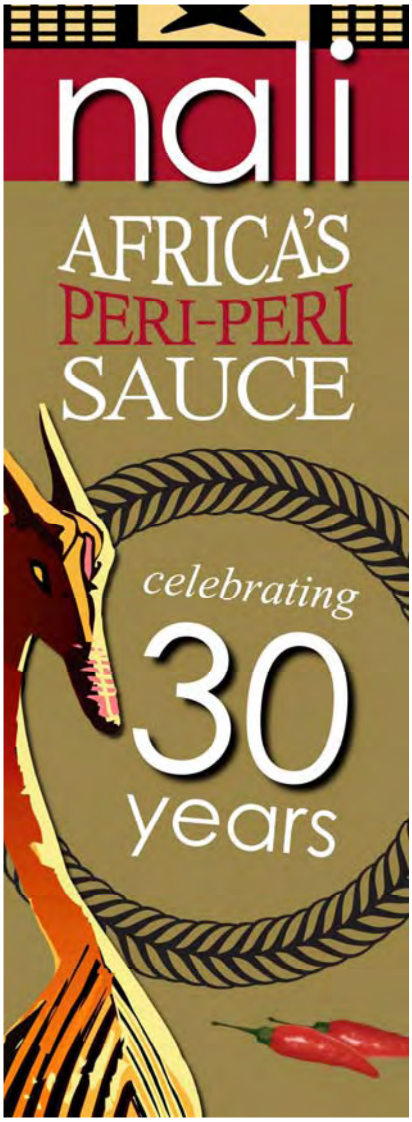

SALES Worked with Cotton, Coffee and Food Sauces

FINAL REPORT (9TH QUARTERLY)

APRIL 2004 – JUNE 2006

USAID CONTRACT : GS-23F-9800H, TO # 690-M-00-04-00120-00

SUBMITTED TO: USAID MALAWI
ECONOMIC GROWTH STRATEGIC OBJECTIVE (SO6)

SUBMITTED BY: CHEMONICS INTERNATIONAL
SALES PROJECT

DATE: JUNE 2006

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ACRONYMS

AAFEX	Association for African Agro-Exports
ADEPTA	Association for the Development of International Trade in Agro-Food Products and Technologies
AG/NRM	Agriculture/ Natural Resource Management
AGOA	African Growth and Opportunity Act
AID	Agency for International Development - Washington
AIMS	Agricultural Input Markets Development Project
AMSCO	African Management Services Company
APS	Annual Program Statement (USAID)
BOA	Basic Ordering Agreement
CAMAL	Coffee Association of Malawi
CDA	Cotton Development Association
CLIN	Contract Line Item
CNFA	Citizen's Network for Foreign Affairs
COMESA	Common Market for Eastern and Southern Africa
CQI	Coffee Quality Institute
CSP	Country Strategic Plan
CTO	Cognizant Technical Officer
COP	Chief of Party
DCA	Development Credit Authority
DEMAT	Development of Malawian Entrepreneurs Trust
DFID	Department for International Development (UK)
DMS	Deepening Malawi's Microfinance Sector – USAID Project
EAFCA	Eastern African Fine Coffee Association - Uganda
ESCOM	Electricity Supply Corporation of Malawi
FDA	Food and Drug Administration (US)
FM	Financial Management Office (USAID)
FY	Fiscal Year
G&A	General and Administrative
GDA	Global Development Alliance
GOM	Government of Malawi
GTMA	Garment and Textile Manufacturers Association of Malawi
HACCP	Hazard Analysis Critical Control Point
HO	Home Office – Chemonics Washington
IF	Integrated Framework for Trade-Related Technical Assistance to LDCs
IFDC	International Center for Soil Fertility and Agricultural Development
ILO	International Labor Organization
inWent	Capacity Building International (Germany) *Internationale Weiterbildung und Entwicklung gGmbH*
IR	Intermediate Result
ISO	International Organization for Standardization
IT	Information Technology
ITC	International Trade Center
ITI	International Technologies Investment, Ltd.
KIR	Key Intermediate Result
KRA	Key Results Area
LOE	Level of Effort
LOP	Life of Project

MBS	Malawi Bureau of Standards
MC	Making Cents
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MEAC	Monitoring, Evaluation, Analysis, and Communication
MEPC	Malawi Export Promotion Council
MIPA	Malawi Investment Promotion Agency
MK	Malawian Kwacha
MTPSD	Ministry of Trade and Private Sector Development
MUSCCO	Malawi Union of Saving and Credit Cooperatives
NAG	National Action Group
NASFAM	National Smallholder Farmers' Association of Malawi
NGO	Non-Governmental Organization
NOLF	Notification of Limitation of Funds
NORAD	Norwegian Development Agency
NTAE	Non-Traditional Agricultural Exports
ODC	Other Direct Costs
PA	Protocol Agreement
PERSUAP	Pesticide Evaluation Report and Safer Use Action Plan
PIR	Project-level Intermediate Result
PMP	Performance Monitoring Plan
PSI	Population Services International
RAISE	Rural Agricultural Input Supply Expansion (CNFA)
RATES	Regional Agricultural Trade Expansion Support - Kenya
RF	Results Framework
RFP	Request for Proposal
RSA	Republic of South Africa
RTT	Results Tracking Table
SACU	Southern African Custom Union
SADC	Southern African Development Community
SAF	Strategic Activity Fund
SALES	Support for Agriculturally Linked Enterprises Project
SCAA	Specialty Coffee Association of America
SEG	Sustainable Economic Growth
SGS	*Societe Generale de Surveillance*
SIAL	*Salon International de l'Alimentation*
SO	Strategic Objective
TAML	Tea Association of Malawi
TCB	Trade Capacity Building
TSI	Trade Support Institution
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency of International Development
USD	United States Dollars
WDO	Work Days Ordered
WICO	Wood Industries Corporation
WTO	World Trade Organization

EXECUTIVE SUMMARY

In spite of a highly unfavorable funding situation, project downsizing and eventual early closure the SALES Project team was able to achieve significant results with the money and time afforded. Within two years of start-up the project was effectively closed having received roughly one-third of budgeted funds and spending only one-half of the budgeted time in-country. Project funding was precarious from the outset with four (4) notification of limitation of funds (NOLF) memorandums submitted to USAID Malawi within a 12 month span. The project existed on a quarter-to-quarter basis in year one while expecting to demobilize at any time. Under such circumstances any medium to long-term project planning and budget projections were highly speculative. The project had to function in the here and now with an emphasis on immediate impact.

