

A.I.D. Program No. 612-0239
Dollar Appropriation No. 72-111/21014
Budget Plan Code: GSS1-91-31612-KG39
Program Agreement No. PA-612-T-604

PDBCB 585

PROGRAM GRANT AGREEMENT

for

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

between

THE GOVERNMENT OF THE REPUBLIC OF MALAWI

and

THE UNITED STATES OF AMERICA

acting through

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Dated: September 30, 1991

AGRICULTURAL SECTOR ASSISTANCE PROGRAM AGREEMENT

This Agreement, dated September 30, 1991, is hereby entered into by and between the Government of the Republic of Malawi ("Grantee") and the Government of the United States of America, acting through the Agency for International Development (A.I.D.), together referred to as the "Parties".

Article 1: The Grant

For the purpose of assisting the Grantee in its efforts to increase smallholder (i.e., individuals cultivating customary land) access to agricultural inputs, output markets, cash crop production alternatives, and labor market information (the "Program"), A.I.D., pursuant to the U.S. Foreign Assistance Act of 1961, as amended, hereby grants to the Government of the Republic of Malawi, subject to the terms and conditions of this Agreement, an amount not to exceed Twenty Million United States Dollars (U.S.\$20,000,000) (the "Grant"). The Program is described in more detail in Annex 1 to this Agreement. Within the limits of the above definition of the Program and the conditions precedent set forth in Article 4 below, elements of the Amplified Program Description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 6.11, without formal amendment of this Agreement.

Article 2: Grantee Resources for the Program

Section 2.1 General. The Grantee agrees to provide or cause to be provided for the Program all funds, in addition to the Grant, and all other resources required to carry out the Program effectively and in a timely manner.

Section 2.2 Specific. The resources to be provided by the Grantee for the Program will be not less than the equivalent of Ten Million United States Dollars (\$10,000,000), including costs borne on an "in kind" basis. These resources will include, but are not necessarily limited to, the funds to be deposited into the Special Local Currency Account under Section 5.4(a) below.

Article 3: Dollar Disbursements/Special Dollar Account

The Grant shall be disbursed in three separate tranches. Grantee may obtain disbursement of each tranche by written request to A.I.D. following receipt of the notification described in Section 4.6 below that the conditions precedent for that particular tranche have been satisfied. All funds disbursed hereunder shall be disbursed into a separate, interest bearing Special Dollar Account, at a U.S. banking institution acceptable to A.I.D., in the name of the Reserve Bank of Malawi and specified by Grantee in such request. Funds in such account, including all interest earned thereon, will not be commingled with funds from any other source and shall be used only for the purposes specified in Section 5.5 below.

Article 4: Conditions Precedent to Disbursement

Section 4.1 Conditions Precedent to First Tranche. Prior to the first tranche of the Grant, which shall be Four Million U.S. Dollars (US\$4,000,000), Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(a) a statement of the name of the person holding or acting in the office of the Grantee specified in Section 6.11, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) a legal opinion from an appropriate officer of Grantee certifying that this Agreement has been duly executed on behalf of Grantee and constitutes a valid obligation of Grantee to undertake the Program in accordance with this Agreement;

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

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

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

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

(g) Grantee has adopted a plan, acceptable to A.I.D., that provides full details concerning the timely supply of fertilizer and seed sufficient to meet the requirements of the customary-land burley tobacco producers registered with the MOA in accordance with the condition stated in Section 4.1(c) above.

Section 4.2 Conditions Precedent to Second Tranche. Prior to the second tranche of the Grant, which shall be six million U.S. Dollars (US\$6,000,000), Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

- (a) Grantee has issued official individual production quota certificates, which are recognized by any legal marketing entity, to customary landholders in a total amount of not less than 3.5 million kg of burley tobacco;
- (b) Grantee has legalized and publicly announced, in a manner acceptable to A.I.D., that customary landholder burley can be legally purchased by quota-holding burley tobacco estates within an estate's own quota;
- (c) Grantee has adopted a detailed plan acceptable to A.I.D. for the dissemination of market price information in each Agricultural Development Division, for a mutually agreed-to list of agricultural commodities;
- (d) Grantee is requiring that terms and conditions of tenancy and of casual and permanent labor be posted on all estates;
- (e) Grantee has adopted a plan, acceptable to A.I.D., for monitoring the environmental impact of reforms implemented as part of the Agricultural Sector Assistance Program;
- (f) Grantee and A.I.D. shall have jointly approved an implementation schedule for studies (described in more detail in Annex 1) which are intended to be financed by the related Agricultural Sector Assistance Program Support Project and for the development of related action plans in the following areas:

