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CONSULTANCY REPORT ON

MALLHOLDER BURLEY MARKETING

FOR THE

AGRICULTURAL SECTOR ASSISTANCE PROGRAM

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Prepared for

The Ministry of Agriculture, Republic of Malawi
and
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SUMMARY

Small farmers have increased their share of Malawi burley tobacco production to nearly 50% over the past few years, by registering themselves as estates. The introduction of the smallholder scheme since 1990 adds to this pool of producers by enabling production on customary land. In 1992-93 some 800-900 smallholder producer associations will be registered, covering every district, and should account for 6-8% of production. This share will increase and should be seen as a continuation of the earlier process. Nevertheless, direct participation will remain the privilege of a small minority of rural families.

Burley is the centre-piece of Malawi's economy and, in the interests of price stability, it is of paramount importance that the volume of production be controlled. Proliferation of small growers puts the present licensing and quota systems under intolerable strains and they are obviously not working as they should. Constructive recent moves to tidy this up are described and a number of recommendations are made, to ensure that smallholder clubs are fully integrated into the system.

The auction system and national transport capacity are also under unsustainable stress from the increasing number of small growers. The producer associations, or burley clubs, have not been greatly successful this season in selling on the floors, though their record on **quality** looks good. It may be that as little as 20% of the clubs' production was sold directly on the floors. Much remains to be done in order to put them on a sound business footing. If this can be achieved, the clubs offer a strategy to control the proliferation of growers by absorbing new would-be estates and, possibly, many of the smaller existing ones. An evaluation of clubs' performance should be made at season-end.

Clubs have been offered the choice of marketing direct to the floors, through the Agricultural and Development Marketing Corporation (ADMARC) and to estates. Though sales to ADMARC should continue for weaker groups, the way ahead lies in strengthening clubs' ability to compete on the floors. The policy principle that clubs should be treated no differently from estates needs to be affirmed.

The estate marketing option is fraught with difficulties. It offers camouflage for both illegal growers and traders pretending to be estates. It is unreasonable to expect the extension service to police the distinction between registered and unregistered smallholders and the proposed coupon system is unworkable. It is recommended that this option be eliminated and a new category of Licenced Trader be identified from amongst the Estates.

The Smallholder Agricultural Credit Administration (SACA) is failing to recover tobacco credit and is scheduled for transformation into some form of commercial bank. The outlook for credit is uncertain, but it is essential that recovery of burley credits is effected. The clubs, at present, are weak entities without formal status. They are also unaccountable. To enable them to compete for credit and to ensure that they are accountable for their members' funds, their status needs to be formalised. It is recommended, in principle, that a registrar of agricultural producer associations be created to meet this need. This is a far-reaching proposal needing further development.

LIST OF ABBREVIATIONS

ADMARC	Agricultural and Development Marketing Corporation
ADD	Agricultural Development Division
AHL	Auction Holdings Limited
ASAC	Agricultural Sector Adjustment Credit (World Bank)
ASAP	Agricultural Sector Assistance Program (USAID)
ATC	Agricultural Trading Company
DEMATT	Development of Malawian Traders Trust
EEST	Estates Extension Service Trust
EPA	Environmental Planning Area
GR(V)	General Receipt
GoM	Government of Malawi
MoA	Ministry of Agriculture
MUSCCO	Malawi Union of Savings and Credit Co-operatives
NRDP	National Rural Development Program
PM	Programme Manager
PS	Permanent Secretary
PVHO	Plant and Vehicle Hire Organisation (GoM)
RDP	Rural Development Project
SAO	Senior Agricultural Officer
SEDOM	Small Enterprise Development Organisation of Malawi
SFFRFM	Smallholder Farmer Fertiliser Revolving Fund of Malawi
TAMA	Tobacco Association of Malawi
TCC	Tobacco Control Commission
TEAM	Tobacco Exporters' Association of Malawi
USAID	United States Agency for International Development

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1. INTRODUCTION

1.1 Production of burley tobacco by smallholder farmers commenced in the 1990-91 season ¹ as part of an initiative planned jointly by the Government of Malawi and the World Bank. The first year's production was confined to a number of pilot areas and marketing of the crop to the Agricultural and Development Marketing Corporation (ADMARC).

1.2 The 1991-92 season saw the introduction, to the same pilot areas, of measures designed to widen the marketing options open to smallholders, as part of the USAID-assisted Agricultural Sector Assistance Program (ASAP). The consultancy reported here was intended to assist the Government of Malawi in analysing smallholder organizational and marketing requirements for this season and to formulate recommendations for the successful future operation of smallholder burley marketing groups.

1.3 The 90 day consultancy was split into three visits: 1) 27 February - 10 April; 2) 17 May - 6 June; 3) 4 August-5 September. All areas involved in the scheme were visited, most more than once, but much of the time was spent in Lilongwe or Limbe. The consultant is happy to record his gratitude to all those involved, who were generous with their time and stimulating in their concern for, and interest in, this new component in Malawi's principal export industry. There is a high awareness of how radical a development the smallholder scheme promises to be.

1.4 The detailed scope of work for the consultancy is attached as Annex 1, which also gives more detail on ASAP. The structure of the report follows the order in which tasks are defined in the Annex. Tasks fall into five main sections, as they appear in the table of contents.

1.5 Inevitably topics overlap and issues are addressed in more than one section. Wherever possible cross references are made. Inevitably also, some tasks have been addressed more fully than others. Recommendations are made at appropriate points in the text and are repeated, with page references, in a final section at the end of the report, grouped by topic. Additional comments, canvassed in the discussion draft, were not forthcoming, except those brought up at the meeting on 4th September at which it was presented. These have been addressed here but otherwise the final report is substantially unchanged.

¹ The season starts in September, with sowing nursery seedbeds, and final sales are not until a year or more later. Marketing starts when the auction floors open in April.

2. ORGANISATIONS AND THE STRUCTURE OF THE INDUSTRY

2.1 The Estates

2.1.1 Production of burley has increased by 227% over the past 6 years, as shown in Table 1. Much, though not all, of this increase has come from new registered growers, whose numbers have increased by 445%. Production per grower has halved, indicating that larger growers have increased their levels of production, though their share has dropped. Most production is on the tenant system, with which it is assumed that the reader is familiar.

Table 1 Burley Production and Numbers of Registered Growers

<u>Year</u>	<u>Production</u>	<u>%</u>	<u>No of Growers</u> (1)	<u>% increase</u>	<u>kgs/ Grower</u>
1985	30 million	na	3,309	na	9,200
1986	30 "	-1%	3,207	- 3%	9,400
1987	37 "	22%	4,152	29%	8,900
1988	46 "	24%	5,659	36%	8,000
1989	61 "	34%	7,593	34%	8,100
1990	64 "	5%	8,707	15%	7,400
1991	75 "	17%	13,450	54%	5,600
1992	98 " (2)	30%	18,036	34%	4,700

Source: TCC, TAMA; Smallholder clubs not included.
kgs/grower rounded to nearest 100 kg, for clarity.

Note 1: The number of growers in 1992 has also been estimated at 21-22,000 according to Estates Extension Service Trust (EEST). The uncertainty is itself indicative of an administrative system under strain. Whatever the case, the number of growers has more than doubled over the past two seasons. EEST also expects the number of new registrations in 1992-93 to increase by a further 7,000. It is not yet clear whether this has occurred, as MoA has taken steps (in August 1992) to freeze new registrations.

Note 2: The industry estimate for 1992 production, for most of the season, was 85 million kg. The consultant has since heard that the eventual crop was 98 million or more ². This lends considerable support to a central theme of this report, the danger of overproduction.

² 97,921,657 kgs as at 8th October. With a few days sales after that, the final 1992 burley crop was probably, as near as makes no difference, 100 million kgs.

2.1.2 Table 2 shows that over 55% of growers (estates), and of burley production, are concentrated in the three districts of Lilongwe, Kasungu and Mchinji. Though the crop has spread across almost every district in Malawi, it is still heavily concentrated in the Central Region (approx. 75% of both total weight sold and number of growers).

2.1.3 The change in the structure of the industry has been described, with distinction, in "Beyond Dualism". This apt title refers to an historical view of land tenure in Malawi which divided land holdings into a comparatively small number of large estates and a mass of smallholdings held under customary, or traditional, title. The picture began to change in the mid-1980s, almost entirely as a response to the opportunities offered by burley, which have created a class of land owner which the paper calls the 'graduated smallholder'³.

2.1.4 Until the introduction of the present smallholder scheme, in order to qualify for a special crops license to grow burley, farmers had - still have - to produce leasehold title to a minimum 10.2 ha (ie 25 acres) size of farm. This entails survey plans by the Land Husbandry branch of the relevant Agricultural Development Division (ADD), confirmation of the transfer by the local Traditional Authority and registration by the Lands Department. Receipt of payment of statutory land rent for the year must also be produced. These procedures are quite onerous and have limited the numbers of new entrants; nevertheless, the attractiveness of burley is evident in the increase in numbers of growers, mostly ex-smallholders.

2.1.5 The Tobacco Association of Malawi (TAMA) the estate owners' association in which all licensed growers and sellers of tobacco are automatically members, categorises its members as follows:

- Category A: Growers producing 30,000 kgs and above.
- Category B: Growers producing 10,000 kgs and above but below 30,000 kgs.
- Category C: Growers producing below 10,000 kgs.

2.1.6 Table 3 shows the membership and production of TAMA, by these categories, for 1990-91. 97% of members fall into the lower category. Unfortunately a further breakdown of the figures is not available but it is fair to assert that the great mass in Category C are what are called minimum-quota growers. In 1990-91 the minimum quota was set at 2,500 kgs (see Section 3). Comparable figures for the current season (by quota, rather than production), are shown in Tables 12, 13 and 14 (see Section 5).

2.1.7 The point here is that for the past few years at least 40%, perhaps half, of production has already been in the hands of 'graduated smallholders'. The introduction of

³ Beyond "Dualism": The Changing Face of the Leasehold Estate Subsector of Malawi. Richard Mkandawire, Steven Jaffee, Sandra Bertoli; Institute for Development Anthropology, 1990

THE ESTATE SECTOR: Numbers of Registered Growers, by District & Region (1991-92)
Registered Growers & Production (1990-91, only)

TABLE 2

District	1991-92			1990-91			Production	%	Region
	Growers	%	Region	Growers	%	Region			
Chitipa	47	0%		34	0%		170,548	0%	
Karonga	19	0%		7	0%		15,564	0%	
Rumphi	1,051	6%		563	4%		3,489,343	5%	
Mzimba	1,409	8%		1,212	9%		7,291,580	10%	
Nkhata Bay	11	0%	14%	11	0%	13%	30,250	0%	14%
Kasungu	3,680	20%		2,945	22%		20,506,665	27%	
Mchinji	2,013	11%		1,749	13%		10,314,486	14%	
Dowa	1,591	9%		1,107	8%		4,719,711	6%	
Ntchisi	502	3%		410	3%		1,606,196	2%	
Nkhotakota	1,116	6%		767	6%		3,071,807	4%	
Salima	741	4%		647	5%		3,429,868	5%	
Dedza	25	0%		33	0%		285,575	0%	
Lilongwe	4,426	25%		2,501	19%		10,967,816	15%	
Ntcheu	60	0%	78%	70	1%	77%	422,908	1%	73%
Mangochi	624	3%		430	3%		3,513,597	5%	
Machinga	377	2%		363	3%		3,200,291	4%	
Thyolo	6	0%		4	0%		4,800	0%	
Zomba	264	1%		202	2%		891,954	1%	
Chiradzulu	23	0%		12	0%		65,300	0%	
Mwanza	23	0%		12	0%		79,483	0%	
Blantyre	28	0%		20	0%		71,801	0%	
Mulanje	na		7%	12	0%	7%	62,892	0%	10%
Other				205			798,354	1%	
Total/avge.	18,036	99%	99%	13,316	97%	97%	75,010,809	98%	98%

Source: Tobacco Association of Malawi (TAMA) Percentages: % of total (do not sum to 100%, due to rounding)
(only those 0.5% , or greater, are shown)

THE ESTATE SECTOR: Numbers of Registered Growers, by Category, District & Region (1990-91)
Registered Growers, Production & Production/Grower (1990-91)

TABLE 3

District	Growers, by category			Production (kgs), by category			Production / Grower		
	A	B	C	A	B	C	A	B	C
Chitipa	1	3	30	67,897	34,825	67,826	67,897	11,608	2,261
Karonga	-	-	7	-	-	15,564	-	-	2,223
Rumphi	15	30	518	1,388,462	616,419	1,484,462	92,564	20,547	2,866
Mzimba	49	71	1,092	3,121,650	1,318,244	2,851,686	63,707	18,567	2,611
Nkhata Bay	-	1	10	-	11,247	19,003	-	11,247	1,900
Kasungu	101	244	2,600	7,803,281	4,284,553	8,418,851	77,260	17,560	3,238
Mchinji	47	94	1,608	3,809,625	1,632,561	4,872,300	81,056	17,368	3,030
Dowa	6	36	1,065	1,286,728	513,530	2,919,453	214,455	14,265	2,741
Nichisi	4	17	389	276,741	299,278	1,030,177	69,185	17,605	2,648
Nkhosakota	8	41	718	371,386	730,387	1,970,024	46,423	17,814	2,744
Salima	19	43	585	1,060,021	654,767	1,715,090	55,791	15,227	2,932
Dedza	3	1	29	184,262	18,289	83,024	61,421	18,289	2,863
Lilongwe	39	25	2,437	4,435,999	489,609	6,042,208	113,744	19,584	2,479
Ntcheu	3	3	64	180,451	33,648	208,809	60,150	11,216	3,263
Mangochi	27	61	342	1,273,551	1,038,362	1,201,584	47,169	17,022	3,514
Machinga	23	35	305	1,598,530	536,960	1,064,801	69,501	15,342	3,491
Thyolo	-	-	4	-	-	4,890	-	-	1,200
Zomba	3	6	193	201,013	89,178	601,763	67,004	14,863	3,118
Chiradzulu	-	2	10	-	36,305	28,995	-	18,153	2,900
Mwanza	1	1	10	30,166	18,927	30,390	30,166	18,927	3,039
Blantyre	-	1	19	-	26,901	44,900	-	26,901	2,363
Mulanje	-	2	10	-	30,134	32,758	-	15,067	3,276
Other	na	na	na	na	na	na	-	-	-
Total/avge.	349	717	12,045	27,089,763	12,414,124	34,708,558	77,621	17,314	2,882
%	3%	5%	92%	37%	17%	47%			
			100%		(798,364)	100%			

Source: TAMA

Category A: = > 20,000 kgs

Category B: = > 10,000 < 20,000 kgs

Category C: = < 10,000 kgs

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the ASAC/ASAP smallholder scheme is therefore only a further evolutionary step in the changing structure of the industry.