The timing of the project's launch and early closure made no concession to the immutable agricultural calendar. The project started in June 2004 as the harvest was getting underway thereby offering no opportunity to influence production that season. Departing Malawi almost exactly two years later assures the project will not be around to measure the impact of its efforts for the 2006 agricultural season. All in all, SALES was present from start to finish for only one Malawian agricultural season (2005). The 2005 season witnessed the worst drought in 50 years but SALES supported agricultural export sectors added a total of $18.6 million to the national economy, a 10% increase over the previous year. At this writing in May/June 2006 no production figures were available for the 2006 season.

The SALES Project was downsized and restructured within less than one year of operations. SALES immediately evolved from an enterprise-oriented, technical assistance program to a sector-oriented, agricultural trade capacity building project. The SALES project budget was cut from $11.5 million to $6.7 million in Year 1 and would be subsequently cut to $4.1 million less than a year later. The three original subcontractors under SALES (ITI, Making Cents and Kadale Consultants) were all released before the end of the first year after expending only 7% of $1.17 million budgeted for their activities. The project team was also downsized with one expatriate technical assistant departing after only 10 months of a 3 year contract. In response to diminished financial and technical resources the SALES project team limited and focused activities on a small number of economically viable agricultural export sectors that included cotton, coffee and specialty food sauces.

In the cotton sector the project developed and extended an innovative rural information and communication technology system to train local farmers. The project designed and procured the technical equipment required to provide training films in rural areas using car batteries. SALES contracted with a video production firm, deCasa Productions, to develop cotton-sector relevant training videos using DVD and digital video technologies. The three films created were based on informational needs identified by the two major private ginning companies in Malawi, Great Lakes Cotton and Clark Cotton. These films covered the assembly, care and maintenance of the ubiquitous backpack sprayer used in Malawi; an introduction to agricultural chemical safety; and best cotton husbandry practices.

By embedding the training films within the programmatic training offered by the two ginning companies the project was able to train over 30,000 people in just 16 months of operations. The cotton companies covered all post-production training costs to train the 30,000 as part of their contribution to this domestic public-private partnership to provide extension training. The films helped farmers to increase yields on existing plots which resulted in higher production and higher incomes for farmers even if total area planted drops. The higher production resulted in higher export sales, increased foreign exchange earnings and continued diversification of the export crop mix. The cotton ginning firms are committed to continuing the film dissemination sessions because they experienced first hand their value in increasing farmer productivity and cotton quality.

SALES worked through the Coffee Association of Malawi (CAMAL) to re-energize this moribund sector. Malawi produced Arabica coffees are well placed for the niche specialty markets focused on origin coffees and blends. SALES assisted CAMAL to re-brand its image by promoting a new acronym, designing a logo and developing a slogan. The team also developed international exhibition materials to highlight Malawian coffees at regional and international coffee trade shows. SALES supported Malawian representatives to coffee exhibitions in Zambia, Costa Rica and Tanzania on a cost sharing basis. By the third such exhibition (Arusha) the Malawian booth was recognized as “Best in Show”. SALES was directly responsible for re-introducing coffee cupping to CAMAL to monitor and judge the quality of local coffees.

SALES co-sponsored with CAMAL the first National Cupping Training and Exhibition in September 2005. Since that event CAMAL instituted monthly cuppings in 2006 to continue the momentum gained the previous year. CAMAL’s commitment to institutionalizing these changes was evident in May 2006, just prior to project close-out, with the association’s public recruitment of an Executive Secretary to continue SALES-like support. This idea was one of many conclusions of the SALES supported Coffee Sector Strategy (Road Map) for Malawi and will be entirely funded by the national fees paid on coffee exports by CAMAL members.

Nali was the only individual firm retained after the project’s restructuring to a sector-based approach because of their potential as a flagship agro-processor from Malawi. As in coffee SALES applied modern marketing techniques to a Malawian produced product that was unknown or under-appreciated on regional and international markets. SALES assisted Nali to redesign and implement the labels on their entire line of food sauces. Nali has subsequently used these labels in their own marketing efforts such as the Air Malawi in-flight magazine. The team also helped create other marketing materials for Nali including a highly mobile international booth exhibit.

SALES assisted Nali to attend and display their food sauce line at international specialty food exhibitions in the targeted markets of North America, Europe and the Middle East. Greatest success was achieved in the middle eastern markets with several countries expressing immediate interest in the product line. While attending the shows Nali management sought out other potential buyers of Malawian produce and products. In 2006 Nali had a record number of dry commodity orders that were a direct result of these exhibitions.

The SALES team achieved excellent results under very difficult and often trying financial, technical and personnel circumstances. The team achieved while constantly and consistently downsizing the project within months of project start-up. SALES project experience demonstrated that multiple Malawian private and agriculturally–linked export sectors have enormous potential to lead growth, diversify national income sources and raise thousands out of poverty. These efforts best succeed when a national-level, public-private partnership (PPP) approach is used.

SALES found the Malawian private sector willing and able to assess their needs, contribute their own time and money, and continue activities after the project. Malawian private sector firms and business associations were and remain cut-off from the demand of international markets. Judicious use of publicly-funded projects like SALES, combined with private sector engagement as this project elicited, can make a significant contribution to development in Malawi now and in the future.

I. INTRODUCTION

The purpose of this final report is to capture some of the insights garnered from the field team responsible for implementing the Support to Agriculturally Linked Enterprises (SALES) project in Malawi from June 2004 through June 2006. The project contract was fully signed by both parties, USAID and Chemonics, in mid-April 2004. A start-up team was mobilized shortly thereafter and the first technical team members were in-country by the end of May. Technical activities began in June 2004 and the project team was demobilized by the end of June 2006.

SALES was effectively a two-year project covering only one complete agricultural season because the originally $14.5 million, 4.5 year project received insufficient funding from USAID to complete its originally contracted tasks. The funding shortfall became evident to project management within four months of start-up and the resultant downsizing is reflected in the graphic at right. After an initial start-up the project followed a steady decline to final early closure at the end of June 2006.