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

Section 4.3 Conditions Precedent to Third Tranche. Prior to the third tranche of the Grant which shall be ten million U.S. Dollars (US\$10,000,000), Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

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

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

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

(d) Based on the study described in Section 4.2(f)(1) above, on the topic of alternative marketing channels for smallholder farmers, Grantee shall have completed the following actions in a manner acceptable to A.I.D.;

(1) designed and begun to implement a system whereby estates can purchase burley from quota-holding customary landholders in excess of the respective estates' individual quotas;

(2) legalized, and publicly announced the legality of, the sale of burley by quota-holding producers to any marketing agent who complies with criteria agreed to between the Grantee and A.I.D.;

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

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

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

(h) Grantee shall have implemented a market price information system based on the plan approved in accordance with Section 4.2(c);

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

(1) Alternative Marketing Channels for Smallholder Producers

(2) Credit Plan for Smallholders

(3) Private Sector Distribution of Seeds and Fertilizer

(4) Private Sector Maize Marketing

Section 4.4 Prior Conditions Precedent: It shall be a continuing condition precedent to release of each tranche hereunder that Grantee shall not have taken any action to materially impede or reverse actions taken in satisfaction of any prior condition precedent.

Section 4.5 Terminal Date for Satisfaction of Conditions Precedent to First Tranche. If the conditions precedent to the first tranche specified in Section 4.1 have not been satisfied with ninety (90) days from the date of signature of this Agreement, or such later date as A.I.D. may agree to in writing, then A.I.D. at its option may terminate this Agreement on thirty (30) days written notice to the Grantee.

Section 4.6 Notification. When A.I.D. has determined that the conditions precedent specified in each of Sections 4.1, 4.2, 4.3, and 4.4. have been satisfied, A.I.D. will promptly notify the Grantee in writing.

Article 5: Special Covenants

Section 5.1 Quota Allocation. Of burley tobacco quotas issued to customary landholders, Grantee shall see that an increasing proportion is allocated to customary landholders with less than 1.5 ha, and an increasing proportion is allocated to women.

Section 5.2 Environmental Monitoring. Grantee shall conduct regular monitoring of the environmental impact of reforms implemented as part of this Program, and report to A.I.D. its findings annually.

Section 5.3 Annual Evaluation. Grantee shall conduct annual evaluations of the smallholder burley scheme, and report its findings to A.I.D.

Section 5.4 Special Local Currency Account. The Grantee covenants that, except as A.I.D. may otherwise agree in writing:

(a) It will maintain a Special Local Currency Account in the Reserve Bank of Malawi, or such other institution as the Parties may mutually agree to, and, following each disbursement of U.S. dollars hereunder, will deposit or cause to be deposited therein currency of the Republic of Malawi in a sum equivalent to such U.S. dollar disbursements under this Agreement, calculated at the exchange rate specified in Section 6.13 below on the date dollars were disbursed. Funds in the Special Local Currency Account will not be commingled with local currencies from any source other than the Program financed pursuant to this Agreement.

(b) From the Special Local Currency Account the Local Currency equivalent of not less than Five (5%) percent of the total dollar disbursement hereunder, calculated by using the exchange rate specified in Section 6.13 below, shall be made available to USAID for the requirements of operating the A.I.D. program in Malawi. Such contribution will be made within thirty (30) days from the date of the applicable dollar disbursement, and will be made into the A.I.D. Operating Expense Trust Account which is the subject of a separate Local Currency Trust Agreement between the Parties.

(c) It is agreed that, except for funds made available to USAID under Section 5.4 (b) above, all local currencies in the Special Local Currency Account will be used only for general budgetary support to the Ministry of Agriculture, the Department of Research and Environmental Affairs in the Office of the President and Cabinet, and Bunda College of Agriculture, in such proportions as Grantee and A.I.D. may later determine.