2.1.8 Some odd things seem to happen on the far side of dualism. There are the 'multi-story' estates - where the authorities have been tricked, somehow, into granting several licences on a single land title. There are said to be titles to dambos and other plots of land entirely unsuitable for tobacco, even to plots which simply don't exist. (There are now tales of smallholder clubs which are no more than fronts for frustrated, not-quite-graduated, smallholders. The consultant has come across clubs which probably fit this description). These are all stories but they are too common to ignore.

2.1.9 All this to obtain a license to sell tobacco (and to get bigger delivery quotas - see Section 5). And to sell it, someone must grow it - the illegal growers, what we might call 'off-farm tenants'; customary land smallholders in some patron-client relation with an 'estate' owner who, for whatever reason, is unwilling or unable to establish a regular tenant or direct-labour system on his property. There are, of course, administrative systems in place which should prevent this and, doubtless, the great majority of estates (and clubs) are perfectly genuine. How widespread abuse of the system is besides the point⁴. What matters is that the grower's license is worth finding loop-holes to obtain. Some people are doing illicit things to get it, and that the practise of illegal growing is wide-spread and acknowledged to be so.

2.1.10 One more point about the estate sector needs to be made. There is a wide variation in the efficiency and equity of the working of the tenant system. On many (particularly the older, bigger) estates, the standard of provision of services is high, tenants achieve good yields and returns and the turn-over of tenants is low. This cannot be said of all estates; elsewhere tenant turn-over is high, reflecting poor management and below average returns to both tenant and landlord. In such cases tenants can be compared to inefficient smallholders. They have similar variable costs of production but, as less settled or motivated people, are less productive; and this before they meet the landlords' overheads.

2.1.11 So as to test this contention it is intended to request the Tobacco Control Commission (TCC) to analyse the average prices received by different groups of growers, according to quota size. Preliminary evidence (though this is not conclusive, see Section 4.7) is that smallholder clubs outperform the market, with generally higher than national average prices. It is known that bigger producers also realise premium prices, as a result of quality management. It would seem then, though this has yet to be demonstrated, that the national average - the best available measure of the overall quality of the crop - is depressed

⁴ MoA has recently started to clean up these sorts of anomaly in August and had, at that time, identified 37 million kg of quota (of 146 million kg total licensed weight - effectively the quota for 1992 - see Section 3) of doubtful status. (PS, MoA, personal communication).

by indifferent tobacco, poorly presented, produced by Category C estate growers. It is most likely that the evidence will be contradictory, with considerable measures of variance.

Recommendation: TCC, using the Auction Holdings Ltd. (AHL) data base, should be requested by MoA to make an analysis of average prices (by comparison with daily prices, to smooth out market fluctuation) by quota size category (including smallholder clubs) and the number of years the grower has been licenced. The purpose of such an analysis is to pinpoint stronger and weaker sub-sectors in the industry.

2.1.12 This digression into the structure of the estate sector, though not the primary subject of this report, matters in that the changes described above form the background to the introduction of the smallholder burley clubs. It may also be with the less well-established end of the estate sub-sector that smallholders, whether registered or illegal, will generally interact in marketing. The role of estates in marketing smallholder tobacco is discussed in Section 4, but it seems that most of the smallholder crop passes through the estates.

2.2 Smallholder Burley Clubs

2.2.1 The very terminology is new and uncertain. These entities have been variously described as farmers' marketing groups, producers' associations and so on. Between them these names capture their function but the title which seems to have emerged so far is 'smallholder burley clubs', referred to in the rest of this report simply as the 'clubs'.

2.2.2 The evolution of the clubs has been straightforward. The model is the credit club which is the basis for the Smallholder Credit Administration (SACA - see section 6) credit system, concentrating on the provision of seasonal inputs for maize. It was natural for MoA to follow this model, as in the first year, 1990-91, the clubs were only required to organise inputs, marketing being handled by ADMARC. Though the clubs' role has since broadened to include marketing, they retain many of the features of their origin. Membership of both burley and maize clubs often overlaps; indeed, it is said sometimes to be conditional, though the extent of this has yet to be established.

2.2.3 The clubs are essentially informal and the initiative in their formation and operation remains with MoA staff. They do have articles of association, a set of by-laws written by the group. This practice is encouraged by SACA as a measure to promote cohesion and the monitoring survey by Bunda College makes reference to these. Nevertheless, they are not established under statute and, though they have been able to open bank accounts in their names, their legal standing seems likely to have repercussions when the clubs come of age (see Section 6, on credit) and need to negotiate with the re-formed rural financial sector which is supposed to replace SACA.

2.2.4 Clubs were first established in 1990-91, under the World Bank sponsored Agricultural Sector Adjustment Credit (ASAC) project, in the pilot areas shown below. The scheme did not expand geographically in 1991-92, though the numbers of growers and clubs increased. In area terms, they covered about one fifth of the country.

<u>ADD*</u>	<u>RDP+</u>	<u>Areas involved</u>
Blantyre (BLADD)	BT/Shire Mulanje	Chiradzulu Thuchila, Phalombe
Liwonde (LWADD)	Zomba Namwera	Thondwe, Dzaone, Mayaka throughout Namwera
Lilongwe (LADD)	Ntcheu	Kandeu, Nsipe, Manjawira
Kasungu (KADD)	Kasungu	selected areas, Kasungu district
Mzuzu (MZADD)	Rumphu	throughout Rumphu
Karonga (KRADD)	Chitipa	throughout N. Chitipa

* ADD - Agricultural Development Division
+ RDP - Rural Development Project

2.2.5 Each club has three office bearers, Chairman, Treasurer and Secretary (often with vice-appointments to each office) and the local MoA field assistant has an important, perhaps critical, ex-officio role. About 10% of members are women and a couple of all-women clubs have been reported.

2.2.6 Table 4, on the following page, shows the range of club membership in the current season. Even the average membership of 23 suggests quotas of 4-6,000, which is greater than most individually registered estate growers. The largest club, of 125 members each with quotas of 300 kgs (perhaps the most common level set in 1991-92), is equivalent to a Category A TAMA member.

2.2.7 In the 1991-92 season 315 clubs were established (though not all were registered and these numbers changed constantly during the season and remained uncertain until the registration process was finally completed in July 1992, see Section 3 below) with a total membership of 7,203. These figures are summarised in Table 5 and are available in more detail in the registration data base described in Section 3.

2.2.8 The initial marketing arrangements with ADMARC, as is now well known, failed to attract new growers in the numbers anticipated for the 1990-91 season. Actual allocation of quota has been variously estimated as between 1.7 and 2.6 million kgs and remains the subject of some confusion. We can expect this to change in the future and it is now [early August] obvious that demand for registration is many times stronger than it was at a similar stage last year and will outstrip supply, leaving unsatisfied demand which is likely, and this is a real danger, to turn to illegal growing.

Table 4 Numbers of Members of Burley Clubs, by ADD, 1991-92

<u>ADD</u>	<u>Maximum</u>	<u>Mean</u>	<u>Minimum</u>
Blantyre	54	18	2*
Liwonde	51	21	9
Lilongwe	64	23	5
Kasungu	125	35	5
Mzuzu	56**	21	2*
Karonga	34	16	2*
All	125	23	5-9

Source: ADD computerised registration data bases

Notes: Means rounded. * a club of two members is improbable and presumably denotes incomplete records. ** the consultant has visited a club in MZADD with 65 members; again, presumably records are incomplete. (see Section 3).

2.2.9 Though the target quota of 3.5 million was available, MoA staff estimated (March) total production to be only 2.4 million as a result, principally, of the drought, but also disappointing uptake. The consultant believes that the undoubted effects of the drought were probably more than offset by smallholders having planted greater areas than licensed. This assertion is impossible to test, given the unknown extent of illegal purchases by estates from registered smallholders. This will have been compounded by the channelling of illegal growers' tobacco through registered smallholders' markets.

2.2.10 It matters less that all clubs are successful this year than that sufficient numbers do well enough to give rise to stories of relatively huge net cash receipts by individuals. Such stories spread, with powerful effect⁵. At the time of writing, registration for 1992-93 was far from complete but this effect was already obvious. To take one example: response to the scheme in Blantyre ADD was disappointing in 1991-92, with registrations variously reported as 143,000 - 234,000 kgs, over about 40 clubs. Before the quota distribution for 1992-93 was decided (see Section 3), the ADD had received

⁵ As long as they are not offset by the reverse - of individuals beset by delivery quotas and inefficient or corrupt management of club finances. This does not seem to have happened, partly because smallholders have had recourse to marketing through estates.

applications for nearly 1.2 million kgs from 132 clubs, in only those areas which were included in the pilot scheme.

Table 5 Smallholder Burley Clubs 1991-92 Season

<u>ADD</u>	<u>Clubs</u>	<u>Members</u>	<u>Quota</u>	<u>Production.</u>
Blantyre	42	744	510,000	234,000
Liwonde	106	2,252	954,000	699,000
Lilongwe	30	703	528,000	135,000
Kasungu	51	1,783	720,000	999,000
Mzuzu	72	1,504	582,000	315,000
Karonga	14	217	207,000	60,000
Totals	315	7,203	3,501,000	2,442,000
Average/club	-	23	10,500	7,300

Source: MoA, Minutes of Smallholder Burley Meeting: 9.4.92
Quota and production figures in kilos.

2.2.11 What can be said of the sociology of the clubs? What brings the group together, what holds it together? Why is this person a member and not that? Who leads? Who are these people? Given the attention on credit issues over the years and the debate on low levels of up-take of improved maize packages, the consultant was surprised not to have found any work on this sort of question in the context of existing credit groups.

2.2.12 The impression is of a core group of reliable farmers, known to MoA field staff, probably as a result of previous involvement, without default, in maize input credit clubs. Quite how this formula fits with ASAP's goal of involving poorer farmers, and women, with below-average holding sizes, is not clear. The consultant has been impressed by the seriousness with which field staff regard these goals but there are evidently limits to the risks which the smallest, poorest farmers are willing or able to take in order to grow burley.

Table 6 Gender & Holding Sizes, 1991-92 Season

<u>ADD</u>	<u>% Women</u>	<u>% < 1.5 ha</u>
Blantyre	3.8%	54.3%
Liwonde	8.8%	83.9%
Lilongwe	14.9%	81.6%
Kasungu	3.7%	5.4%
Mzuzu	18.5%	31.8%
Karonga	5.1%	59.9%
All	na	na

Source: Smallholder Registration Data Base

2.2.13 The first USAID monitoring report seemed to confirm that club members tend to come from the middle and upper strata of smallholder society, as defined by reported (though not measured) holding sizes. However, the registration data-base shows that most ADDS have been successful in reaching the overall target group of smallholder families with holding sizes less than 1.5 ha. The fact that the three northern ADDs, particularly Kasungu, seem to have failed to meet this goal may reflect larger holding sizes in the northern half of the country.

2.2.14 The USAID monitoring sample suggests that 80% of members have previous tobacco experience as: (in this order) growers of fire- or sun/air cured tobaccos, tenants or labourers on estates, or working with relatives. While this proportion is bound to be unrepresentatively high among early adopters, it supports the view that the growing of tobacco is a national culture and that the ASAP initiative will not lay undue demands on the extension service, at least as far as technical advice on growing the crop is concerned. These figures will presumably be confirmed by the ongoing Bunda College monitoring survey.

2.2.15 Clubs include people who admit having previously grown burley illegally; though this is obviously common, it is not easily quantifiable. Some members continue to grow other types of tobacco. One enterprising farmer in Chitipa grew burley, Northern Division Dark-fired (NDDF) and oriental this year, saying that he would decide at the end of the season which crop to concentrate on next year. Some growers have already begun to ask why they should not be allowed to form fire-cured clubs, with similar direct access to the

floors; a difficult question to answer but, thankfully, outside the terms of reference of this report.

2.2.16 These then are the clubs. At present there are the following data sources:

- USAID monitoring survey
- Registration data base
- Bunda College monitoring survey

2.2.17 The Ministry of Agriculture (MoA) is in the process of designing a long term Monitoring and Evaluation system, which should result in a series of evaluation reports adding to this profile. The importance of such flows of information, not only to those immediately concerned with ASAC/ASAP but to the industry as a whole, can scarcely be over-emphasised.

2.2.18 So far, the data collected has been sampled from farmers across their clubs, using the traditional methodology of farm management surveys. While this is important and useful information, the light it throws on the nature of the clubs, which like other institutions are more than the sum of their parts, is incidental. For planning purposes surveys focussing on the clubs themselves are essential.

Recommendation: the monitoring system under design by MoA, and that being carried out by Bunda College, should address this need by shifting the emphasis from sample data on individual members to a focus on clubs as, what they are in effect, business entities. This will entail interviewing all members in selected clubs in order to establish, eg, the range of experience available to clubs - both in tobacco growing and grading and administration (i.e. job experience - estate clerk, retired civil servant etc. - and education of the clubs' office bearers), and the success and appropriateness of clubs' record-keeping systems.

2.3 The Agricultural Development and Marketing Corporation (ADMARC)

2.3.1 This is not the place for a full profile of the Agricultural Development and Marketing Corporation. Suffice it to say that the Corporation has been buying smallholder tobacco since its origin as the Native Tobacco Board in 1932. It has a unique network of over 100 main storage depots/markets, supplemented by over 1,200 seasonal buying centres, or bush markets, staffed by experienced people and backed by a developed institutional memory and financial resources.

2.3.2 Yet ADMARC is controversial. The conflict between its twin roles as a profit-making corporation and as a principal instrument of Government's rural development policy has been frequently commented on and is the subject of ongoing negotiations, sponsored by the World bank, of a Memorandum of Understanding designed to meet the financial costs of reconciling these, sometimes, contending functions. ADMARC's significant position in the financial sector reflects the scale of past profits extracted from its

monopsony in most smallholder crops, particularly tobacco. This dominance has been modified in recent years by increased liberalisation in agricultural marketing but the position is unchanged in fire and sun/air cured tobaccos.