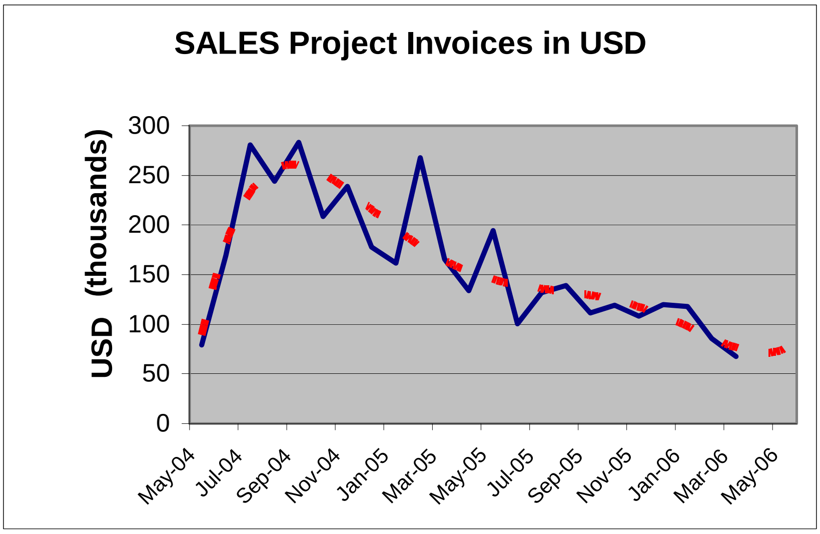

IMAGE #1 : SALES Expenditure Pattern by Month

Overall, the expenditure pattern from SALES is atypical for USAID funded projects because of the funding shortfalls. Essentially, it was all downhill after start-up (see Image #1) as SALES project entered into a downsizing mode shortly after start-up. The graph illustrates this downward slope of expenditures as the project continually cut costs and activities in response to reduced funding beginning in October 2004 (just four months after the full technical team arrived in-country in June).

At the premature end of SALES the project was provided only one-third of its expected funds ($4.1 million instead of $11.5 million) for only one-half its expected length (27 months instead of 54 months). Implementing the project with only one-third the expected funds over half the time period required constant and continual efforts to downsize while still managing for results. Budget figures are through March 2006 because these were the values available at the drafting of this final report. Expected and projected expenditures will not greatly change the resultant relative values discussed in this report.

Due to the timing of the project mobilization and the subsequent downsizing, SALES had only one full reporting cycle consistent with both the US Government Fiscal Year (FY) and the Malawian agricultural cycle. The USG fiscal year is roughly equivalent to the Malawi agricultural year (i.e., beginning in October and ending in September the following year). SALES, an agriculturally linked project, arrived in-country at the end of the 2003-04 growing season (June 2004) and hence, too late to have appreciable impact on production given the advanced state of the crops. SALES was present for the entire 2004-05 Malawian agricultural season which corresponded with the US Government Fiscal Year for 2005. SALES was terminated before the harvest was fully underway in the FY 2006 “season” (June 2006) and will not know its full impact. The only full agricultural year for which SALES was present in Malawi from start to finish corresponds to FY 2005.

At this writing the only data available on project results are those from the FY 2005 season. Interested readers are requested to obtain the FY 2005 SALES Annual Report for full details and a thorough analysis of the project results obtained that year. In spite of the constant downsizing the project still exceeded all of its targeted results that year. This performance was even more remarkable because Malawi suffered a 1-in-50 year drought in FY 2005.

With no data, other than training figures available from the FY 2006 agricultural season, this report will focus on :

- successful methodologies employed that produced desired results

- general lessons learned (in relation to the full program) and

- recommendations for future programming.

The form of the report is narrative with illustrative images, tables and graphs to buttress the points raised. The style follows that used throughout the SALES Project for the monthly, quarterly and annual reports. First, a short section on the administration of the project followed by more detailed technical sections presented by economic sector supported (cotton, coffee and food sauces). A financial section commenting on these aspects of the project completes the report.

Each of the three sector-specific sections of the technical portion of this report begin with a brief recounting of the major activities undertaken to support the private economic actors (past). This is followed by information on lessons learned which are presented in sidebars and text boxes (present). Some options for future efforts in private sector support in Malawi are presented along with each specific sector’s section (future).

Overall, the SALES team did a highly commendable job in the most difficult of circumstances. In addition to the normal challenges of project implementation in developing countries the team had to deal with severe financial shortfalls, reduced resources and almost immediate downsizing. The team overcame these challenges and remained focused on achieving lasting impact in those sectors subsequently supported by the project.

II. ADMINISTRATION

In addition to the regular administrative duties of managing, planning, budgeting and monitoring the SALES project team had to perform under constant and continual downsizing of project staff, activities and recurrent costs.

Significant SALES Project contracting events are presented in the tabular timeline of Table #1. This table illustrates the timing of the four Notification of Limitation of Funds (NOLF) memorandums submitted to USAID within the course of 12 months (August 2004 through July 2005). Under this funding scenario the team was running short of funds each and every quarter of its first year of operations. Over that same time the project's budget was cut and staff downsized.

YR	MTH-YR	CONTRACT ITEM	OBLIGATED	COMMENT
2004	Apr-04	Contract Signed	850,000	LOP $11.5 million
	Aug-04	1st NOLF		
	Sep-04	Modification #1	850,000	
	Sep-04	2nd NOLF		
	Nov-04	Modification #2	1,200,000	
2005	Jan-05	3rd NOLF		
	May-05	Modification #3	850,000	reduce LOP to $6.7 million
	Jun-05	4th NOLF		
	Jul-05	Modification #4	350,000	
2006	Jan-06	RCO Close-out Memo		LOP $4.1 million; close June 2006
		TOTAL	**4,100,000**	

TABLE #1 : SALES Contracting Events Timeline

The administrative team was principally involved in continuing project activities in the face of this extreme financial uncertainty. The financial situation made budgeting a major priority for the management team. Budgets were revised monthly and expenditures monitored weekly to establish a clear picture of what the project could and could not achieve on one-third its original funding. Technical activities were focused on those activities with the highest probability of success with leveraged impact within entire sectors.

Cost-cutting opportunities were identified and implemented with the project existing on minimalist office infrastructure compared to other projects. For example, the team never implemented the information technology (IT) plan for the office and worked for the life of the project on the start-up laptop computers. Similarly, the team opted for a peer-to-peer network that could be implemented with the existing IT stock rather than a client-server approach that would have required additional procurements.

In responding to the reduced funding environment the team examined the budget and determined that major costs under the existing contract system would be from labour. It became immediately clear the project could not exist under reduced funding if the planned project staffing pattern presented in the contract proposal was implemented. For example, the technical proposal called for the hiring eight (8) local technical specialists to assist with project implementation. The actual number employed given the reduced funding was one (1). Recruitment for this position strongly considered the multitasking role this individual would be required to fill and sector-specific specialists, as called for in the proposal, were not hired.

The administrative team was limited to an accountant and an operations manager. These positions were filled with local individuals who could replace each other during vacation and sick leave. Thus, the project preferred accountants with administrative skills and administrators with an accounting background. This decision served the project well because the project's reduced size required multi-tasking by all team members. SALES staff were recruited and groomed to be multi-taskers rather than specialists because of the need for a small core team that supported all activities within the reduced funding environment. This was in stark contrast to the design which had a more specialist approach. A flexible workforce was a key to achieving results in the SALES project funding environment.