Section 5.5 Utilization of Dollars. Dollars disbursed hereunder will be used only for the purposes and in the manner set forth in Annex I. No grant funds will be used to finance military or paramilitary requirements of any kind, including the procurement of commodities or services for those purposes; for luxury goods; for goods having their source or origin (or for providers of services, their nationality) in countries not included in A.I.D. Geographic Code 935 as in effect at the time orders are placed or contracts are entered into for such goods or services; nor for the payment of debt if such debt was incurred for the purpose of financing any transaction not permitted by this Agreement, including Annex 1.

Article 6 Miscellaneous

Section 6.1 Reports, Records, Inspections, Audit

(a) The Grantee will maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records and underlying documentation relating to this Agreement as are necessary to show adequately compliance with this Agreement, including without limitation the disbursements from and deposits into both the Special Dollar Account and the Special Local Currency Account, and the policy reforms undertaken as part of the Program. The specific records to be maintained by Grantee may be prescribed by A.I.D. in a Program Implementation Letter under Section 6.4 below.

(b) The Grantee shall furnish to authorized representatives of A.I.D. such information and reports relating to this Agreement as A.I.D. may reasonably request. These reports will contain such information and include such supporting documentation as may be required by A.I.D.

(c) The Grantee will afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect and audit the books, records and other documents relating to this Agreement, including but not limited to the Special Dollar Account and Special Local Currency Account. The Grantee agrees that a portion of funds in the Special Local Currency Account, on request by A.I.D., will be used to finance the cost of one or more audits of any of the records required to be maintained hereunder and the activities financed under the Program.

Section 6.2. Refunds. In the event A.I.D. determines that any disbursement from the Special Dollar Account or Special Local Currency Account has been made for a use other than one authorized under the terms of this Agreement (including Annex 1 hereto), or for a transaction which is not supported by valid documentation as required by A.I.D., the Grantee will redeposit into the respective Special Account a sum equal to the amount of such disbursement within sixty (60) days after receipt of a request therefor from A.I.D. Any redeposits to the Special Dollar Account will be made in U.S. dollars. This right of refund shall continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement of funds from either of the Special Accounts.

Section 6.3 Reporting. The Grantee will provide quarterly reports on disbursements into and out of both of the Special Accounts and on such additional information as A.I.D. may reasonably request from time to time relating to the activities financed under the Program. These reports will contain such information and include such supporting documentation as may be reasonably required by A.I.D.

Section 6.4 Program Implementation Letters. To assist the Grantee in the implementation of the Program, A.I.D., from time to time, will issue Program Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Program Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the Amplified Program Description in Annex 1.

Section 6.5 Program Evaluations. The Parties agree to cooperate on an evaluation program for the Program. The evaluation program will include a final evaluation. The evaluation program may include, during the implementation of the Program:

- (a) Establishment of baseline data and indicators for the Program;
- (b) Evaluation of progress toward attainment of the objectives of the Program;
- (c) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (d) Assessment of how such information may be used to help overcome such problems; and
- (e) Evaluation, to the degree feasible, of the overall development impact of the program.

Section 6.6 Consultation. The Parties will cooperate to assure that the purposes of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Program and other matters relating to the Program.

Section 6.7 Completeness of Information. The Grantee confirms:

- (a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Program and the discharge of responsibilities under this Agreement; and

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Program or the discharge of responsibilities under this Agreement.

Section 6.8 Taxation. The Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the Republic of Malawi, or which may become effective during the term of this Agreement. This provision will not be construed to prohibit normal and customary duties, taxes or fees on goods or services purchased with dollars disbursed hereunder.

Section 6.9 Publicity. The Grantee will give appropriate publicity to this Grant and Program and activities carried out hereunder as a program to which the United States has contributed. Representatives of the Grantee and A.I.D. will confer from time to time to make specific arrangements for such publicity.

Section 6.10. Suspension and Termination

(a) A.I.D. may suspend disbursement under the Grant upon written notice to the Grantee.

(b) Either Party may terminate this Agreement by giving the other party thirty (30) days written notice. Termination of this Agreement shall terminate any obligations of the Parties to provide financial or other resources pursuant to this Agreement.