2.3.3 ADMARC is perfectly capable of buying the smallholder crop efficiently, in an operational sense. Its registration system, its network of buyers and grading centres, and its procedures, are all well established. The question is one of price. The 1991-92 season is the first in which ADMARC has ever effectively had to compete for smallholder tobacco and it is obvious that they have misread the market (see section 4.7).

2.3.4 This follows another recent instance of the problems of pricing policy. The NDDF crop tripled in volume between 1989 and 1990, as a result of an increase in announced pre-season prices. This increase has been sustained in spite of the past season's difficult growing conditions. That smallholder production is price responsive is consistent with experience throughout this region of Africa.

2.3.5 The current role of ADMARC in marketing smallholder production is covered in Section 4.

2.4 Other Marketing Channels

2.4.1 A number of voices have called for the creation of a Smallholder Tobacco Authority, on the lines of similar bodies which control production and marketing of smallholder tea and coffee. Questions of production control and club audit are addressed in Sections 3 and 4, but, as far as marketing is concerned, this option has little to recommend it. After all, a statutory body for the marketing of smallholder tobacco already exists, in ADMARC. The questions of pricing policy touched on above (and of ADMARC's cost efficiency in terms of the profit sharing formula used for second payment) are serious but it is the consultant's opinion that the costs of setting up another, fresh, parastatal organisation and infrastructure parallel with ADMARC's existing establishment are not even worth considering.

2.4.2 An option not explicitly considered in the ASAP design is that of Licensed Traders, under the general terms of the recent liberalisation of agricultural marketing. This route is conceptually, and organisationally, distinct from that envisaged by ASAP which aims to give all licenced growers and sellers (estates) the blanket freedom to procure smallholder tobacco. At least one organisation was able to obtain a license under these provisions, but did not use it, in 1991-92. It is not known whether other such licenses were granted. This option is explored in Section 4.6.

2.5 Management Training

2.5.1 The following institutions are, or might become, involved in management training of club officials:

- Ministry of Agriculture National Rural Development Program (NRDP) extension service
- Smallholder Agricultural Credit Administration - SACA
- Tobacco Control Commission - TCC
- Estate Extension Service Trust - EEST
- The commercial banks' agricultural liaison services

2.5.2 The burden of work, so far, has fallen almost entirely on NRDP and SACA field staff. In the areas involved in the pilot scheme, smallholder burley has become a major activity for the ADDs. With the extension of the project to all Districts (and the introduction of oriental tobacco in many), the burden has already increased considerably.

2.5.3 Training in grading for MoA field staff, in order that they should train clubs, was carried out by TCC in the 1991-92 season but it is understood that this may not continue. As noted above, most clubs seem to include members with relevant experience and the issue is therefore not critical. Nevertheless it would be unfortunate if MoA staff were unable to contribute to this vital stage in tobacco production.

2.5.4 The position of registered smallholders vis-a-vis EEST is anomalous. Those clubs which sell on the auctions are already paying the EEST and TAMA levies, and should therefore expect some representation of their interests from these bodies. But the interests of the two groups are different, indeed they are commonly viewed as competitors. This needs to be resolved.

Recommendation: MoA should seek a formal statement from TAMA as to whether the Association wishes smallholder clubs to remain within the association and on what terms. If TAMA declines, the membership and EEST levies deducted this season will have to be refunded.

2.5.5 EEST is already overstretched; the project which supports it was designed when TAMA had only 8,000 members. If TAMA does decide to welcome clubs, as a new and increasingly important category of producer, it is still not clear how much EEST can realistically be expected to deliver, though its representatives have said that they see no problem in club officials attending field days and so on. It is worth noting that EEST is in the process of reviewing its own extension messages to different categories of producer and, if the anomaly can be amicably resolved now, clubs might be included in that review.

2.5.6 The National Bank of Malawi's agricultural liaison service has expressed an interest in principle in taking on one or two clubs, on a pilot basis, as clients. The clubs would have to pay a fee in return for regular technical and managerial advice. Staff in the ADDs may wish to make enquiries as to whether any clubs would be interested.

2.5.7 Some further considerations on the financial management of clubs are made in section 4.3.

2.6 Ministry of Agriculture (MoA) Budgets

2.6.1 ADDs involved in the pilot scheme prepared budgets for inclusion in the 1992-93 fiscal year, based on the assumption that the program would be expanded to include only one additional RDP in their Divisions. These were reviewed by the consultant in March after they had already been put into the planning and budgeting section of MoA. Needs differed from ADD to ADD, but focussed generally on the requirements of staff mobility and farmer training.

2.6.2 However, these allocations were omitted from the Ministry's budget that was approved by Parliament apparently because of a simple administration error. As a result, ADDs have completed half this year without any specific funds for the smallholder burley program. After much activity, it seemed that funds would be released at the end of August. The provisions made are absolutely unrecognisable, when compared to the original submissions. The line items used (e.g. uniforms and protective clothing) are baffling and bear no relation to the needs of the program, though the total funds allocated are not dissimilar to those requested. This is surely unsatisfactory and all parties recognise that, as the scheme expands, a new budget is needed.

Recommendation: The SAO Tobacco should co-ordinate, with Planning, revised budgets from all ADDs for submission in next year's Ministry budget. In addition to activities in the ADDs, provision should be made for the cost of supervision of the program at the ministry level.

2.7 Projections

2.7.1 Given existing ASAC/ASAP targets for smallholder quota allocation, numbers of clubs and members should increase in the following orders of magnitude:

Table 7 Projected Growth in Smallholder Burley, 1992-96

<u>Season</u>	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>
Quota	7.0	8.5	9.2	10.7 million kgs
Clubs	880	1,070	1,160	1,350 approx.
Members	20,000	25,000	27,000	31,000 "
Farm Families	1.82	1.87	1.93	1.99 million approx.
Percent	1.1%	1.3%	1.4%	1.6%
Quota/family	3.8	4.5	4.8	5.4 kgs/family

Notes: Quota targets were set under ASAC; the basis is not clear, nor is the scope for varying these targets according to market conditions. Targets have since become fixed under the terms of the ASAP Program Grant Agreement. Clubs and members projections assume 1991-92 average membership and quota/member.

Total Farm Families figure = MoA (Planning), projections.

2.7.2 In summary: the smallholder scheme aims to harness a considerable productive force, involving large numbers of people across the entire country and presenting a serious organisational challenge. There is some scope for extending participation beyond the level indicated - less than 2% of all farm families - by reducing the size of individual quotas, but this approach has its limits. Even if club quota were halved (thus doubling the number of potential beneficiaries) the target population in 1995-96 would still be only some 3.1% of all farm families. The figures on total quota/total families illustrate the limitations. (see also Table 8, page 3 in Section 3, giving quota/family in 1992-93, by ADD and RDP).

2.7.3 Only a tiny minority of the rural population can benefit directly from this initiative and perhaps the greatest challenge will be to confine the scheme to this, relatively, privileged group of people.

3 PRODUCTION QUOTA AND REGISTRATION SYSTEMS

3.1 General

3.1.1 The world market for burley and, in the medium term, the capacity of Malawi's processing and export companies to supply it, is finite. Hence the industry has always sought to limit the total volume of production in any season, matching it to estimates of what the export markets can absorb without unduly disturbing prices. The 'industry' expresses itself in a number of formal meetings, during the year between MoA + TEAM + TAMA + TCC, to agree upon the overall level of production desirable to meet these goals. Hence, quotas are considered an indispensable tool to avoid over-production.

3.1.2 This is a suitable place in the report to note a contradiction in the design of ASAP. At the heart of the program is a concern to expand market opportunities for the smallholder farmer, not only, but particularly, in burley. The project has a number of other components which seek to improve smallholder access to markets and market information. Nevertheless, the main thrust of the program is an intervention intended to increase smallholder access within an artificially constrained market, indeed twice constrained: with an overall burley quota and predetermined targets for the smallholders' share of it.

3.1.3 This paradox invites the question as to how far the theoretical economic consequences of liberalisation have been worked through in the concept behind ASAP. Markets are supposed to clear at prices which have eliminated less efficient producers. In the present case these must be estates⁶, which have overheads that smallholders are free of and yet, for the most part, comparable direct costs of production and yields per hectare. This obvious consequence would be a painful business for many estates, and other parts of the economy when it concerns the biggest single export earner. The financial sector, agricultural suppliers, etc. are deeply committed to the estates,

3.1.4 The possibility of overproduction, price collapse and widespread economic disruption is surely not at all what ASAC/ASAP intended, though the positive corollary of the theory that, following adjustment, production would remain in the hands of the most efficient, is very much in line with current development economics thinking. The possibility deserves consideration; that is, if we can agree that it has not already happened in 1992. It is one repeatedly urged by TAMA, though usually coded as an over-riding concern to maintain the quality and reputation of Malawi's tobacco in the world market. It is puzzling that the representatives of the estate sector are reluctant to come out and say that they fear competition from smallholders, rightly so. It is a legitimate concern and TAMA is the

⁶ Not all of them, but particularly those with indifferent yields and significant overheads. For a discussion of the cost structures of different categories of producer, see a report prepared for ASAC in 1989 by the consultancy firm Agmark.

proper body in which to express the view.

Recommendation: Government and the ASAC/ASAP donors should consider the need to make, or repeat, a formal statement of policy which would inform and, if necessary, reassure the industry as to what share of burley production smallholders are expected to eventually take up.

3.1.5 Whatever the case, it is sensible to enquire as to how market disruption can be avoided. This report assumes that the answer can only lie in controlling production volumes and that the most obvious instrument is the present licensing and quota system, though it is obvious that it has badly weakened of late.

3.1.6 Another form of control would be the rationing of credit and inputs. The present system seeks to do this by rationing seed but the effect is minimised by the propensity of small farmers (estate and customary land) to use seed from the previous crop, a deplorable practice which leads to disease and the loss of desirable genetic characteristics.

3.1.7 Other options exist, and are used elsewhere, which can be described as quota trading, with all sorts of permutations - once-off grants, annual tenders, leasing and so on. It is assumed that Malawi is not ready for these, though it is arguable that the proposed coupon system would amount to this. The final option - a completely unregulated market - is outside the terms of reference of this report.

3.2 **The present registration and licencing system**

3.2.1 First, some distinctions. Four steps are involved:

- i. Application on Form 1: 'Application for Licence to Grow and Sell and/or Buy and Resell' - reproduced as Annex 2
- ii. Consideration of applications and allocation of production quota
- iii. Issuance of a form ("seed forms") confirming registration, allocation of quota and authorising the procurement of seed - reproduced as Annex 3
- iv. Issuance of the Licence itself - reproduced as Annex 4

3.2.2 The procedure is best described through MoA's own annual workplan, which is set out as a series of tasks according to the month in which they should be completed. This should - but does not yet - apply equally to estates and smallholder clubs. The workplan has yet to be comprehensively revised to take account of a recent important policy decision (July 1992) - the decentralisation of registration and allocation of production quotas (though not licencing) to the ADD level. The following scenario attempts to integrate this development into the current system but has yet to be confirmed.

3.2.3 May and June

- RDPs to start receiving and recording all applications, before passing them up to the ADDs. The ADDs may also receive applications directly and, in the case of many estates, this is what generally happens. Applications are supposed to be accompanied by a General Receipt (GR) for K50 registration fee but, for reasons which are not clear, seem to be allowed to progress up the system without it. All applications are to be submitted by 30th June.
- MoA headquarters should start receiving applications from the end of May. These are then compared with the previous season's licences, first-time applicants being distinguished from previous license holders. Presumably these records have now to be passed back down to the ADDs, where these comparisons would be made though it is not clear that they have the information to be able to do so properly.
- The quota allocation system at MoA has been computerised for the past three years. Applicants are categorised as between maximum and minimum quota holders. By the end of June an indication of the number of growers and the volume of tobacco they wish to produce should have been compiled. Again, presumably all these functions are now to be transferred to the ADDs, though it is clear whether their computer capacity is adequate to handle them.
- The first in a series of industry meetings to determine the overall target for production volume should occur in May. By the end of June a further meeting should take place to refine these targets. For this year, 1992-93, the targets were made known in July.

3.2.4 July

- Formerly, MoA ensured that all applications are in and determined the size of quota for all growers. This would entail a decision on each of some 20,000 applications. It is this decision that has been decentralised to the ADD Tobacco Quota Advisory Committees. This year they have not, as the plan envisages, been advised of an overall ADD allocation by the Tobacco Allocation Committee in the Ministry.
- The computer system issues, as a first step, a confirmation /seed authority slip ("seed forms") advising growers of quota details (kg + ha), confirming receipt of the application fee and authorising purchase of a specified number of packets of seed (from ADMARC or ATC). Though this slip does not constitute a licence to grow, arguably it has the practical, if not legal, force of the licence. Growers naturally assume that the hectareage shown is authorised.
- Seed forms were dispatched via ADDs, where they were checked and omissions/corrections returned to MoA. Again, presumably ADDs are now to be

autonomous in these functions, relying on their own computer facilities, which vary enormously in strength. Many ADDs - if not all - continue to rely on the Ministry for the issuance of seed forms.

3.2.5 August and September

- Any corrections needed from previous stages are completed.
- Licence forms are printed (also by computer) for signature by the Deputy Minister for Agriculture and issued to growers, starting with Southern Region ADDs, whose season is earliest, in August and completed for all growers by the end of September.

3.2.6 Ostensibly, the system has operated as described for many years, unchanged, with the exception of computerisation three years ago. While this has obviously assisted, there are definite signs that the volume of work, as the number of estates has multiplied, has again outstripped the capacity of the system to cope. The deadlines shown above are now generally missed; it seems that, for the past season (1991-92), indications from the trade were also not obtained until the end of July. At the end of August 1992, issuance of seed forms is not yet complete.

Recommendation: MoA should revise the workplan on which the account given here is based, making it absolutely plain what the respective responsibilities of the ADDs and the Ministry are to be in the 1992-93 season. This should be carried out and all involved notified by January 1993.