Another example of the need for flexibility in face of fiscal uncertainty was the project drivers of which only two were hired. Both drivers filled other roles within the project including support on administrative duties. The project did not hire a receptionist with this role played by all staff, including drivers, as need arose. Overall the project's local staff consisted of five (5) people; accountant, administrator, 2 drivers and one technical assistant.

Only one of the four expatriate personnel filled the full term of their original contract due to the funding shortfalls. Only the start-up project administrator from the Chemonics Home Office completed her original one year contract term. The first long-term technical assistant departed in late March 2005 only ten months into a three and a half year contract. The second long-term expatriate's contract was terminated less than a year later. The final expatriate departed after roughly half of the originally contracted time. In spite of these reduced human resources the administration created a supportive team environment to counter the potentially morale-sapping reality of continual and consistent fiscal shortfalls.

> Lesson Learned # 1 :
> ***Grow Organically***
>
> SALES Project was originally designed and the contract signed in April 2004 to have eight (8) local hire professionals and three (3) long-term expatriate professionals. If the project had hired all 8 local professionals shortly after start-up based on the contract as signed the labour charges would have overwhelmed the existing obligations. SALES project management recognized this problem early due to the low first obligation (only 7% of total expected funds). No professional staff were hired until the funding was stabilized due to downsizing efforts begun in October 2004.
>
> If project staff had followed the original contract design SALES would have been bankrupt within less than one year of start-up. By growing organically (i.e., as the need arose and funds permitted) SALES was able to stave off early closure for two years and produce admirable results that exceeded project targets. Blind adherence to the original budget and contract technical design would have spelled early disaster.

Similar severe cutbacks were required with the original SALES subcontractors in face of the funding shortfalls. These subcontractors principally represented additional labour charges and their continued presence on an underfunded SALES project would only hasten the latter's demise. The first official downsizing was codified in Modification #3 of May 2005 and completely eliminated the three (3) original subcontractors. However, as outlined above, this state of affairs was evident much earlier on and all three subcontractors were informed verbally and by e-mail of the real possibility of no activities for their firms under the downsized SALES project.

The restructured SALES project that appeared one year after start-up had no fixed subcontractors further reducing the resource pool to support project activities. The use of short-term, off-shore labour (as represented by these and other potential subcontractors) would have exacerbated the funding shortfall due to their high cost from the MOBIS Fixed Daily Rates (FDR) and the high travel costs to and support costs in Malawi (lodging plus M&IE). The team kept off-shore consultants to a minimum and used mostly local and regional human resources. Only those international consultants whose work could be leveraged to achieve larger results were brought to Malawi.

Throughout the financial handicap of reduced funding and resultant administrative challenge of constant downsizing, the SALES administrative team was able to create an environment in which the technical team members could achieve significant results. The combined SALES administrative and technical teams, though small in size and short on funding, were able to introduce positive change in a number of sectors that will be described in the next section.

III. TECHNICAL

The SALES Project began life as an enterprise-based technical assistance project focused on the broad categories of food processing, forestry and textiles & apparel. Technical activities were to be neatly separated into a dichotomy of "Business Linkages" and "Business Development Services." Reality quickly set-in within four months of start-up and this construct was reduced to a more manageable set of targeted economic sectors to support given funding levels. Similarly, the dichotomy was dropped for a more team-oriented approach that focused on the needs of the sectors supported rather than an arbitrary demarcation of work areas.

Within the course of the first 9 months the SALES project quickly evolved into a trade capacity building project focused on non-traditional Malawian agricultural export sectors (i.e., neither tobacco nor sugar). The team quickly settled on the cotton, coffee and food sauce sectors. Additional sectors would be added if funding permitted, with tea and macadamia nuts as the first in line for support. Sector selection was driven by the need to diversify the Malawian agricultural economy in response to uncertain international markets for their principle exports (i.e., tobacco and sugar).

> Lesson Learned # 2 :
> ***Agriculture projects must consider the agricultural calendar***
>
> As the percentage of the US population engaged in agriculture continues to decline to less than one percent of our own population most Americans have lost touch with the immutable realities of farming. The agricultural calendar is one such reality that is particularly poignant for the rainfed agriculture most common in developing countries. The timing of RFP releases, proposal responses and project management all need to take into consideration the agricultural calendar.
>
> The SALES Project began life in June 2004 just as the Malawian agricultural season was reaching harvest. It was impossible for the project to claim any realistic impact on production statistics for that year as the season was too advanced. SALES experienced only one full agricultural season in Malawi corresponding with FY 2005. In FY 2005 the project surpassed all ten project indicators in spite of a 1-in-50 year drought.
>
> Closing the project in June 2006 assured departing SALES staff would not be around to monitor project impact as the harvest was just underway. To provide USAID with results data SALES proposed and USAID accepted the idea of locally contracting to collect data for FY 2006. Prior to closing in-country operations SALES contracted with a local consulting firm to collect, analyze and present impact data to USAID three months after the project team demobilized. This would allow USAID to report on two full agricultural seasons during the life of SALES rather than just one.

Another consideration used in making sector choices for support was their respective contributions to export earnings and the ability to generate foreign exchange. The Malawi Kwacha has been under significant pressure over the life of the SALES project losing almost one quarter of its value (108 to 134 per dollar). Previous inappropriate macroeconomic policy that led to this decline was being addressed by the Government of Malawi during the tenure of the SALES project. Export sectors that could contribute by diversifying and adding to the overall value of foreign exchange earnings would greatly assist the macroeconomic stabilization program. The declining exchange rate and increased inflationary pressures saw real incomes in the overall economy drop by almost half during the SALES project. Working with potential export sectors to increase the value and volume of exports would help the country resist this decline in real living standards thereby preserving the purchasing power of households.

The team opted for a demand-driven and market-based approach to implement support activities within a chosen sector. The project was demand-driven because it worked with the principal economic actors within a targeted sector to identify their most pressing needs. With these same partners the project would design the type of interventions required to overcome the identified constraints on a cost-share basis. The project was market-based in the sense that all interventions were designed to cause minimal distortion to the functioning of a free market system. In fact, interventions were designed to harness and reinforce the outcomes dictated by market forces.