(c) Notwithstanding any suspension or termination, the provisions of this Agreement shall continue in full force and effect with respect to any portion of the Grant provided prior to or notwithstanding such suspension or termination.

Section 6.11 Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of the A.I.D. Director, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Article 1 to change elements of the Amplified Program Description. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 6.12 Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee:

Ministry of Finance
P. O. Box 30049
Lilongwe 3, Malawi

Attention: Secretary to the Treasury

To A.I.D.:

USAID/Malawi
P. O. Box 30455
Capital City
Lilongwe 3, Malawi

Attention: Director

All such communications will be in English. Other addresses may be substituted for the above upon the giving of notice.

Section 6.13. Exchange Rate. Except as A.I.D. may otherwise agree in writing, the dollar equivalency of the Grantee contributions required under Sections 2.2 and 5.4 (a) and (b) above will be calculated using the highest rate of exchange which, at the time of specific commitments by the Grantee (in the case of Section 2.2) and at the time of the applicable dollar disbursement (in the case of Section 5.4(a) and (b)), is not unlawful in Malawi to any person for any purpose.

In WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

THE GOVERNMENT OF
THE REPUBLIC OF MALAWI

UNITED STATES OF AMERICA

BY: *L. J. Chimango*

BY: *Carol A. Peasley*

Title: Hon. L. J. CHIMANGO, M.P.
Minister of Finance

Title: Mission Director

Annex: (1) Amplified Program Description

A.I.D. Program No: 612-0239
Grant No: 612-T-604
Title: Malawi Agricultural Sector Assistance Program
Appropriation: 72-111/21014
Budget Plan Code: GSS1-91-31612-KG39
Allowance: 181-61-612-00-54-11
Reservation Control No.: M210162
Obligation No.: PA-612-T-604
Amount: \$20,000,000.00
Ref: State 218901

FUNDS AVAILABLE
Car 9/27/91
INITIAL DATE

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

(612-0239)

ANNEX 1

AMPLIFIED PROGRAM DESCRIPTION

1. Summary of Program and Project

The Agricultural Sector Assistance Program ("ASAP Program") is being obligated in conjunction with the related Agricultural Sector Assistance Program Support Project (the "ASAP Project") for the purpose of assisting the Grantee in its efforts to increase smallholder (i.e., individuals cultivating customary land) access to agricultural inputs, output markets, cash crop production alternatives, and labor market information. The ASAP Project is obligated through a separate Project Grant Agreement between the Parties and is more fully described therein; this Amplified Program Description deals principally with the ASAP Program but also refers, when necessary, to elements of the ASAP Project.

The Program will involve disbursements of U.S. Dollars directly to Grantee, to be used as specified herein, and related deposits of local currency to be used as general budgetary support for the Ministry of Agriculture, the Department of Research and Environmental Affairs in the Office of the President and Cabinet, and Bunda College of Agriculture as more fully discussed below. Grantee has agreed to implement certain policy reforms and take other actions related to achievement of the Program purpose. Technical assistance and other support to Grantee will be provided through the ASAP Project.

The Program is divided into two phases, and funding only for Phase 1 is being obligated by this Agreement. Phase 2 will be obligated subject to the availability of funds to A.I.D. for this purpose and to the mutual agreement of the Parties to proceed at the conclusion of Phase 1.

Phase 1 of the Program will involve three separate disbursements of dollars following satisfaction of the conditions precedent described below. The major policy reforms and other actions which constitute the Program are incorporated into the statement of conditions precedent below and are subject to the text of the Agreement. While activities under the ASAP Project will assist both USAID and Grantee in the achievement of Program purposes, responsibility for satisfaction of conditions precedent will be solely that of Grantee. A general description of anticipated conditions precedent for Phase 2 follows the statement of conditions precedent for Phase 1. However, such Phase 2 conditions precedent are subject to the negotiation of the Parties during the implementation of Phase 1.