3.2.7 That deadlines are missed is not surprising as the whole process in the MoA seems to have been handled by a single administrative officer (on study leave in May and June 1992), assisted by a few filing clerks and the computer section, all under the personal supervision of the Controller of Agricultural Services (Institutions). It seems fairly clear that the whole system depended to an institutionally precarious degree, on this one senior officer. To this extent the devolution to the ADDs was obviously necessary, if somewhat late.

3.2.8 ADD Tobacco Officers, particularly in Lilongwe ADD & Kasungu ADD (with the mass of new growers), have had to bear much of the extra work in registration, without additional staff. It is not at all clear that they will be able to take on the additional role of assessing and assigning production quotas. The formal issue of licences will remain the responsibility of MoA, though some observers have questioned the value of distinguishing seed form and licence; a formality which, it seems, owes as much to history - when the licence was signed by the Minister in person - as to any real functional difference in the two documents.

3.2.9 If the licence is to have meaning as a control, measures are needed to relate quota to past performance. Recent guidelines advise ADDs to compare applications with the most recent sellers sheet and the last one of the previous season. As it stands this is not an

adequate provision for a systematic assessment of applicants' past performance or track record; is submission of these documents with the application to be mandatory? It is not clear.

Recommendation: In order to indicate past performance, Auction Holdings Ltd. (AHL) could provide an analysis of all licence numbers' results at season end, to be forwarded to respective ADD Quota Advisory Committees via TCC and MoA. This would be used to guide the committees in assigning quotas for the following year. Discretion would be needed to allow for the inevitable season's lag in the data. This information is commercially confidential and it is not necessary to supply detailed figures. All that is required is an analysis showing those numbers which significantly failed to meet, or exceeded, quota by more than an agreed spread (+/- 20% perhaps; the width of the band needs careful consideration). A similar index for average price, indicating producers of poor or above average quality tobacco could also be produced. Calculations in this case are tricky, given fluctuations in the season, and also need careful consideration. Guidelines as to what punishments and rewards might be appropriate should be drawn up by TCC, after wide consultation in the industry.

3.2.10 At present the only formal criteria on which the license is granted are the comments/recommendation of the Program Manager (Section C of the application form). One has to feel sympathy for the PM of LADD, for example, with 6,000 odd of these forms to deal with. The discussion draft of this report recommended that the form be amended to include space for the application to be endorsed by MoA staff at appropriate lower levels, perhaps including verification of Title/Letter of Offer by Land Husbandry. This would improve flows of management information in the system and provide a degree of accountability. MoA rejected the recommendation as unnecessary.

3.2.11 No one contacted in May by the consultant at MoA, TCC or TAMA had a clear idea of what was total quota issued for either of the past two seasons. AHL has since provided information that total licenced weight for burley in 1991-92, on both floors, is approximately 146 million kgs. This compares with trade indications in mid-1991 of requirements of around 85 million. As is now widely recognised, the system is not working and in need of overhaul.

3.2.12 The indicated burley requirement for 1992-93, given by the Tobacco Exporters Association of Malawi (TEAM) in July 1992 is 95 million kgs, +/- 10%. Existing quotas must therefore be cut drastically, before accounting for new estates (and many will have already come through the system - although there is no obvious way of telling how many) and smallholders. Can this be done, at this late stage? We must doubt it, though MoA has (end August) announced a freeze on all new estates.

3.3 Smallholders and the present system

3.3.1 How do smallholder clubs fit into all this? So far they have been treated as a special case, outside the existing system, though registration for 1992-93 is now following the procedure described. In the 1991-92 season, clubs were not finally registered until April 1992. They were never issued with licences and the status of clubs selling through ADMARC remains uncertain. Apart from the drought, the most common agricultural problem faced last season seems to have been late seedbeds, frequently caused by late delivery of seed. This in turn was related to uncertainty surrounding late registration and issue of seed forms.

3.3.2 While this was typical enough in the case of a pilot project, it now seems that delays will be repeated for the 1992-93 season. Before they can start to accept (and mobilise) smallholder burley club registrations, the ADDs need to know the scope of the scheme to be operated in their divisions for the coming season. They need provisional allocation targets as soon as possible and certainly no later than the end of April. In particular, they need to know how many new RDPs to bring into the project. In early April the consultant made recommendations as to a basis for distributing the total target quota of 7 million kgs. The advisability of extending the scheme to the full 7 million kg target for 1992-93 was discussed, in view of concern (shared by the consultant) about pressing ahead with this before there had been time for an evaluation of the present season's performance. It seemed there was insufficient room for manoeuvre as that target had become enshrined in the programme, not least as a conditionality of the ASAP grant but also as a result of political pressure from leaders within Malawi wishing to ensure that their constituents benefit from this opportunity without delay. It was recommended that:

- i) Existing clubs' quota be increased by 15%, to reinforce success. Certain clubs could be expected to fail this season and others to re-form. ADDs should be able to re-distribute this additional quota.
- ii) Provision was made for new clubs in areas (RDPs) already covered by the scheme. The figures used varied, from three times that allocated to existing clubs, in Blantyre ADD, to two thirds or less, of existing allocations in most other ADDs. In the absence of a reliable indicator of land pressure and suitability, these weightings were essentially arbitrary but were intended to fulfill the goal of ensuring that this opportunity is extended to areas with few alternatives and extreme land pressure. Thus, rather more of the additional quota proposed was allocated in the Southern Region, where these problems are more acute.
- iii) The extension of the scheme will put considerable pressure on the ADDs' resources. It was therefore assumed that, in most cases, only one new RDP should be involved in each ADD. In order to give national coverage, Ngabu ADD and Salima ADD were brought into the programme.

3.3.3 It was understood that as a result of the political pressures noted, these recommendations were revised twice in May - on each occasion widening involvement in the scheme until it was proposed that every RDP should have some allocation of quota. A final draft was made at the end of May, sharing 7 million kgs across the entire country, according to a single criterion: after provision for existing clubs, the RDPs' share of new quota should reflect their share of the rural population (using MoA figures for total farm families). This format was eventually confirmed in mid-July with the ADDs informed of their smallholder quotas. The basic results are shown in Table 8 (3 pages following). It is understood that ADDS are to have some degree of discretion in following these guidelines by redistributing them between RDPs, as necessary.

3.3.4 While this decision ensures that most of the quota goes to areas where the population is greatest, it does not establish whether or not the allocation is doing the most good on either agronomic or demographic grounds. Some areas with quota - Ngabu is the most obvious - have no history of tobacco growing; while others (high rainfall areas in particular) are at best, marginally suitable for tobacco. A Programme Manager's discretion will need to come into play to make sense of anomalies such as these. As registration came to a close in August, it appears that this was achieved.

3.3.5 During registration for 1991-92, reports of the number of clubs (and, hence, the total registered quota) varied constantly. This was partly due to a number of clubs breaking up and reforming, for internal reasons, during the season. In view of the extremely short time that groups have been given to work out their own constitutions and membership, however informal, this is certain to happen again.

3.3.6 The other reason for uncertainty as to total numbers of registered smallholders in 1991-92 lies in the different registration systems for burley and those of traditional ADMARC tobaccos. ADMARC registration is quite different (see Section 4) from that described above. Most clubs which declared their intention to sell to ADMARC were not required to pay the registration fee since it is assumed that individual members would register under ADMARC procedures. This has two consequences, neither of which are desirable: i) two accounting systems for a single amount of quota is liable to allow producers to slip through the net, and ii) ADMARC registration alone cuts off club access to the floors.

Recommendation: All smallholder clubs, irrespective of their declared marketing intentions, should follow the same registration procedures prescribed for all growers, including the payment of registration fee. They should be allocated production quota just as estates are and be licensed following the same system. The exception to this principle is, of course, that the total smallholder quota is guaranteed under ASAP while that of the estates is not.

3.3.7 The smallholder quota targets under ASAC/ASAP are such that the 1992-93 allocation of 7 million kgs is the biggest single jump. The basic structure of the ASAC/ASAP scheme will have just been put in place this year, though it is still expected to

continue to expand by a further 50%, in a series of more modest targets:

-	1993	1.5 million kgs additional smallholder quota
-	1994	0.7 " " " " "
-	1995	<u>1.5</u> " " " " "

Total 3.7 (= > Total target of 10.7 million kgs)

3.3.8 Yet even these smaller targets have risks. This report is completed at a time of intense activity to attempt to contain the effects of over-allocation of quota. More than mere containment must be attempted, though it is doubtful whether sufficient time remains (before nurseries go in), in which to make the severe cuts in quota that seem to be required: 146 million of existing quota, is to be reduced to 95 million, of which around 4.5 million is committed as new smallholder quota - an overall cut to existing licence holders of around 40%.

3.3.9 Would it not be better to impose a moratorium on smallholder expansion for one season? This would help in signaling the important need for discipline to both the smallholders and to the estates. It would also give all those involved a season in which to consolidate a program which might otherwise get out of hand.

3.3.10 Such a temporary halt to expansion need not affect overall targets and the program could be resumed with, say, 2 million in 1994 and 1.7 million in 1995. By that time, the nature of the clubs and the practical operation of the scheme will be much clearer than they are at present, making it possible to more accurately target the distribution of the remaining quota amounts.

Recommendation: MoA and the ASAC/ASAP donors should consider freezing further expansion of the smallholder scheme in the 1993-94 season, in order to allow a season of consolidation, before resuming expansion in 1994-95. This should not affect the final target of 10.7 million kgs.

3.4 Information flows and computerised registration

3.4.1 If the smallholder scheme is to work, both clubs and members must know in good time what their production quotas are and fully understand their implications. Equally, the Ministry of Agriculture and the industry need to know what is happening on the ground. A computer package has been designed by USAID and MoA systems analysts to address these needs, with technical input from the consultant and financial assistance for data entry from the World Bank.

3.4.2 The system has been tested, though not used, on the clubs and people growing burley in 1991-92. It is now installed, following training, at each ADD and will be used to register all smallholders in the 1992-93 season. Temporary assistance from USAID will be

ADD	RDP	1991/92 Quota		Proposed 1992-93 Quota		New Clubs	Total (Kgs)	Indicative Numbers of Clubs	Members
		Original	Allocated	Existing Clubs					
NGABU	Chikwawa	-	-	-	-	99,000	99,000	12	289
	Nsanje	-	-	-	-	150,000	150,000	19	437
BLANTYRE	BuShire	137,399	45,726	53,000	542,000	595,000	75	1,735	
	Mulanje	166,468	55,400	64,000	235,000	299,000	38	872	
	Phalombe	206,132	68,600	79,000	123,000	202,000	25	589	
	Mwanza	-	-	-	65,000	65,000	8	190	
LILWONDE	Zomba	504,813	434,700	500,000	307,000	807,000	102	2,353	
	Namwera	449,187	386,800	445,000	150,000	595,000	75	1,735	
	Mangochi	-	-	-	190,000	190,000	24	554	
	Balaka	-	-	-	142,000	142,000	18	414	
	Kawinga	-	-	-	164,000	164,000	21	478	
SALIMA	Bwanje V.	-	-	-	103,000	103,000	13	300	
	Nkhotakota	-	-	-	79,000	79,000	10	230	
	Salima	-	-	-	106,000	106,000	13	309	
LILONGWE	Ntcheu	528,000	197,000	227,000	218,000	445,000	56	1,298	
	Thiwi/Lifidzi	-	-	-	167,000	167,000	21	487	
	Dedza Hills	-	-	-	166,000	166,000	21	484	
	Lilongwe E.	-	-	-	314,000	314,000	40	916	
	Lilongwe W.	-	-	-	-	-	-	-	
KASUNGU	Kasungu	720,000	999,000	828,000	156,000	984,000	124	2,870	
	Dowa E.	-	-	-	83,000	83,000	10	242	
	Ntchisi	-	-	-	61,000	61,000	8	178	
	Dowa W.	-	-	-	113,000	113,000	14	330	
	Mchinji	-	-	-	173,000	173,000	22	505	
MZUZU	Rumphi/N.Mz.	582,000	315,000	362,000	84,000	446,000	56	1,301	
	Mzimba S.	-	-	-	63,000	63,000	8	184	
	Nkhata Bay	-	-	-	76,000	76,000	10	222	
	Mzimba C.	-	-	-	95,000	95,000	12	277	
KARONGA	Chitipa	207,000	112,800	130,000	34,000	164,000	21	478	
	Karonga	-	-	-	56,000	56,000	7	163	
TOTAL		3,500,999	2,615,026	2,688,000	4,314,000	7,002,000	877	20,256	

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ADD	1991/92 Quota		ADD (%)	Region (%)		1992/93 Quota		Region
	Original	Allocated				Total (Kgs)	ADD (%)	
NADD	nil	nil						
BLADD	509,999	169,726	6%			249,000	4%	
LWADD	954,000	821,500	31%	38%	S. Region	1,161,000	17%	
SLADD	nil	nil				1,898,000	27%	47%
LADD	528,000	197,000	8%			288,000	4%	S. Region
KADD	720,000	999,000	38%	46%	C. Region	1,092,000	15%	
MZADD	582,000	315,000	12%			1,414,000	20%	40%
KRADD	207,000	112,800	4%	16%	N. Region	680,000	10%	
						220,000	3%	13%
Total	3,500,999	2,615,026	100%	100%		7,002,000	100%	100%
NADD						249,000	6%	
BLADD						991,274	23%	
LWADD						1,076,500	25%	53%
SLADD	Additional quota allocation by ADD					288,000	7%	S. Region
LADD						895,000	20%	
KADD						415,000	9%	36%
MZADD						365,000	8%	C. Region
KRADD						107,200	2%	11%
								N. Region
TOTAL ADDITIONAL QUOTA						4,386,971	100%	100%

Assumptions:

Additional quota to reinforce existing clubs: 91/92 allocation +			
Number of clubs	(1991/92 actual figures)	=	15%
Number of growers	(" " ")	=	330
Number of growers / club	(" " ")	=	7,626
Allocated quota / club	(" " ")	=	23
Allocated quota / grower	(" " ")	=	7,924
		=	343

Additional Quota /RDP : No. Farm Famil.per RDP/ Total No. Farm Famil. * Additional Quota