The tactics used by the project were to work with the entire sector once it was targeted for support. The respective commodity-based business associations were key to this approach. By working with and through commodity-based business associations the project was able to provide identical support to all members firms within a given association. This tactic avoided the perception of

> Lesson Learned # 3 :
> ***Demand driven approach leads to sustainable impacts***
>
> SALES' demand-driven approach to project implementation resulted in increased activities in the sectors supported by the project which will continue and deepen upon demobilization. Investing the time and energy required of a demand-driven approach pays off in sustainable impact. Jointly identifying areas to be addressed with targeted beneficiaries and insisting on their own contribution to implemented activities assures commitment and continuation.
>
> In the cotton sector the two ginning companies have covered the recurrent training costs for the last two agricultural seasons using the DVD extension films. Since these activities have been supported for two seasons without SALES financial support they are most likely to continue after SALES beginning with the 2006-07 agricultural season in August-September 2006.
>
> CAMAL launched a national recruitment in May 2006 to hire an executive secretary to run the coffee association activities in the post-SALES period. This individual will be fully paid from the annual fees levied of CAMAL members. Creating this position and building political consensus within CAMAL for this major step forward were a result of the Coffee Sector Road Map process supported by SALES.
>
> Nali has already begun exporting dry commodity goods since the start of 2006 due to business contacts made at trade fairs jointly attended with SALES support. Nali has also fully funded independent marketing efforts based on SALES produced materials, including a highly visible presence in the in-flight magazine of Air Malawi.

only working with preferential member firms while simultaneously strengthening the association through the provision of relevant services. Members receiving relevant services were more likely to pay their annual levy to support association activities. Members who perceived no preferential treatment for individual firms felt a “level playing field’ for access to project support was retained and, hence, markets were not being distorted by donor interventions.

The only exception to this method was the work with Nali on food sauces. They were the only individual firm that received direct support rather than an entire industry. One could argue that Nali was and is the entire food sauce industry in Malawi with their only competition being regional and international (i.e., they are “an industry of one” manufacturer similar to the sugar sector in Malawi with Ilovo). However, Nali was actually “grand-fathered in’ the downsized SALES project as the sole individual firm retained for support as the project moved from an enterprise-approach to a sector-approach due to the funding shortfalls.

While the Coffee Association of Malawi (CAMAL) strengthened significantly over the life of SALES the Cotton Development Association (CDA) disbanded. The source of the problem was not disagreement among the members of the association but rather external interference in the form of price-fixing by the Government of Malawi. GOM efforts to fix farmgate prices without full information on subsidized input costs, international market trends, transport costs and quality concerns has had the expected negative impact on the tobacco sector. Similar efforts in cotton led to the member ginneries to disband before being accused, as the tobacco buyers have been, of collusion. CAMAL has avoided the fixed-price fate of tobacco and cotton because it is a much smaller sector with minimal GOM interest to-date.

COTTON SECTOR.

When SALES arrived the cotton sector was dominated by two ginning companies; Great Lakes Cotton and Clark Cotton. Between these two firms around 95% of all cotton in Malawi was produced and processed. The remaining amounts were either directly exported by farmers or purchased by a third ginner in northern Malawi (Iponga). There was and remains no large-scale commercial ("estate") production of cotton in Malawi with all farmers considered "smallholders." Yields were among the lowest in the region at around 400 kilogram per hectare due to poor production practices and low use of farm inputs. In the absence of any extension support from the Government the two cotton ginning companies began sponsoring training sessions for their own staff and farmers.

IMAGE # 2 : SALES Produced DVDs

In consultation with these two firms SALES identified the lack of content for these trainings as a major constraint to their impact. An opportunity existed to embed training content within the existing structures used by these two companies. Over several sessions with company staff and farmers, SALES identified around a dozen key concepts that smallholders needed to master to increase their productivity at minimal cost to the individual.

<u>What SALES achieved in cotton :</u>

- successfully implemented a domestic public-private partnership with the two major ginning companies to provide embedded extension information to cotton farmers
- trained over 30,000 people in 16 months using the embedded training model and DVD films
- used information technology in an innovative fashion to communicate with rural farmers using rural projection kits to project the DVD films
- achieved international recognition for the quality of the DVD films by winning two Telly Awards
- enhanced on-farm productivity resulting in a 6% increase in cotton produced from 2004 to 2005 in spite of a 1-in-50 year drought

The resultant three films emanating from this exercise were "JactoRed" and "Jacto Blue" (backpack sprayer assembly, use and maintenance), "Introduction to Agricultural Chemical Safety" and "In High Cotton" (cotton husbandry best practices). The first two films (JactoRed/Blue) were produced as Do It Yourself (DIY)

instructional videos. The latter two changed filming format to be more story-based which proved to be a more effective approach to message dissemination.
The films proved to be very popular with the rural communities and farmers often requested additional sessions, topics and more films. Very strong demand for information in this format was clearly demonstrated in the farmer comments elicited after each showing.

Films were often projected together in a double-bill or even triple-bill (i.e., joint showings). The most frequently shown films were “In High Cotton (IHC)” and “Jacto Red (JR)” as these were the most relevant to the cotton industry. “Jacto Red” was the most watched film with almost 14,000 viewers because it was used in part of two agricultural seasons having been the first film produced. However, “In High Cotton” came close to overtaking “Jacto Red” with over 11,000 viewers in only one season because of its relevance and high demand for its content.

FILM	SHOWINGS			
	individual & joint		each individual film	
	#	People	#	People
IHC	37	4,334	65	11,127
ACS-IHC	5	278		
JR-IHC	13	4,246		
ACS-JR-IHC	10	2,269		
JR	31	7,452	54	13,967
ACS	6	2,595	21	5,142
TOTAL	**102**	**21,174**	**140**	**30,236**

TABLE 2 : Cotton Film Showings

These and other trends can be discerned from Table 2 above. The data in this table are presented for both individual and joint showings. If a person at a joint showing is counted as a viewer of each of the films shown then the 21,000 people trained increases to just over 30,000. “Jacto Red” remains the most popular with almost 14,000 “viewings” followed by just over 11,000 for “In High Cotton” and 5,000 for “Agricultural Chemical Safety.” Again, “Jacto Red” leads because it was the first film produced and was used in one and a half agricultural seasons.

Lesson Learned # 4 :
Public-Private Partnerships most productive

SALES Project efforts to work with the two privately held cotton ginning companies was rewarded with a larger number of people trained at much lower cost and with a heightened expectation that training would continue after project closure. In the agreement between the project and the private firms, the firms provided content material while SALES produced the films that captured the message. The companies then bore the full recurrent costs of the dissemination of the films while SALES provided a technological solution to rural projection. SALES played the role of a Hollywood studio while the private cotton ginners acted as film distribution and dissemination interests. The combined effort was greater than the sum of its parts resulting in over 100 screenings and 30,000 people trained in 16 months. Neither group could have achieved as much acting alone.

The DVD training films produced by the project have the potential to be used for many years after the project’s closure. The dissemination infrastructure is key to continued use as is the effectiveness of these films as perceived by the ginning companies. As long as these companies are convinced the films increase farmer productivity they will continue showing them after SALES is completed because they have supported all dissemination related costs since the outset of the program.