II. Conditions Precedent to Disbursement under Phase I

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

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

For the 1991-92 season only, or until otherwise mutually agreed between the GOM and A.I.D., the registration system may include the use of ADMARC facilities as registration points. While it is understood that issuance of final official individual quota documentation will take place early in 1992, the GOM will demonstrate prior to this Tranche one disbursement that these landholders have been accepted as quota applicants and that, as a consequence, they have access to inputs as stated in conditions (c) and (e) below. In accordance with the covenant stated in Section 5.1 of the Program Agreement, the GOM will take steps to encourage the registration of customary landholders with holdings smaller than 1.5 ha, and the registration of women as quota holders.

(b) Grantee has completed initial registration process whereby customary landholders are assigned individual quotas in their own names which total not less than 3.5 million kg;

Given procedural requirements, it is agreed that official certificates of individual quota amounts will be issued no later than February, 1992.

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

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

This plan will provide sufficient resources to participating growers to repay loans assumed for burley tobacco production inputs for use during the 1990-91 season.

(e) Grantee has adopted a plan, acceptable to A.I.D., that provides full details concerning the timely supply of fertilizer and seed sufficient to meet the requirements of the customary land burley tobacco producers registered with the MOA in accordance with the condition stated in paragraph 1(b) above.

This will include locations of ADMARC fertilizer and seed outlets closest to burley growers as well as amounts of burley fertilizer in each specified outlet as distinct from maize fertilizer requirements for the same client area.

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

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

(b) Grantee has legalized and publicly announced, in a manner acceptable to A.I.D., that customary landholder burley can be legally purchased by quota-holding burley estates, within the existing limits of those estates' own quotas.

Public announcements will be in both English and Chichewa and will be by newspaper, radio, and other appropriate means.

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

This plan will include the mechanisms whereby the information will be collected and publicly disseminated in a timely fashion. It is intended that information will be collected and disseminated on a weekly basis, however it is agreed that the frequency of collection and dissemination will be determined during the design of the plan. Project support will be provided to prepare this plan.

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

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

(e) Grantee has adopted a plan, acceptable to A.I.D., for monitoring the environmental impact of reforms implemented as part of the Agricultural Sector Assistance Program. The Plan will include regular annual reporting based on agreed-to indicators.

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

(1) Alternative Marketing Channels for Smallholder Producers

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

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

(2) Credit Plan for Smallholders

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

(3) Private Sector Distribution of Seeds and Fertilizer

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

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

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

(5) Impediments to Private Sector Maize Marketing

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

(6) Improved Extension Service to Small Customary Landholders

Extension services have not been readily available to the smallest landholders, i.e. those with under 1.5 ha of land. This study will identify impediments to providing services to those farmers, and will recommend, along with an action plan, ways in which production modules can be developed and delivered in areas such as burley tobacco, HYV maize, and chemical and organic fertilizer use.

(7) Crop Diversification Opportunities and Constraints

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

(8) Pricing of Tenants' Burley Production

The interrelationships between estate tenant burley prices and prices paid for smallholders' burley are critical to the industry as a whole. Labor movements from customary to leasehold lands and back again will be important

considerations as the volume of Malawi's burley increases. This study will examine the pricing structure of tenant burley as established by the relevant institutions, and recommend revisions, if appropriate.

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

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

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

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

It is intended that smallholders, in accordance with this plan, will be able to purchase seed from any of these three outlets, and from any other outlet which at the time is licensed or permitted to market seed.

(d) Based on the study described in paragraph 2(f)(1) above, on the topic of alternative marketing channels for smallholder producers, the GOM shall have completed the following actions in a manner acceptable to A.I.D.:

(1) Designed and begun to implement a system whereby estates can purchase burley from quota-holding customary landholders in excess of the respective estates' individual quotas.

This will allow estates to act as marketing agents for quota-holding smallholders, i.e. to purchase for sell on the auction floor burley which is in excess of the estate's own quota. The system will include record keeping by which smallholder burley marketed through estates will be identified separately from the estates' own burley, e.g. by using smallholder quota registration numbers upon delivery of the tobacco to the auction floor.

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

(e) Grantee shall have submitted to A.I.D. a joint report, conducted by Grantee, A.I.D., the World Bank, and other donors as appropriate, on the evaluation of the 1991-92 smallholder burley scheme. Particular emphasis will be placed on identification of beneficiaries, identification of constraints to

implementation, and quality of burley produced. The evaluation will be scheduled for completion by September 1, 1992.