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ADD	RDP	No. Farm Families	Ratio	Additional Quota/RDP	Additional Quota/RDP Rounded (kgs)	Quota/family (kgs) (1)
NGABU	Chikwawa	39,635	2.3%	98,651	99,000	2.5
	Nsanje	60,290	3.5%	150,060	150,000	2.5
BLANTYRE	Bt/Shire	217,410	12.5%	541,128	541,000	2.7
	Mulanje	94,437	5.5%	235,051	235,000	3.2
	Phalombe	49,301	2.8%	122,709	123,000	4.1
	Mwanza	26,308	1.5%	65,480	65,000	2.5
LIWONDE	Zomba	123,512	7.1%	307,418	307,000	6.5
	Namwera	60,201	3.5%	149,839	150,000	9.9
	Mangochi	75,746	4.4%	188,530	189,000	2.5
	Balaka	57,081	3.3%	142,073	142,000	2.5
	Kawinga	66,069	3.8%	164,444	164,000	2.5
SALIMA	Bwanje V.	41,301	2.4%	102,797	103,000	2.5
	Nkhotakota	31,706	1.8%	78,915	79,000	2.5
	Salima	42,701	2.5%	106,282	106,000	2.5
LILONGWE	Ntcheu	58,771	3.4%	146,280	218,000	7.6
	Thiwi Lifidzi	45,096	2.6%	112,343	167,000	3.7
	Dedza Hills	44,629	2.6%	111,671	166,000	3.7
	Lilongwe E.	84,643	4.9%	210,374	314,000	3.7
	Lilongwe W.	114,401	6.6%	284,741	-	0.0
KASUNGU	Kasungu	62,723	3.6%	156,116	156,000	15.7
	Dowa E.	33,274	1.9%	82,818	83,000	2.5
	Ntchisi	24,425	1.4%	60,793	61,000	2.5
	Dowa W.	45,431	2.6%	113,077	113,000	2.5
	Mchinji	69,641	4.0%	173,335	173,000	2.5
MZUZU	Rumphi/N.Mz.	33,647	1.9%	83,747	84,000	13.3
	Mzimba S.	25,368	1.5%	63,140	63,000	2.5
	Nkhata Bay	30,715	1.8%	76,449	76,000	2.5
	Mzimba C.	37,802	2.2%	94,088	94,000	2.5
KARONGA	Chitipa	13,771	0.8%	34,276	34,000	11.9
	Karonga	22,404	1.3%	55,763	56,000	2.5
TOTAL		1,732,439	100.0%	4,312,000	4,311,000	4.0

given in those ADDs with inadequate computer capacity.

3.4.3 The package will immeasurably improve information flows for the coming season. However, without the time or, at that stage, full knowledge of what might be involved, the package was hastily put together. Its role in the system was also not specified beforehand. Since, it was not possible to integrate it with the existing system (to which it must remain subordinate) and it will probably suffer operational teething problems, which should emerge by the end of calendar year 1992. More work will be needed.

Recommendation: MoA should formally request USAID assistance in further development of the smallholder registration package aimed at improving its operation, integrating it with the MoA system, and ensuring adequate hardware capacity at the ADD level to handle all tobacco registrations.

3.4.4 MoA field staff now complete forms giving basic information for all club members. These are attached to the standard Form 1, Section C applications, which give club details. These two sets of data are entered separately. Individual data collected is as follows:

- Name, gender and club name.
- Quota applied for (kgs).
- Area to be planted and total land holding (ha).

The package links the two data bases and can print a number of reports and forms, including:

- Individual quota and seed authorisation form.
- Lists of all individual records with incomplete data.
- Lists of all clubs, by ADD, with club quotas and total members' quotas.
- The ADD master report, (Table 9 - two page example shown overleaf).

The system is fully described in the operating instructions issued to users.

3.4.5 ASAP lays considerable emphasis on the issue of individual quotas and some 20,000 individual quota forms, uniquely numbered, should start to be issued in September 1992. This represents a serious challenge to the extension service and ADDs' data processing capacity. It is worth noting that these slips have the status of advice from MoA since they do not have the legal status of the Licence to Grow a Special Crop. Presumably, club licenses (which this package cannot print) will follow once club details are transferred, by hand, to the existing MoA system.

3.4.6 The individual quota slips represent a considerable administrative effort and expense. If it is to be justified, some understanding of what it means to individual smallholders (many of them illiterate) is essential.

Recommendation: Ongoing monitoring programs should endeavour to establish what significance is attached to the possession of an individual quota allocation slip by the average smallholder. Some understanding is needed of the empirical relationship between authorised quotas - in terms of both area and volume - and individual production. The consultant expects this will be very loose.

3.5 Individual and group quota

3.5.1 For clubs intending to sell to the floors, the total club quota must be at least 3,000 kgs; preferably greater. The size of individual quotas within this total will vary according to how ADDs decide to address the problem of demand for registration. If, as seems certain, it greatly exceeds supply, the ADDs have two basic options. They can register:

either as many clubs and members as come forward, and then tailor individual quotas (which would then be quite small) within the overall ceiling.

or, using the individual targets of 1991-92 (generally in the range 250-300 kgs/member) register clubs on some first-come-first-served basis, cutting off further registration once the overall ceiling has been reached.

They cannot, consistently, do both. The computer package should help staff in carrying out the calculations to resolve this problem but the basic management decision will be made in the ADD Quota Advisory Committees. It remains to be seen how neatly a solution to this problem can be managed.

Recommendation: No club should be registered to sell through AHL unless the total of its members' individual quota exceeds 3,000 kgs. The size of individual quota should not be adjusted to ensure this but should be the same as that applied in the surrounding area. This will determine the minimum size of club membership.

3.5.2 There seems to be a consensus amongst MoA field staff that the maximum membership of clubs should not exceed 35-40. This figure presumably reflects experience with SACA clubs and also a comfortable workload for field staff. The general view is that greater numbers would be uncontrollable. It is not necessarily optimal by other criteria. The bigger the club, the better able it should be to compete for transport, credit and so on. A number of clubs are significantly bigger than 40 and they offer a opportunity to test the limits of manageability. An evaluation of clubs' financial performance is proposed in Section 4 and this should specifically include some of the larger clubs in its sample.

Recommendation: No upper limit should be imposed on the size of clubs, though PMs should be able to encourage larger clubs to divide if internal problems are evident due to the size of the membership.

3.5.3 If the quota system is to work, what matters is that the sum of individual quotas equals those of their clubs. The registration package includes facilities for checking that the two totals tally. This is not yet automatic. When the 1991-92 data was tested, discrepancies were found to have been alarmingly common (see Table 9 for Lilongwe ADD, eg).

3.5.4 While it is obviously most important that ADDs make every effort to ensure that total individual quota equals total club quota, it is unlikely that this can be achieved in every case this season. The system is too raw, the time too short, for it to be otherwise. Though registrations have to be completed quickly, Tobacco Officers should expect to have to revise some of their allocations more than once before the floors open in 1993, as clubs change their composition, fail to meet expectations or merely suffer arithmetical errors. Discrepancies between licenced and revised weights will result with the computer package being used to run updates on these problems. Nevertheless, the extension message for those clubs selling through AHL must be straightforward and consistent.

Recommendation: MoA field staff should ensure that clubs fully understand that the quota shown on the Licence over-rides any minor discrepancies in the sum of individual quotas. Procedures exist for revising Licenced weight but these should only be resorted to in extraordinary cases.

3.6 The Tobacco Control Commission (TCC)

3.6.1 The breakdown in the quota system is not new. In 1989 a report on TCC was carried out by Cargill Technical Services (UK) which noted "the procedure is confused and exists independently of estimated demand for tobacco" and described the system as being in a "state of virtual chaos". Not much has changed.

3.6.2 Amongst other things, that report recommended that the whole licencing procedure be transferred to TCC, as the subject is within its mandate and because TCC is the only body in which all interests in the industry come together.

3.6.3 Few of the recommendations in the Cargill report have been implemented. Though inclined to recommend that the report be reviewed and implemented, the consultant recognises, after consultation, that this would probably be futile. Neither side of the industry seems keen to assume the burden of financing the registration and control process which is presently administered by the Government. Without this commitment, the Cargill reforms are unlikely to go ahead.

TO: The Chief Agricultural Officer
 Ministry of Agriculture
 PO Box 30145
 Lilongwe 3

TABLE 9.
 Page 1

Post Quota Allocation Summary
 Periodic Report on Smallholder Burley Growers and Clubs
 Currently Registered in:

Lilongwe ADD Date of Report 07/08/92

	Total	Percent
Farmers Registered.....	613	
Male.....	534	87.1
Female.....	77	12.6
Gender unknown.....	2	0.3
Farmers with holding size <= 1.5 ha.....	486	79.3
Farmers with holding size > 1.5 ha.....	112	18.3
Farmers with holding size unknown.....	15	2.4
Farmers who plant more than 25% to burley..	138	22.5
Farmers who planted 25% or less to burley..	460	75.0
Burley land or total holding size unknown..	15	2.4

	Average	Max	Min	Total
Holding size, ha.....	1.31	10.00	0.10	782.45
Burley area, ha.....	0.25	0.80	0.13	151.40
% holding to burley..	19.35	200.00	2.00	19.35

Individual quotas...	378	1200	200	231,000
Number of farmers with quota unknown.....				2

Number of clubs registered this season.....	28
No. in data file not registered this season..	1

	Average	Max	Min	Total
Club membership.....	22	55	2	613
Club quota.....	8,102	26,700	1,500	218,750

Quota discrepancy..... (12,250)

(signature)

(/ /)

Program Manager Lilongwe ADD

25/11

Clubname	Club Quota	Sum of member quotas	No of members
Bwemba	0	0	2
Chikondi	8,100	8,100	27
Chimvuwu	4,500	5,250	13
Chipalawe	12,900	12,300	41
Chithando	3,300	3,300	11
Chiyambi	7,200	7,200	12
Chiyambi	12,400	12,700	31
Dzanzakapolo	7,200	6,000	13
Fatsani	26,700	26,900	55
Galvwapananji	4,800	4,800	16
Linkhuwe	12,600	12,300	41
Maombe	8,100	7,500	25
Mpamadzi	10,150	10,650	23
Mtanda	20,850	20,850	41
Mtanda	7,050	6,750	16
Mwayiwathu	3,000	3,000	10
Namipiru	4,500	4,500	15
Njobvu	8,400	8,400	28
Pamodzi	11,700	11,400	38
Tagwirizana	6,450	6,450	16
Takomana	8,100	8,100	27
Takondwea	3,000	3,000	10
Takondwela	3,600	3,600	6
Tilimbike	8,550	8,550	19
Tilimbikira	1,500	1,500	5
Tiyamba	5,400	5,400	18
Ufulu	4,500	4,800	16
Umodzi	0	13,800	25
Ungwe	4,200	3,900	13

Table 9
page 2

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4. MARKETING OF INPUTS AND OUTPUTS

4.1 Inputs

4.1.1 All seed, fertiliser, packing materials and capital items (baling presses and scales) are, at present, provided on credit financed by SACA (see section 6). SACA itself does not procure or distribute physical inputs but arranges procurement, where appropriate on a tender basis, through the Smallholder Farmer Fertiliser Revolving Fund of Malawi (SFFRFM), or direct from the private sector, including Agricultural Trading Company (ATC - a wholly-owned subsidiary of Auction Holdings Limited).

4.1.2 Distribution, particularly of fertiliser, is arranged through ADMARC's market network, or in the case of less bulky items, the ADDs themselves. ADMARC acts as an agent for SFFRFM, who bill SACA. Specialist tobacco supplies, particularly packing materials and baling presses, are available from ATC. SACA has had to make special arrangements for the supply of these, as ADMARC, accustomed to buying tobacco loose-leaf from smallholders, has never had to supply them in the rural areas.

4.1.3 In 1991-92 there was considerable uncertainty as to how much production quota would be taken up, and where, until late in the season. This made it difficult for SACA to plan efficient distribution and the most common problems faced last season were late seedbeds and fertiliser distribution and, hence, poor transplanting. Present indications are that these problems, through no fault of SACA's, will be repeated this year.

4.1.4 That said, it has also been suggested that one of the reasons for the good prices realised by smallholders (see below) is precisely because SACA credit has ensured that, on the whole, smallholders do use proper tobacco compounds and top-dressings. By contrast, small estates are stranded between the banks, which will not touch them, and the official smallholder credit scheme, from which they have supposedly graduated. They are thus obliged to scratch around for fertiliser wherever they can find it, often in the form of maize fertilisers "leaked" from SACA maize clubs.

4.1.5 This confusing picture is reflected in Bunda College's first monitoring report, which suggests that smallholders themselves relied principally on maize compounds in 1991-92 (but another statement makes it unclear whether the report's authors are sure which fertilisers should properly be used). The actual questionnaire used should yield less ambiguous answers.

4.1.6 The impression formed by the consultant is that, with certain obvious exceptions, where things were either delayed or simply did not arrive, input distribution was not on the whole a major constraint to production. The credit system is also to be congratulated on its ability to deliver to, an albeit limited number of, smallholder tobacco growers.

Recommendation: The second consultancy report by Bunda College should, as a matter of priority, fully analyse data collected so far on input use in 1991-92. It is hoped that this can still be done in time for the answers to be of help in improving smallholder input use in 1992-93.

Recommendation: The indefinite provision of 100% credit input packages offers an effective way to control production and ensure quality. This contradicts a recommendation in the section on credit stating that the credit and extension services should start making plans to wean the clubs and to make them self-reliant. This conflict of policy goals needs to be explicitly acknowledged and, then, resolved.

4.1.7 In addition to the SACA system, the private sector (Norsk-Hydro and ATC in particular) is expanding its distribution network in the rural areas and is prepared to offer credit on normal terms of commercial risk. So far this has had no impact on smallholders but, as more successful individual members reach a position of cash surplus, they may turn to private-sector suppliers. While this might tend to weaken club cohesion, the tendency should be checked by clubs' continuing control of access to the floors.

4.1.8 Tables 10 and 11 estimate the main agricultural inputs (not including agro-chemicals) for the 1992-93 season. The figures used for fertiliser are higher than recommendations used by some ADDs and the consultant remains uncertain as to the standard recommendations (500 kg/ha "D" compound fertiliser (NPK) basal application plus 500 kg/ha Calcium of Ammonium Nitrate as a split topdressing?). If smallholders are to achieve the standard yield which MoA uses (1,500 kgs/ha), this level of base dressing seems low.