The dissemination can be improved by increasing the power of the sound system. The films began attracting larger groups of people than originally anticipated and the sound system became under powered for the number of listeners attracted. This was common feedback from the 100 plus showings during the SALES project. Of the 102 showings less than half (43) had the originally projected maximum of 100 viewers or less. The number of showings with greater than 100 people attending was 59 and in two cases passed the 1,000 mark. The original design of the rural projection kits did not expect this level of interest so early in the use of the system. This sound problem can be easily addressed by upgraded speakers that fit within the overall power rating of the rural projection kit’s inverter.

SALES team members also observed that evening projection times were more widely attended than day sessions. This makes sense because it is hotter in the day and the projected film is more easily seen at evening or “sunset’ show times. However, another reason for promoting “sunset showings” is the wider participation of women, young people and children at these time periods. Because of school schedule conflicts and other societal reasons more women and children were likely to attend “sunset shows.” In essence, the “sunset shows” are more community based events than the shows targeted to farmers during daylight hours.

As the cotton ginning companies continue to use the films in years subsequent to the departure of SALES, the opportunity exists to add other relevant message films, particularly at “sunset shows.” An example would certainly include the AIDS awareness films produced by PSI and small-scale production (ex., honey, fishing, etc.) films from COMPASS II. Feedback provided SALES over the course of the dissemination campaign indicated high viewer interest in more film content that reflects the high demand for information in the rural areas.

In concert with the ginning companies SALES planned and began preliminary storyboards for a follow-up cotton “productivity enhancement” film focused on “conservation tillage” techniques. This was suggested by the cotton companies as the next logical step in the progression of the cotton film series that began with Jacto

Lesson Learned # 5 :
Rural Projection Kits are appropriate technology

SALES Project developed a rural projection kit consisting of component parts that allow projection of training and informational films in rural areas from a car battery. The technical specifications for these kits, as well as the specifications for the video production equipment, were shared with other USAID partners, including PSI and COMPASS II. Within a year a half SALES private sector partners had a total of 7 kits among them and trained over 30,000 people. Costing less than $5,000 per kit, private sector partners were covering 100% of the locally procured items in the kit by contract end. This effort allowed SALES to develop and extend an innovative rural information and communication technology system that disseminated problem-based and site specific learning.

Red. The planned films would have targeted farmers looking to expand their acreage under production but who were faced with labour constraints.

Conservation tillage employs a common herbicide (e.g., Round-Up) to kill weeds and produce an organic mat through which seeds are planted. The technique does not require farmers to create mounds and/or ridges, reduces weeds (the mat inhibits weed growth) and increases yields. Farmers can cultivate from 3 to 4 times their usual acreage with the same labour input using this technique. SALES had scheduled to capture this process on film with the 2005-06 agricultural season. The subsequent film would be edited and introduced into the dissemination plan for the 2006-07 year but was not realized due to the early closing of the project.

Increasing cotton profitability attracted “new entrants” which served to diversify the structure of the Malawian cotton sector and to bring additional competition to its performance. A new buyer (Produce Africa Limited) began buying cotton in the 2005-06 campaign along with the three traditional buyers of Great Lakes, Clark and Iponga. This is a healthy structural change as the increased competition at the buyer level will result in increased farmgate prices. Increased competition is the market-based means of increasing price rather than by government fiat. Further diversification and competition is rumoured with the possible entry of Dunavant onto the Malawian cotton market. Dunavant is a major, privately-held, Memphis-based cotton company which is presently working in neighboring Zambia.

The subsidized input program of the major buyers (Great Lakes and Clark) will likely be reduced because of the increased possibility of “free riders” (i.e., buyers who are not assisting farmers with subsidized inputs buy cotton from farmers who received support from a different buyer). The cotton ginners’ response to a heightened “free rider” problem will logically be reduced subsidization, particularly in light of Government’s continued efforts to fix output prices.

An opportunity exists to geo-reference cotton-related activities and data in Malawi given the multiple physical locales employed by the major ginneries to provide inputs and buy output. These fixed input/output supply points are where the cotton ginning companies collect the majority of their own data, although some companies may be moving towards using middle man buyers, particularly Great Lakes Cotton. These and other data can be referenced by their latitude and longitude using low cost ($100) geographic positioning systems (GPS) to provide a map of the cotton sector and identify areas of growth and/or potential problem areas. SALES project had originally identified this as a potential area to support within the cotton sector but dropped this initiative as part of the downsizing and reduced IT expenditures. Nonetheless, this is an activity that could be pursued in the future for multiple agricultural sectors in collaboration with FEWSNET.

Cotton provides a valid export sector that offers an opportunity to smallscale farmers with minimal experience. Farmer incomes can also be increased through productivity enhancements, better production techniques and increased area under cultivation. Farmers very positive reactions to the embedded extension training films highlights their interest in raising productivity. Government’s focus on prices rather than productivity and quality will continue to harm sustainable progress in the cotton sector as it is presently doing in the tobacco sector.

Productivity enhancements will increase total returns irregardless of price while quality production will always fetch a premium. SALES experience has shown that Government should be working along with the private sector cotton interests to achieve more for all the actors in the cotton sector. These efforts should focus on innovative partnership ideas based on market principles that result in enhanced impact rather than the more frequently seen confrontational and finger-pointing approaches described in the local press.

COFFEE SECTOR.

Coffee in Malawi pre-dates tea although it was seen as a less dynamic sector than the latter when SALES arrived. World coffee prices had not helped over the last 5 to 10 years hitting record lows during the same decade that Malawi experienced general disinvestment due to inappropriate macroeconomic management. The resultant coffee sector when SALES arrived in mid-2004 was mainly producing "filler coffee". SALES began coffee activities at the beginning of Fiscal Year 2005 and the start of the 2004-05 agricultural season.

IMAGE 3 : CAMAL's new logo

The first activity implemented by SALES was an inventory of the coffee producers in Malawi. This survey was used to inform the project and the sector of the structure of coffee production in Malawi. Essentially, the coffee sector mimics many economic sectors in Malawi with a handful of actors accounting for most all of national production and a larger number of smallscale producers. In coffee 80% of national production is represented by three economic actors; Global Industries (Sable and Makande Estates), the Smallholder Coffee Farmer Trust (SCFT in Mzuzu) and Press Corporation. Another dozen producers account for the remaining 20% of coffee produced in Malawi.