(f) Grantee shall have completed an evaluation of the method of establishing prices paid to tenants for burley tobacco.

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

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

(h) Grantee shall have implemented a market price information system based on the plan approved in accordance with paragraph 2(c) above.

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

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

III. Conditions Precedent to Phase 2

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

IV. Utilization of Dollars

Dollar disbursements under this Program will be maintained in a separate, interest-bearing Special Dollar Account, in the name of the Reserve Bank of Malawi or such other Grantee institution as the Parties may later agree, at a U.S. banking institution acceptable to the Parties. The dollars,

and interest earned thereon, will be used only to finance imports of commodities from the United States or other A.I.D. Geographic Code 935 countries, for use by private individuals or by firms operating on a commercial basis in Malawi. Certain restricted uses, and the reporting and audit requirements, are set forth in the body of the Agreement.

V. Local Currencies

The Grantee will make deposits of local currencies into a Special Local Currency Account which will be used only for (a) budgetary support to the Ministry of Agriculture, the Department of Research and Environmental Affairs of the Office of the President and Cabinet, and Bunda College of Agriculture in such proportions as the Parties may agree; and (b) deposits to the USAID Operating Expense Trust Account.

VI. Evaluation and Audit Plan

Annual evaluations will be conducted which focus on the people-level impact of the Program. The Grantee, A.I.D., Bunda College, and outside contractors where appropriate will participate in these evaluations. Major evaluations will be conducted prior to the design of the Program's Phase 2 and at the end of the Program. An audit of the Program, including the project activities, also is scheduled prior to the design of the Program's Phase 2, which is expected to be mid-1993.

VII. Responsibilities of the Parties

A. Host Country. The Grantee is committed to providing support for ASAP which has a value of at least 25% of the overall cost of implementing the Program. This contribution will be in the form of: Ministry of Agriculture agricultural extension resources, including provision of technical advisory services, credit services, and other farmer support; Bunda College services and support for the agricultural policy research unit, and Government support for the food security activities, environmental monitoring activities, and the various planned studies, including the development of action plans and the implementation of those plans. The contribution will include amounts disbursed from the Special Local Currency Account.

B. A.I.D. A.I.D.'s responsibilities will include overall monitoring of both Program and Project activities, reviewing evidence submitted in satisfaction of conditions precedent, making dollar disbursements, meeting with counterparts periodically to review and agree upon the allocation of local currencies between the Ministry of Agriculture, the Department of Research and Environmental Affairs, and Bunda Agricultural College, and taking necessary steps to ensure overall Program and Project implementation. Project activities included in the overall Program are as follows:

1. Establishment of an agricultural policy research unit at Bunda College with the purpose of assisting the Government, private sector and other donors with research on agricultural policy issues and development of

action plans to resolve identified issues. In addition to other studies, Bunda College will conduct a study of smallholder/estate interface concerning tobacco production, and a study of land tenure, land use and commercial crop production;

2. Food security monitoring and policy development, and implementation of a food alert early morning system, in the Ministry of Agriculture and the Department of Economic Planning and Development;

3. Environmental monitoring through the Department of Research and Environmental Affairs;

4. Development of an agroforestry extension system utilizing agroforestry techniques which will provide smallholders with relatively low cost technology for increasing agricultural productivity;

5. Various studies which will support policy reform initiatives and result in action plans many of which will be the basis for implementation actions during the Program; and

6. Annual evaluations as well as separate monitoring studies.

A separate grant agreement serves as the obligating document for the project component of the Program and includes, in its Annex 1, more complete descriptions of project activities.

C. Program Implementation. A Program Implementation Committee will be formed, comprised of representatives from all relevant Program organizations, and this Committee will meet regularly and as frequently as necessary to assist with overall program management as well as management of project activities, in particular the planned studies. Sub-committees will be formed to undertake work requiring more detailed attention with respect to specific activities. A second committee, a Program Management Committee, will be formed, comprised of senior level representatives (Principal Secretaries, USAID Director, etc.), which will meet not less than semi-annually, to review progress toward and accomplishment of program objectives, in particular long-term objectives, and to identify and work to resolve any major difficulties which the Program is experiencing.

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