Recommendation: A clearly defined standard input package needs to be established, if not already done.

4.2 Marketing Tobacco - Clubs on the Floors

4.2.1 It seems to have been generally accepted, though perhaps not yet explicitly, that once a club has signified its intention to sell through AHL, it and its members must forgo the freedom of access to other market channels which is central to ASAP. This is necessary in order to ensure the strength and cohesion of the club. If a member should defect (it doesn't matter whether to ADMARC or the estates), it would compromise the rights of the club (and, hence, of fellow members). If the system worked, the club would fail to meet quota and notionally lose it next season. It would also weaken the club's negotiating position with transporters, credit agencies and so on.

4.2.2 Recognition of this policy decision has consequences for marketing decisions which have yet to be made, including the question of coupons. It is tempting to recommend that this principle be made official policy, in the interests of putting clubs, as such, on a sound footing, regardless of the costs in terms of the commercial liberty of individual members.

SMALLHOLDER BURLEY : SEED REQUIREMENTS FOR 1992/93 SEASON

TABLE 10

ADD	RDP	Total Quota (Kgs)	Area in Burley (ha) (1)	Seed (gm) (2)	packets	ADD Total packets
NGABU	Chikwawa	99,000	66	339	180	
	Nsanje	150,000	100	513	270	450
BLANTYRE	Bu/Shire	595,000	397	2,036	1,030	
	Mulanje	299,000	199	1,023	520	
	Phalombe	202,000	135	691	360	
	Mwanza	65,000	43	222	120	2,030
LIWONDE	Zomba	807,000	538	2,762	1,390	
	Namwera	595,000	397	2,036	1,030	
	Mangochi	190,000	127	650	340	
	Balaka	142,000	95	486	250	
	Kawinga	164,000	109	561	290	3,300
SALIMA	Bwanje V.	103,000	69	352	190	
	Nkhotakota	79,000	53	270	150	
	Salima	106,000	71	363	190	530
LILONGWE	Ntcheu	445,000	297	1,523	770	
	Thiwi/Lifidzi	167,000	111	572	300	
	Dedza Hills	166,000	111	568	290	
	Lilongwe E.	314,000	209	1,075	550	1,910
	Lilongwe W.	-	-	0		
KASUNGU	Kasungu	984,000	656	3,367	1,690	
	Dova E.	83,000	55	284	150	
	Ntchisi	61,000	41	209	110	
	Dova W.	113,000	75	387	200	
	Mchinji	173,000	115	592	310	2,460
MZUZU	Rumphi/N.Mz.	446,000	297	1,526	770	
	Mzimba S.	63,000	42	216	120	
	Nkhata Bay	76,000	51	260	140	
	Mzimba C.	95,000	63	325	170	1,200
KARONGA	Chitipa	164,000	109	561	290	
	Karonga	56,000	37	192	110	400
TOTAL		7,002,000	4,668	23,962	12,280	12,280

Assumptions:

1) Standard yield:

1,500 kgs/ha

2) Standard seedbed: 11 m² @

7 beds/ha @

@

0.73 gms/bed (inc. 10% cont.)

=

5.13 gms/ha

3) Seed packets = 2 gms packets, rounded up to nearest 10.

SMALL HOLDER BURLEY: FERTILISER, HESSIAN etc. REQUIREMENTS FOR 1992/93 SEASON, by ADD and RDP

TABLE 11

ADD	RDP	Total Quota (Kgs)	Area in Burley (ha) (1)	Fertilisers (50 kg bags)				ADD Total Fertiliser (6) (tonnes)	Hessian + Paper metres, each (7)	
				S (2)	(3) OR	Super D (4)	D Comp			CAN (5)
NGABU	Chikwawa	99,000	66	14		595	793	529	143	5,100
	Nsanje	150,000	100	21		901	1,201	801		
BLANTYRE	BuShire	595,000	397	83		3,571	4,761	3,174	666	23,300
	Mulanje	299,000	199	42		1,795	2,393	1,596		
	Phalombe	202,000	135	28		1,213	1,617	1,078		
	Mwanza	65,000	43	9		391	521	348		
LIWONDE	Zomba	807,000	538	113		4,843	6,457	4,305	1,089	38,100
	Namwera	595,000	397	83		3,571	4,761	3,174		
	Mangochi	190,000	127	27		1,141	1,521	1,011		
	Balaka	142,000	95	20		853	1,137	758		
	Kawinga	164,000	109	23		985	1,313	876		
SALIMA	Bwanje V.	103,000	69	14		619	825	550	165	5,900
	Nkhotakota	79,000	53	11		475	633	422		
	Salima	106,000	71	15		637	849	566		
LILONGWE	Ntcheu	445,000	297	62		2,671	3,561	2,374	627	21,900
	Thiwi/Lifidzi	167,000	111	23		1,003	1,337	892		
	Dedza Hills	166,000	111	23		997	1,329	886		
	Lilongwe E.	314,000	209	44		1,885	2,513	1,676		
	Lilongwe W.	-	-	-		-	-	-		
KASUNGU	Kasungu	984,000	656	138		5,905	7,873	5,249	812	28,400
	Dowa E.	83,000	55	12		499	665	444		
	Ntchisi	61,000	41	9		367	489	326		
	Dowa W.	113,000	75	16		679	905	604		
	Mchinji	173,000	115	24		1,039	1,385	924		
MZUZU	Rumphi N.Mz.	446,000	297	62		2,677	3,569	2,380	391	13,700
	Mzimba A.	63,000	42	9		379	505	337		
	Nkhata Bay	76,000	51	11		457	609	406		
	Mzimba C.	95,000	63	13		571	761	508		
KARONGA	Chitipa	164,000	109	23		985	1,313	876	126	4,500
	Karonga	56,000	37	8		337	449	300		
TOTAL		7,002,000	4,668	980		42,041	56,045	37,373	4,020	140,900
Fertiliser quantities in tonnes					49	2,102	2,802	1,869	4,020	na

Assumptions:

- 1) Standard yield: 1,500
- 2) Standard seedbed: 11 m² @ 7 beds/ha @ 1.50 kgs/bed = 0.21 bags/ha
- 3) Super D compound applied @: 450 kgs/ha
- 4) OR - D compound applied @: 600 kgs/ha (alternative)
- 5) CAN applied @: 400 kgs/ha
- 6) S + Super D + CAN only
- 7) @ 75 kgs/bale; 3 metres hessian and paper/bale; 50% of quota sold to AILL; rounded up to nearest 100 metres

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4.2.3 There is an objection, however, to doing this. In order to raise cash for transport, clubs (or, more likely, those members whose bales are due for delivery) have been obliged to sell some tobacco to either ADMARC or estates. This has been widely observed this season and is certain to continue until such time as club finances become far more sophisticated than they seem likely to be in the medium term. Perhaps all that can be done is for the extension service to point out the costs to clubs (in terms of lost future quota) of allowing members to sell outside the club, leaving the rest to peer pressure.

4.2.4 The scope of work defines three options to be considered for clubs marketing through AHL. Only one of these makes sense. The first two involve club tobacco being bulked together before grading either by the ADCS (whose resources are lacking) or by proper commercial graders. In both cases the crop would lose identity and, with it, essential market signals to the individual member as to the rewards of well presented quality tobacco. It is vital that individual growers' tobacco retain its identity at the point of sale, otherwise quality would quickly tend to the lowest common denominator. One conceivable remedy for this, classification by club officials or MoA staff before bulking, is not a practical option.

4.2.5 The only solution for the clubs is what they have been doing this season which is both simple and practical. Members grade their crop at home, bring it to some central place where it is check-graded by a respected club member or official (usually an ex-estate tenant or worker, hence experienced) before baling. There is no need to set up anything more elaborate. For most of the marketing season, smallholders have low opportunity costs, though it is as difficult for them as any other grower to finish reaping and tying in time to grade sufficient crop to take full advantage of the free period in April/May.

4.2.6 Arrangements for baling vary widely across the country. Nearly every club in Mzuzu ADD has built a club grading shed which are simple, but perfectly adequate, structures of bush poles and thatch. At the other end of the scale (and country), only one club in Blantyre has done so. Instead, existing structures, often belonging to senior club members, have been lent, or perhaps leased to the club as a whole. This presumably reflects the difficulty in identifying a communal building plot in the crowded areas of the South. Elsewhere there is a mix of both kinds of arrangement. Does it matter, so long as the crop is baled in reasonable condition? Technically not, but there must be some concern as to the leverage that the owners of 'lent' buildings acquire over the affairs of the club as a whole.

4.2.7 There has been some discussion about the need for MoA to provide a standard design for central club grading sheds, together with modern building materials supplied on credit, in order to ensure that adequate baling facilities are available. This is surely not necessary. Strong, well organised clubs will eventually find the will and way to finance a permanent grading shed and weak ones would be best left without the financial burden since the clubs are by no means permanent formations. It would be better to give them time to learn before they have to rush into such an investment. The shed will function better and have more meaning when built according to a local agenda.

Recommendation: MoA should shelve, for the time being, plans for the construction of relatively expensive club central grading sheds. The extension service should continue to generally advise on dimensions and so on, leaving construction to local initiative.

4.2.8 The number of members sharing a bale is variable. It seems that clubs take quite different routes on this problem. It may depend to some extent on the personal inclination of the chief grader. Fine grading entails multi-member lots while coarse grading means that individuals have more tobacco in fewer grades, enabling single or two member lots. Often individuals are able to make up a single lot with their principal grade. But the biggest considerations seem to be social.

4.2.9 The advantages of single member bales are easy check grading and accounting. Farmer A is in no doubt as to which tobacco is his or hers and must rely less on trust of those responsible for accounting for proceeds. The consultant has prepared guidelines to the complexities of accounting for AHL deductions⁷. These are reproduced as Annex 5 and, it has to be said, they seem pretty complicated from any point of view, not least that of the many members who are probably illiterate.

4.2.10 Multi-member bales have two technical advantages. By ensuring that lots are the maximum permitted weight, they minimise transport costs/kg sold and maximise weight sold/delivery period (see Section 5). Most importantly, however, they offer the only way within the constraints of the delivery system to ensure that all members get equal access to the floors throughout the season. There is a marked tendency for early deliveries to be dominated by single member bales from only a few members. It would be surprising if these people were not the dominant members of the club. The first Bunda College monitoring report hints at problems caused by "big" farmers within the clubs and this is certain to be one of them.

Recommendation: The extension service should encourage clubs to make up bales of, say, three members with 30 odd kgs each of a particular grade, with a rota by which each member takes turns to sell an equal quantity of tobacco.

4.3 Club Records, Accounting and Auditing

4.3.1 By whatever name they may end up with, the clubs are essentially cooperative business ventures and, like any other business, they need accounts or records of their transactions. These need not be elaborate, they have only to answer four basic questions:

⁷ (For distribution to ADDs through the SAO (Tobacco) at the Ministry). How many clubs are using these? Certainly not all, nor is it essential that they do so (see notes in guidelines). But it would be interesting to know.

1. "How much of whose tobacco went into which bale?"
2. "How much did he or she get paid for it?"
3. "How much did he or she contribute towards the club's collective credit obligations?"
4. "What happened to that which was left, if any?"

4.3.2 Like any grower, the club receives AHL sales sheets (with copies usually sent to the MoA RDP office) and is paid through the bank accounts which they have all opened with an initial deposit by subscription (the size of which varied from club to club). In addition to these basic statements they need:

- Members' leaf receipt book (duplicate).
- Payments ledger - members' accounts and general ledger.
- AHL despatch notes for tobacco consigned to transporters.

4.3.3 With these basic records it should be possible to construct club accounts showing that all members and creditors have been fairly treated. So far all clubs, as far as the consultant is aware, have records which adequately answer the first question above. It is much less certain how many could satisfy an auditor on all the other three. Even less certain is the question of who the auditor should or could be, though the ADDs are now looking at these matters.

4.3.4 Relatively large sums of money are being channeled through the clubs and the volume of these funds and numbers of people involved are set to increase dramatically; after all, that is the purpose of the whole scheme. The administration of these funds is in the hands of a relatively small group of club officials, assisted to a great degree by local field and credit assistants. It is quite conceivable that, as time passes, irregularities in the administration of these funds will begin to publicly surface. It is remarkable that they have not done so yet, but perhaps questions are only now beginning to be asked.

4.3.5 Perhaps also, as has been frequently suggested to the consultant, the majority of club members are so bemused by the complexities of the matter that they are content to get any amount, as long as it is obviously greater than they would have received from ADMARC or an estate. This is obviously unsatisfactory and the Government, as chief sponsor of the scheme, can hardly be content to leave things as they stand. Some system of audit is necessary.

4.3.6 Eventually it may be sensible to produce standardised stationery: a simple but complete accounting package which clubs must follow. But it would be a mistake to hurry into this before first learning what is actually going on. An overall evaluation of present club accounting practices is needed. This can only be properly carried out at the end of the season but preparations need to be made immediately for its implementation.

4.3.7 The issue is too urgent to attempt to cover all clubs; a sample of perhaps a dozen would be sufficient. Who is to carry out such a preliminary evaluation? This is an area with few precedents in Malawi (though the Shire Highlands dairy milk bulking groups are said to have similar problems). A number of local institutions come to mind, including DEMATT, SEDOM, Bunda College, and the consultant's employer - Agricultural Cooperative Development International (ACDI). It may be that a collaborative effort would be suitable.

Recommendation: MoA should draw up terms of reference for a consultancy to evaluate present club accounting practices, make recommendations for their improvement and identify a suitable body which would be responsible, in the long term, for auditing club accounts and determining their legal status. MoA may wish to seek USAID assistance, under ASAP, in implementing this recommendation.

4.3.8 As the number of clubs grows, their importance in the industry and the volume of funds passing through them will also increase. Eventually they may outgrow the present informal SACA club arrangements. If they are to be accountable for their members' funds and to be responsible production units within the existing licensing system, their status needs to be formalised, giving them both rights and responsibilities. Is the agricultural extension service the right body to supervise these growing organisations? Arguably not. It is the consultant's view that the recommendation above should lead to the introduction of a new institution charged with this duty, which may provisionally be called the Registrar of Agricultural Producer Associations.