What SALES achieved in coffee :

- reinvigorated the Coffee Association of Malawi (CAMAL) by creating a new image, logo, brand and sector strategy for Malawi's coffees
- stimulated CAMAL to hire a full-time secretariat position to continue SALES inspired marketing and training functions fully funded by member dues
- created new marketing materials for the revised CAMAL brand which was recognized at the February 2006 EAFCA Conference as part of the Best Exhibitor prize
- increased awareness of all growers within the sector of the need to position Malawian coffee for the "specialty" grade niche through quality enhancements
- placed Malawian coffees back on the regional map as evidenced by the Top Five showing at the regional EAFCA cupping in February 2006
- reinstituted national coffee cupping as part of the effort to improve quality and target the niche "specialty' market
- coffee sector export volumes increased 35% and values 70% in 2005 reflecting a combination of increased production and better prices

An important asset the coffee sector presented to SALES was the existence of a grower's association (originally entitled CAML for Coffee Association of Malawi) that regrouped all the growers both commercial and smallscale. The association was experiencing some difficulties in articulating a direction to proceed as an industry in light of the disinvestment and unfavorable world market prices since the mid-1990's. Over the last decade many growers left the industry which declined from record production in the early 1990's (around 7,700 metric tons) to a 20-year low of 1,600 metric tons in 2004. When SALES arrived some growers were arguing it was no longer economically or financially feasible to grow coffee in Malawi. SALES biggest achievement within the coffee sector was to demonstrate to growers a potential strategy and approach to reinvigorate coffee in Malawi.

Because coffee is a perennial crop and the 2004-05 season had just begun the SALES team began by focusing on improving the Malawi brand image. A new logo (see Image 3 above) was designed and a slogan crafted ("The Heart Warming Cup from the Warm Heart of Africa"). New marketing materials were produced that were first used at the March 2005 EAFCA Conference and Exhibition in Livingstone, Zambia. CAMAL officially changed its name from CAML to avoid confusion with and perceived dominance from the Tea Association of Malawi (TAML).

SALES successfully helped CAMAL diagnose and eliminate a storage sack contamination problem that had hindered marketing of Malawian coffees at the Zambia conference. This was a turning point for the new CAMAL as they could have easily folded but instead chose to find an industry-wide solution to the problem of imported non-food quality sacks.

> Lesson Learned # 6 :
> ***Sustainable sector-wide impact achieved through strengthened local, private sector associative bodies***
>
> SALES Project chose to work in the coffee sector through the Coffee Association of Malawi (CAMAL). By strengthening a local associative body that regroups all coffee producers, big and small, SALES was able to leverage its impact to achieve sector-wide results. By providing assistance through this local association SALES activities served to strengthen CAMAL by making its services more relevant to producer needs thereby providing additional incentive for members to pay their dues. Working in concert with a local associative organization also assures that activities undertaken are supported by the industry as a whole. Finally, CAMAL will continue SALES initiatives after project closure as evidenced by the May 2006 announcement in the local newspapers of CAMAL's recruitment of a permanent secretariat entirely based upon their own funds.

CAMAL and SALES successfully hosted a three-day training event in Thyolo to introduce the coffee cupping standards of the Specialty Coffee Association of America (SCAA) to Malawian growers. A nationwide competition was held at the same time and the 2005 winners announced for this inaugural event. The event convinced all growers that their coffees had aroma and flavour attributes that were sought on international markets and that all Malawian coffees were not destined for "filler" status. Almost all the major growers in the country attended this training, paying their own way, as well as a fee, to attend. SALES drew on support from the regional RATES project, EAFCA and the Coffee Quality Institute (CQI) to provide technical assistance for this training.

The renewed confidence among the local coffee growers was further enhanced with additional cuppings and tasting in Europe and Costa Rica. By the end of calendar

2005 the sector was posed to compete on the regional and international levels as a small but quality oriented producer. This was an amazing transformation in one year's time and reflects the commitment of the growers within CAMAL, their enlightened leadership and targeted technical assistance from SALES.

Continuing the quest for industry-wide quality improvements CAMAL requested SALES to assist the creation of monthly national cupping sessions. These sessions served to keep the senses sharpened of the "key cuppers" identified at the Thyolo training. The sessions would also serve to provide immediate feedback to producers on the quality of their production. Monthly cupping sessions were held throughout the first months of 2006 with coffees from within Malawi and around the region used in blind taste tests for the five "key cuppers."

By the time of the second regional EAFCA conference concurrent with the SALES project CAMAL was prepared to compete with the other major African coffees. The 2006 EAFCA Conference and Exhibition was held in Arusha in February. Malawi did extremely well placing third overall and their booth was voted "Best Exhibitor." Malawi's coffee was back on the regional map. The last SALES activity will be a "Coffee Brewing for Excellence" training to be held just two weeks prior to final project demobilization in concert with the US-based CQI.

The final SALES support activity for the coffee sector occurred less than two weeks from project demobilization. A "Coffee Brewing for Excellence" training was held in both Lilongwe and Blantyre targeted to the businesses that serve coffee beverages to the consuming public. This training was held in collaboration with the Coffee Quality Institute and the Coffee Corps who provided a brewing specialist from Green Mountain Roasters of Vermont. The benefit of working with the CQI is two-fold; first, they provide a specialist from the US private sector at minimal cost and second, Malawi has the opportunity to introduce its coffee to a potential buyer.

Two brewing trainings were held in Lilongwe and one in Blantyre with 20 and 19 people attending, respectively, for a total trained of 39 over three sessions. In Lilongwe the Sunbird hotel chain was well represented, as well as the Cresta Hotel, plus two restaurants (Don Brioni's and Buchanan's). Blantyre had a more diverse crowd among the same number of participants. In addition to hotels and restaurants, the Blantyre training saw the participation of a casino, the Institute of Tourism, and a lodge (Mvuu Camp), as well as a local coffee roaster and one grower.

CAMAL's experience demonstrates that private sector interests often need an external catalyst to understand the demand for their product. They certainly need assistance in marketing and understanding national, regional and international markets. The focus on quality production over quantity was also a major component of the SALES experience with coffee in Malawi.

The coffee sector in Malawi must continue to focus on quality production and this is a continual battle. Quality is an attribute achieved through continual struggle that requires commitment and support. CAMAL is well-placed to remain the focus of quality coffee activities in Malawi. Expansion of the area under production will most likely come from the smallholder sector which is present only in northern Malawi.

Smallholder coffee schemes have potential for additional growth in targeted and appropriate areas of southern Malawi.

The commercial farms (‘estates”) need to be encouraged to remain engaged in coffee as they provide a basis for technology transfer and stability within the industry. This is true even though the scope for increased area planted in coffee on the estates is severely limited and will likely decline with time. CAMAL can be continually supported in its role as the arbiter of quality coffee from Malawi and focal point for industry-wide initiatives to promote growth. The SALES supported Coffee Sector Road Map outlines a large number of potential areas for potential activities in the coffee sector in Malawi.