4.3.9 A quite different topic is withholding tax, which is deducted automatically by the AHL computer. It has been suggested that smallholders should be spared this impost, as individual incomes are too small to justify it. In view of the considerable burden the scheme puts on the MoA budget, and the relatively tiny band of direct beneficiaries, it seems reasonable that GoM should continue to recover some of its costs.

Recommendation: Withholding tax should continue to be levied on smallholder burley club sales through AHL.

4.4 Marketing Tobacco - Clubs, Members and ADMARC

4.4.1 As things stand, clubs, as such, need have nothing to do with ADMARC, which has its own system of registration for individual smallholder tobacco growers, used for years with dark fired etc. ADMARC is able, quite legally it seems, to register smallholders and assign quota to them, independently of the MoA system described in Section 3.

4.4.2 This anomaly leaves ADMARC outside the main production quota net, which is surely undesirable. The Corporation's own registration system includes a requirement that any intending new tobacco grower should be recommended by an informal committee of prominent local farmers and other leaders in the area of the market at which growers

register. The simplest solution would be for the club to take the place of this committee.

Recommendation: ADMARC should only register smallholder burley growers able to present their individual quota/seed authorisation certificates. Market officers should record the number of the certificate on both market cards. It might also be advisable to require the endorsement of the club's leadership. Existing regulations under the Special Crops Act (Cap. 65:01) and the Tobacco Act (Cap. 65:03) may need to be revised and Gazetted ⁸.

4.5 Marketing Tobacco - Estates

4.5.1 Tobacco marketing liberalisation under ASAP is expected to evolve to a point where the sale of burley by quota-holding producers (presumably estates as well as clubs) to any marketing agent who complies with criteria agreed to by GoM and USAID, is legal. It is expected to evolve in three stages, to be phased in over the next few years:

- Step 1 All registered estates be allowed to purchase smallholder tobacco to within their own quota. Unobjectionable, at first glance, as the quota system would still control the total volume of sales by penalising estates selling (and therefore having bought) tobacco in excess of their licenced weights.
- Step 2 Estates be permitted to purchase smallholder tobacco in excess of their licenced weight. Additional systems would be required to control volume and it has been proposed that transferrable coupons would fill this need.
- Step 3 Any marketing agent be permitted to trade in burley. So far, the question of criteria to be used in licencing such agents has yet to be addressed in any detail.

4.5.2 There has been considerable confusion over whether estates are already legally entitled to buy registered smallholder tobacco. In spite of some ambiguous press and radio announcements earlier in 1992, it is perfectly clear that they are not. Under the terms of the ASAP agreement, GoM is expected to legalize and publicly announce that estates may buy small-holder burley to within their quotas. The public statements made so far do not constitute "legalisation".

⁸ For a discussion of the legal implications involved in changing the present tobacco marketing arrangements, see a report prepared for ASAC by the consultancy firm Agmark, in 1989. Many of the recommendations in this report are germane to more recent developments under ASAP, yet few seem to have been acted upon.

4.5.3 The present Licence to Buy and Resell is tied unambiguously to production on a designated hectareage at a single location by a specific number of tenants⁹. In order to legalise estate purchase of customary land burley, it seems therefore that the Special Crops Act itself (or gazetted administrative provisions under the Act, under which the licence is granted) would need to be amended. Legal matters are outside the consultant's competence and progression of any expert consideration of necessary amendments is not known.

4.5.4 What does seem obvious is that GoM has been reluctant to press ahead with this provision in ASAP and, it is the firm opinion of the consultant, this hesitation is justified. The freedom to sell through estates threatens to legitimise transactions in the grey area described generally as "illegal growing". The extreme difficulty the authorities would have in distinguishing registered from illegal smallholder growers has been generally recognised. But a plan exists to meet it and a system of coupons is proposed. Consider how these might work.

4.5.5 Registered smallholders would receive, in addition to their club's licence and their own seed form/quota slip, a number of printed coupons, in 25 and 50 kg denominations, equal to the amount of their quota. The committed would surrender their coupons to the club whilst others might choose to hang on to them and play the market. Coupons would not be needed for club tobacco sold on the floors and, perhaps, the club would simply destroy them.

4.5.6 However, members choosing to market outside the club would present them with the tobacco to either ADMARC or a licenced estate so as to give assurance that the tobacco originates from a duly registered smallholder. The purchaser would surrender the coupons on delivery to the floors, though an estate would only really need to do this if it had already filled its own quota.

4.5.7 A formidable organisational problem would ensue in accounting for this quota transfer. AHL cannot simply accept sales over an estate's (uplifted) licenced weight - they are required to withhold 40% of such sales as a penalty. To alter licenced weight on their computer requires explicit Tobacco Control Commission (TCC) authorisation. TCC would have to take on the paperwork of counting the value of the coupons, canceling them and issue authorisation to AHL, while the estate tried to fit these inevitable delays into its delivery quota.

4.5.8 Assume 10 million kgs quota in 25 kg denominations and the paper in circulation becomes phenomenal. The denominations could scarcely be bigger if the system is to suit the number of grades and lot sizes that ADMARC markets commonly accept. Both AHL and TCC are, understandably, opposed to the idea.

⁹ The terminology of the licence is confusing to outsiders. It is the estates' tenants' tobacco which is to be bought by estate management and resold over the floors.

4.5.9 Further, if an estate bought tobacco while it was still under its own quota it would be free to simply save the coupons, perhaps for later use against illegal tobacco. They could also sell them in the informal secondary market in transferrable quota which would certainly spring up. Once introduced, the coupons would immediately have value, which opens up the further possibility of leakage of coupon certificates between MoA headquarters and members (MoA-ADD-RDP-EPA-Club: 5 levels at which coupons would have to be issued and accounted for). The possibility of forgery would also exist.

4.5.10 This is all too plausible and would create a new currency. Having already established that people are prepared to lie for quota - why should they not be prepared to buy it as well?

Recommendation: MoA should drop plans for the issue of quota coupons. The idea is unworkable and would give rise to corruption.

4.5.11 One function of the licencing system is to assist MoA in ensuring proper rotations, land husbandry and that the conditions of an agricultural lease are fulfilled in using the land for the purpose declared, in this case growing tobacco. It has to be said that very little effective control seems to have been exercised recently. But, if recent moves to tighten up the system are to have effect, inefficient (or phantom) estates should not be allowed to conceal the poverty of their own production by buying tobacco from licenced smallholders and the illegal growers who continue to flourish in their shadow.

4.5.12 These arguments suggest that the estate marketing option is, as originally planned, poorly thought out and not in the interests of a controlled market. Nevertheless, illegal or not, it may be the channel which has been most widely used by registered smallholders in the 1991-92 season (see 4.7, below) and obviously fills a need for those smallholders unable or unwilling to wait for their turn at the floors. It is also, with ADMARC, the only source of quick cash for smallholders to finance transport and other requirements before AHL sales start to flow.

4.6 Marketing Tobacco - Licenced Traders

4.6.1 The third stage of the plan offers a marketing option which would fill the niche occupied by estates at present but avoid the drawbacks of the blanket provisions for all estates to sell within and, eventually, above their own production quota.

4.6.2 Which marketing agents and what sort of criteria? The most important requirement is that the agent can demonstrate an ability to handle tobacco. To do this they would need a properly equipped grading shed and knowledge and experience of the industry. The only people (other than commercial graders) who fit this description are, of course, estates. It could be disastrous in terms of quality to permit total liberalisation. A number of estates, sufficient to ensure competition but by no means all of them, could sell under both their grower's licence and a trader's licence, to which quota would have to be attached.

4.6.3 Commercial graders should also be eligible. Their record has been controversial of late but there is no doubt that, for the smallholders of Chiradzulu, for example, the Limbe graders could provide a welcome service if licenced to buy.

4.6.4 This proposal does not solve the problem of transferrable quota and some way is needed to avoid the pitfalls of the coupons. The only way that suggests itself to the consultant is to phase in these new agents gradually, avoiding too much double-counted quota becoming available in any one season. Eventually it would become clear which producers (club or estate) were content to sell through agents and a new category of licence (growing only) could be phased in. Criteria used in allocating quota could be designed to encourage this development.

4.6.5 This solution is somewhat awkward but recall that the root cause of the present difficulties is the proliferation of small growers. Ways must be sought to channel this production through intermediaries to avoid the number of sellers on the floors getting out of control. The clubs themselves are one such intermediary. As, and if, they are successful they should reduce the pressure to register new estates and also possibly absorb existing small estates ¹⁰.

4.6.6 Licensed traders would fulfill the same function. Above all, their operations could be made visible, unlike those of estates trading through their licence to grow. Traders could be required to account for the origin of their tobacco as a condition for the issue of the next season's licence.

Recommendation: GoM, in consultation with USAID, should eliminate the provisions in ASAP for all estates to be enabled to buy smallholder burley. Instead, a new category of licensed seller should be created and selectively licensed to buy tobacco from clubs and estates.

4.6.7 The estate marketing option is central to the ASAP design and its elimination may be difficult for the program's sponsors to accommodate. Even if the principle is accepted, implementation needs much preparatory work. The introduction of a new category of seller would require legislative change (as, indeed, would legalisation of the estate option) and clear guidelines worked out as to what qualifications would be required. The licence fee could be set at a realistic level, both to increase revenue and to ensure that only serious operators entered the business.

4.7 Evaluation of 1991-92 Smallholder Burley Sales

4.7.1 In August, clubs were still selling and it was too early to evaluate the season's

¹⁰ The absorption of graduated smallholders into the clubs would not be without cost - see Bunda College's report of the social instability caused by "big farmers".

results but some trends were already clear. The volume of recorded sales seems certain to be disappointing. ADMARC had closed its markets and its final volume is dismal: 393,035 kgs, bought at an average price of 228.14 t/kg. This is some 11% of the original target of 3.5 million, or 16% of the MoA estimated production of 2.4 million.

4.7.2 Most clubs selling in Limbe had sold the majority of their crop but sales to 13 August were only 237,859 kgs (Liwonde ADD 195,730; Blantyre ADD 16,930; Lilongwe ADD 25,199). These numbers will increase by the end of the season but not, it is thought, very significantly. The position in the north is less clear - some clubs in Rumphu may still have had the bulk of their crop to move as a result of transport difficulties (see Section 5).

4.7.3 All in all it seems unlikely that recorded sales will be significantly greater than 1 million kgs. The implication is that somewhere between a half and two thirds of the registered smallholder crop will have been sold, illegally, through estates. There is no absolutely reliable way of verifying these numbers but we can hope to learn from the Bunda College survey what proportion of individuals confess to having sold through estates.

4.7.4 The reason is not hard to find. The average ADMARC price of K 2.28 compares with illegal purchases in the range K3.00 - K4.00/kg, ungraded, and estimated gross receipts by club members selling on the floors (after transport, packing materials and AHL deductions) of around K5.00/kg, with all the delays and uncertainty this entails (not to mention the greater likelihood of having to repay SACA, as field and credit assistants retain control over the distribution of AHL proceeds).

4.7.5 Mid-May prices for purchases by estates seem to have been a flat K3.00 /kg, for ungraded tobacco, as compared with a March price of K2 50. These are so widely reported as to be a reliable guide to the market, which was clearly buoyant until well into the season. Other reports describe more innovative deals: by the barnful, unweighed or, famously in one case in Machinga, as a standing crop in February (it was hit by hail a week after the deal was secured, to all except the purchaser's great amusement). ⁽¹¹⁾

4.7.6 These are powerful price signals and if ADMARC is to attain a significant share of this market in the coming season, a very considerable second payment will be required.

¹¹ It has been said that ADMARC itself has bought illegal burley; if true, this is an unlooked-for spin-off from the smallholder scheme but difficult to avoid, with the unrelated MoA and ADMARC registration systems. It is not known how illegal market prices responded to the price fall on the floors towards the end of the season. Nor whether illegal purchasers found themselves with stocks, bought at the earlier optimistic price, on which they could make no margin. If this happened on a wide enough scale, this part of the market will be cautious next season.

4.7.7 More to the point, it raises the question of how realistic the recommendation is to discontinue plans to legalise estate purchases. The recommendation stands but we must face the fact that unless unambiguous disciplinary moves are made, this market will continue to thrive. A number of anomalous licence holders are being removed from the register this season (see Section 2) but signals also need to be given to the smallholders themselves.

Recommendation: Licencing authorities must be prepared to cancel club licences where recorded sales fall significantly below quota. The opportunity to do this will come in the 1993-94 season, a period of consolidation in which it is recommended that no new smallholder licences are granted.

This recommendation is related to a wider principle, which needs to be explicitly recognised -

Recommendation: Clubs selling on the floors must be treated in exactly the same fashion as any other registered seller.

4.7.8 These recommendations notwithstanding, it would be unrealistic to expect that this market can be suppressed altogether. However, if the aim is to control production, serious efforts must be made to do just that.

4.7.9 On a different and more optimistic note, smallholders seem to have repeated their success in producing above-average quality burley in 1990-91 (when ADMARC realised K 7.28/kg, as compared with a national average of K 6.87/kg).

4.7.10 Comparable figures for this season are obviously not yet available, but analysis of club sales to 13 July shows an overall average of K 7.51, as compared with a cumulative national average, at that time, of K 7.01. A more complicated comparison has also been made between average daily prices (clubs score a mean K 7.31/kg average daily price, compared with a national figure of K 7.11 for the same days). These figures, and those on volume, will need to be re-analysed at the end of the season and it has been recommended in Section 2 that they be compared with other sub-sectors.

4.7.11 This is all very encouraging and its common sense explanation - that the small grower, on his own ground, is a more careful farmer than the average tenant - strikes a chord. But the figures on volume cast doubt on this. Is it as likely that these figures are the result, in part, of smallholders unloading their poorer grades on estates while they send their better tobacco to the floors? Or, more plausibly, of better individual farmers remaining determined to sell on the floors while the average - and poorer - person is content to take cash from estate owners. Case unproven, it seems.

5. TRANSPORT AND DELIVERY QUOTAS

5.1 General

5.1.1 Transport is said to be in shortage: there is evidence in outlying districts that this is so and, daily during the season, in the congestion of AHL's yards that existing capacity in the rest of the country is poorly utilised. The two problems are rather different.