One area of increased demand for Malawi coffees will be the growing specialty coffee market in South Africa. Some of the southern Malawian growers have already made entries into this market over the last year having become more familiar with the specialty coffee trade through SALES project activities. Some growers are even experimenting with branded, roasted beans and ground coffee for the South African market. This is a trend to continue to follow, develop and support. Among the coffee producing countries in southern Africa (Zambia, Zimbabwe and Malawi) Malawi has coffees that generally grade and cup higher than these neighbors. The South African specialty coffee market offers a good opportunity for these Malawian producers.

NALI - Food Sauces.

Nali's specialty food sauce line is well known throughout Malawi and the family-run company has been around for over 30 years. This makes it rather unique among private sector businesses within Malawi with a potential for export of value-added products. The Nali Group of Companies is actually a holding company with interests in dry commodity exports, cotton bandaging, hospitality and the flagship food sauces. Among these various interests the food sauces represent 50% of all revenues within the Nali Group.

Nali was founded over 30 years ago by the patriarch of the Khoromana family who passed away in 1997. Second generation Khoromana family members have now taken leadership roles in the company and are prepared to grow the company by expanding into new products and markets. Because of its comparatively long history, sustainability and increasing international exposure Nali has the potential to serve as a model for aspiring Malawian entrepreneurs seeking to export to world markets.

SALES began support efforts with Nali targeted to the food sauce line with the idea of assisting some of the other holding company asset bases in subsequent efforts. Project staff felt that Nali's food sauce line presented the best medium-term opportunity in Malawi for an AGOA-related agricultural export from Malawi to the US market that did not involve textiles or fabrics. If the project had been fully funded the SALES team expected to extend support to the cotton bandaging portions of Nali as part of a wider effort to create backward and forward linkages along the cotton supply chain.

IMAGE 4 : Nali's Export Design

Due to funding constraints SALES project support to Nali was limited to the food sauce line for the duration of the project. The team began by initiating upper management to international specialty food markets and potential export demand for Nali's line of food sauces. Over the course of 18 months Nali's management cost-shared attendance at North American (Chicago Fancy Food Show), European (ANUGA) and Middle Eastern (GulFood Show) specialty food exhibitions. Nali management was surprised by both the number of competing sauces worldwide and the level of interest in their products.

Of the three shows the most productive in terms of direct and potential sales in the short-term is the Dubai GulFood Show. Nali is well-placed to return to this show on their own funding given the level of interest and real sales achieved. The European and North American markets are more medium to long-term propositions in light of the project's early closing. This is mainly due to the level of complexity of food regulations in these more developed markets. Nali is prepared to make the necessary investments to meet these developed market standards but only if secure orders are received. This is just good business and allows Nali to focus on neighboring markets while making investments for future growth.

To participate effectively in these international shows the project assisted Nali to upgrade its labeling and presentation for more sophisticated consumers. The Nali food sauce line was redesigned with an Export label (see Image #4 above) and bottled only in glass. An entire set of similarly themed marketing materials including flyers, fact sheets and exhibition booth materials were also developed and used at these exhibitions. Nali management remarked that the improved packaging had a significant impact on how their product was received, especially in comparison with other African producers. At each and every show they received extremely positive feedback from participants on the quality of their presentation which generated additional interest to try their products.

What SALES achieved with Nali :

- Redesigned the label and marketing materials for international consumers
- Introduced Nali management to the variety and quality of international competition in specialty food sauces
- Identified crucial quality control items to be addressed in Nali's production and handling processes
- Assisted Nali to submit its Food and Drug Administration (FDA) plant and process certification applications
- Tested Nali's sauces for conformity with US FDA regulations and identified areas for quality improvement
- Facilitated Nali's re-entry into the dry commodity export market through linkages established during attendance at international trade shows
- Increased Nali's exports by 88% by volume and 18% by value in 2005

Additional benefits were obtained from attendance at these shows. The SALES approach to these exhibitions was to have at least two Nali "people" present at each show; one to "man the booth" and the other to "work the floor." This tactic allowed Nali managers to visit other booths and negotiate deals with other participants. In this fashion Nali generated dry commodity sales for Malawi produced goods that they had not exported in the previous year. By approaching other producers who they thought would be interested in some commodities produced in Malawi Nali obtained several confirmed orders by early 2006. They began filling these orders throughout the first six months of the new year.

Another side benefit of Nali's participation in these events was to demonstrate to management that they can compete on international markets and the steps required to reach that level. Nali's management now has a much better idea of what each market offers in terms of demand and what the sequencing should be for developing each market. If additional funding had been available SALES was discussing and creating a similar strategy with Nali for the regional markets in southern Africa. Nali is already exporting to Zimbabwe and latent demand is known to exist in South Africa and other regional markets.

SALES emphasis on marketing Nali's product line to the world naturally led their management to become more quality conscious. All of the markets expressing interest in Nali's food sauces also required testing by their respective national laboratories. By project's end Nali's sauces had successfully passed national standards in several Middle Eastern and South Asian countries, including Lebanon and Pakistan. SALES also planned to expand market prospection to East Asian markets by participating in the major Asian food market exhibitions. However, these were cut as part of the downsizing. Nevertheless, sufficient interest has been generated in various world markets and Nali is presently following up on multiple inquiries from potential buyers.

As part of this push towards quality, SALES assisted Nali to understand the various international and national standards systems such as HACCP, ISO 9000, and ISO 22000. SALES assisted Nali to participate in a national program to assist local business to improve quality production. Similarly, SALES assisted Nali to understand the US Food and Drug Administration (FDA) requirements for food exports to the American market. By project end Nali's plant and process registration applications were completed and submitted to FDA. Unfortunately, SALES was closed before the final outcome of this effort was known. It is common for the FDA to request, at a minimum, additional information in support of the plant and process applications. Nali will have to respond in a timely fashion to any FDA requests for additional information to keep the FDA registration process moving forward.

Nali will experience very significant growth in dry commodity exports in 2006 and good growth in its sauce line due to the SALES inspired marketing efforts. Future exports for Nali's food sauce line are most likely to be within the southern African region with international exports targeted to the Middle East and possibly Europe. Potential exports to the US, even with the preferential tariffs under AGOA, will be unlikely in the near term (1 to 2 years) due to the amount of time and effort required to understand, register and implement US FDA regulations on food product imports. The FDA plant and process registrations can take over a year even in the best of cases.

Nali is best served exporting products to markets closer to home and where they have successfully passed national standards systems while they await results from the FDA registration applications. Nali can then use part of the proceeds from increased exports to these "closer" markets to invest in quality upgrades at their Luchenza processing plant. It is in Nali's economic and financial interests to move most all production to the Luchenza plant in order to maintain full managerial control over their costs of production. Nali's management learned from their international exhibition experiences that price matters, in addition to quality production and marketing.