5.1.2 An important feature of the transport of small growers' (clubs or estates) tobacco should be borne in mind throughout this discussion. As a result of delivery quotas (see below) any one (small) grower can only dispatch a few bales at a time and, so, transporters with larger vehicles must canvass business from a large number of clients for any one trip. This entails 'working' an area, picking up bales here and there, until the full load may comprise tobacco from literally dozens of growers. Pick-ups are more flexible but tend to operate shorter routes.

5.1.3 The kind of operator likely to be involved in this sort of trade - one truck, maybe rather old - is not, generally, the level of business to which the AHL direct payment system is applicable or attractive. He wants cash. The Terms of Reference of this report call on the consultant to evaluate the AHL system. Briefly, enquiries by the consultant suggest that the system is not applicable in the relevant market, except in areas adjacent to the floors (though transport from satellites is a different matter - see below). Have ADDs come across enough exceptions to disprove this hypothesis? Can it be checked in the ongoing monitoring effort by Bunda College and MoA?

5.1.4 This has important consequences for the marketing channels smallholder clubs and members are obliged to adopt. To raise the cash for (local - but not all clubs are suitably located for satellites) transport, it seems that members must first make some sales to ADMARC or Estates. All reports from the field tend to bear this out. Are these made on a club or individual basis? This has yet to be established but is most likely to be on an individual level. Have any clubs evolved to the stage of running a transport cess on auction proceeds? It's unlikely, but, if they are to mature into self-sustaining financial entities, the clubs must be introduced to these ideas, sooner rather than later.

Recommendation: In the profile of clubs as businesses, which has still to be drawn, it should be established - and with a greater degree of clarity than possible in this report - how in fact those clubs which have managed the AHL route this season have financed transport.

5.1.5 Wherever possible, transporters content to be paid by direct transfer from AHL should be encouraged to engage in the smallholder trade. This would increase the proportion of the smallholder crop entering officially monitorable marketing channels and improve their margins.

5.2 Outlying Districts

5.2.1 All clubs in Chitipa (Karonga ADD) opted to sell through ADMARC this season, because transport in that district, the most remote in the country, is simply not available ¹². In this case ADMARC, with its pan-territorial pricing, represents the least risky option for the clubs. In time, and as capacity utilisation becomes more efficient, private transporters will find it worthwhile to extend their operations to the far north. Some readers may remember when transport costs made Mzimba a marginal prospect; it is now an important producing district.

5.2.2 The problem has also been experienced in areas such as Rumphi and Namwera, at the margins of the main producing districts, with an added complication. Though transporters operate in these areas to service small estates, it seems that most transporters are also medium-scale estate owners who may use their dominance of local markets either to squeeze the clubs out of business or to oblige them to sell their crop to the estate owners themselves (if the latter is the case, this is an added reason for discontinuing the estate marketing option, as recommended above). This phenomenon has been frequently commented on, though its scale is obviously uncertain. Some indication will be given, once end-of-season results are available, by the success, or otherwise, of clubs in those areas in meeting their production quotas on the floors.

5.2.3 ADD staff have gone to commendable efforts to persuade private transporters to service the club market and to ensure that clubs are aware of what is involved. They have sometimes gone further, in arranging transport by the Plant & Vehicle Hire Organisation (PVHO). It is doubtful whether this is advisable, for the following reasons:

- the cost structure and scale of production of smallholder clubs are comparable to those of smaller estates. There is therefore no obvious reason why clubs should not be able to compete, financially at least, with small estates.
- if properly costed, PVHO is likely to be more expensive than the private sector. It has been argued above that access to the auctions is a privilege sought by more people than can be catered for. There is no obvious reason why Government should also subsidise them.
- once a precedent is set, all clubs might reasonably demand equal treatment, which is beyond PVHO's capacity.

¹² In fact, they were given no choice. Karonga ADD seems to have made the judgement on their behalf. While this was probably sound, it is interesting to hear that a good number of clubs have announced their intention to have a crack at the floors in the 1992-93 season. From up there it will not be easy.

Government already provides a safety net (ADMARC) for clubs like those in Chitipa, which find it too difficult, or expensive, to procure transport. The point of ASAP, and the criterion for its success, is not to ensure that all smallholders get to the floors, at any cost; merely that they should be able to exercise rational economic choice.

Recommendation: No special provision of transport for smallholder clubs should be made by MoA. There is no realistic alternative to the private hire market, imperfect as it might be.

Recommendation: Evaluation of the 1991-92 pilot project should attempt to establish whether there were significant differences in AHL sales (as a proportion of quota allocated) between areas with greater or lesser transport difficulties; by comparing, for instance, Zomba and Chiradzulu with Namwera and Ntcheu (where clubs used Railways, at Balaka).

5.3 Congestion at the Auction Floors

5.3.1 Congestion at the floors is in no one's interest except, perhaps, those growers who consistently manage to bribe, trick or cheat their way past the system and sell their crop ahead of everyone else. Most growers suffer, directly in the form of higher transport costs and, indirectly, in reduced cash flow. Consider this simplified argument:

- season = $6 \times 30 = 180$ days
- journeys (x2) + back-loading (fertiliser) time + loading time (tobacco at estate or club): say 5 days
- A. assume turn-round at AHL is 3 days -> total 8 days
- B. assume turn-round at AHL is 1 day -> total 6 days

Capacity A: = $180/8 = 22$ trips

Capacity B: = $180/6 = 30$ trips

At a stroke, we have increased the national transport fleet by a third (or at least a substantial part of it which is involved in tobacco) without buying a single truck. With greater transport availability, prices come down; sales flow smoothly. Everyone benefits - even transporters, who are not in business for waiting time charges.

5.3.2 If only it were so simple. Congestion comes in waves, as everyone struggles to sell their crop at the same time, building turn-round times at AHL of up to three weeks. The 1992 season has seen three such peaks, when AHL has had to suspend deliveries, twice for a week (the first occasion, due to civil disruption, we trust, was unique) and recently, in July/August for two weeks, whilst the backlog was sorted out. There are two systems in place to deal with the problem - delivery quotas and satellite collection points - neither of which are working as well as they could. A number of improvements are under consideration by TCC and AHL which are described below.

5.4 Delivery Quotas

5.4.1 Delivery quotas are set and controlled by TCC. There are two strands to the system. First, all registered sellers of tobacco are assigned a basic delivery quota, or number of bales which may be delivered to the auction floors in any one period of 14 days. For most sellers the question of which auction to sell on - Lilongwe or Limbe - is dictated by geography; others may choose (and some do, contrarily; 13 Rumphi burley growers are registered as sellers in Limbe - astonishing) but, having done so, the quota is applicable to one auction only.

5.4.2 From time to time TCC announces the proportion of basic quota which may be delivered, varying it with the pressure on AHL's delivery points. Early in the season, before most growers are into the full swing of buying, grading and baling, there is a free period, during which delivery quotas do not apply, followed by two or three weeks of basic plus 100%. During the height of the season quotas are basic minus 50%, as pressure builds up.

5.4.3 Basic quota is set as a proportion of Licenced Weight - the production quota described in Section 3 - according to a formula, which can be simplified as the licensed weight divided by a thousand. Data from AHL, in Table 12 (following page 41), gives the position in 1992. (Recall that total licenced weight is an inflated figure; inflated at least in part, precisely to increase individual delivery quotas).

5.4.4 However, all small (minimum production quota - 3,000 kgs) growers receive a minimum basic delivery quota of 4 bales per 14 days. This skews the system in favour of small growers. Table 12 indicates that 92% of growers - principally the small estates, but now also including most clubs - account for 48% of licenced weight and, yet, receive a disproportionate 59% share of total delivery quota (Lilongwe only). (In fact these figures rather overstate the case as the 'basic' figure used. Even though '5' is unrepresentative of Category 1 growers, the great majority of whom are on a basic of '4', the point remains).

5.4.5 That the system discriminates in favour of small growers (estates or clubs) is further illustrated in Tables 13 and 14, which show that they also account for a disproportionate share of bales offered and, what matters most, weight sold.

5.4.6 It is difficult to see how this minimum basic delivery quota could (or should) be reduced, in view of the difficulties small growers experience in persuading transporters to pick up a few bales. Presumably, transport costs per bale must be higher for all small growers and their advantage in delivery quotas seems reasonable compensation.

5.4.7 The second strand of the system tends to offset this advantage. It consists in the division of the country into geographic zones or groups. TCC announces a rota, using radio and press, within any given period, by which growers from one group area or another may deliver. The group areas are as follows:

AHL Category	Range (kgs)	Delivery Quota	Growers		Licensed Weight		Delivery Quota	
			(No)	(%)	(kgs)	(%)	(bales)	(%)
1	< 5,001	5	14,784	83%	44,538,070	38%	73,920	52%
2	< 10,001	6	1,516	9%	11,476,880	10%	9,096	6%
	subtotal		16,300	92%	56,014,950	48%	83,016	59%
3	< 17,501	12	626		8,354,510	7%	7,512	5%
4	< 25,001	23	323		6,850,500	6%	7,429	5%
5	< 32,501	31	134		3,901,673	3%	4,154	3%
6	< 40,001	40	101		3,673,510	3%	4,040	3%
7	< 45,001	42	42		1,310,200	1%	1,764	1%
8	< 52,001	50	46		2,278,805	2%	2,300	2%
	subtotal		1,272	7%	26,369,198	23%	27,199	19%
9	< 57,501	55	10		549,500	0%	550	0%
10	< 65,001	65	26		1,600,060	1%	1,690	1%
11	< 77,501	68	46		3,259,230	3%	3,128	2%
12	< 82,501	78	17		1,370,395	1%	1,326	1%
13	< 87,501	87	6		514,424	0%	522	0%
14	< 95,001	88	32		2,905,804	2%	2,816	2%
15	< 100,001	100	15		1,488,500	1%	1,500	1%
	subtotal		152	1%	11,637,913	10%	11,532	8%
16	< 150,001	132	45		5,686,070	5%	5,940	4%
17	< 200,001	187	17		3,064,300	3%	3,179	2%
18	< 250,001	250	2		460,000	0%	500	0%
19	< 300,001	300	3		814,300	1%	900	1%
20	< 400,001	390	5		1,783,000	2%	1,950	1%
23	< 500,001	599	11		10,050,050	9%	6,589	5%
others	na	na	na		500,000	0%	na	
	subtotal		83	0%	22,357,720	19%	19,058	14%
			17,807	100%	116,429,781	100%	140,805	100%

Source: AHL computer, Lilongwe, to 23rd July 1992 (not including Limbe)

- Notes:
- 1) Delivery Quota (LH column) = Average for category
 - 2) Delivery Quota (RH column) = no of growers x avg. quota
 - 3) Percentages: 0% = < 0.5%

SMALLHOLDER BURLEY

Delivery Quotas & Bales Offered, All Growers

TABLE 13

AHL Category	Range (kgs)	Delivery Quota	Growers		Delivery Quota		Bales Offered	
			(No)	(%)	(bales)	(%)	(bales)	(%)
1	< 5,001	5	14,784	83%	73,920	52%	295,351	46%
2	< 10,001	6	1,516	9%	9,096	6%	64,229	10%
	subtotal		16,300	92%	83,016	59%	359,580	55%
3	< 17,501	12	626		7,512	5%	42,461	
4	< 25,001	23	323		7,429	5%	32,181	
5	< 32,501	31	134		4,154	3%	18,114	
6	< 40,001	40	101		4,040	3%	17,415	
7	< 45,001	42	42		1,764	1%	9,144	
8	< 52,001	50	46		2,300	2%	3,708	
	subtotal		1,272	7%	27,199	19%	124,023	19%
9	< 57,501	55	10		550	0%	4,127	
10	< 65,001	65	26		1,690	1%	6,781	
11	< 77,501	68	46		3,128	2%	13,580	
12	< 82,501	78	17		1,326	1%	4,472	
13	< 87,501	87	6		522	0%	1,916	
14	< 95,001	88	32		2,816	2%	12,348	
15	< 100,001	100	15		1,500	1%	6,631	
	subtotal		152	1%	11,532	8%	49,855	8%
16	< 150,001	132	45		5,940	4%	25,773	
17	< 200,001	187	17		3,179	2%	14,214	
18	< 250,001	250	2		500	0%	2,455	
19	< 300,001	300	3		900	1%	4,522	
20	< 400,001	390	5		1,950	1%	8,694	
23	< 500,001	599	11		6,589	5%	54,588	
others	na	na	ra		na		5,000	
	subtotal		83	0%	19,058	14%	115,246	18%
			17,807	100%	140,805	100%	648,704	100%

Source: AHL computer, Lilongwe, to 23rd July 1992 (not including Limbe)

- Notes:
- 1) Delivery Quota (LH column) = Average for category
 - 2) Delivery Quota (RH column) = no of growers x avg. quota
 - 3) Percentages: 0% = < 0.5%
 - 4) Bales offered: presumably including re-offers ?

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SMALLHOLDER BURLEY

Licensed Weight & Weight Sold, All Growers

TABLE 14

AHL Category	Range (kgs)	Growers		Licensed Weight		Weight Sold	
		(No)	(%)	(kgs)	(%)	(kgs)	(%)
1	< 5,001	14,784	83%	44,538,070	38%	23,625,553	44%
2	< 10,001	1,516	9%	11,476,880	10%	5,421,274	10%
	subtotal	16,300	92%	56,014,950	48%	29,046,827	55%
3	< 17,501	626		8,354,510	7%	3,645,257	7%
4	< 25,001	323		6,850,500	6%	2,835,633	5%
5	< 32,501	134		3,901,673	3%	1,558,153	3%
6	< 40,001	101		3,673,510	3%	1,480,012	3%
7	< 45,001	42		1,310,200	1%	742,153	1%
8	< 52,001	46		2,278,805	2%	725,928	1%
	subtotal	1,272	7%	26,369,198	23%	10,987,136	21%
9	< 57,501	10		549,500	0%	326,886	1%
10	< 65,001	26		1,600,060	1%	593,787	1%
11	< 77,501	46		3,259,230	3%	1,119,357	2%
12	< 82,501	17		1,370,395	1%	366,501	1%
13	< 87,501	6		514,424	0%	174,537	0%
14	< 95,001	32		2,905,804	2%	1,073,149	2%
15	< 100,001	15		1,488,500	1%	486,899	1%
	subtotal	152	1%	11,687,913	10%	4,141,316	8%
16	< 150,001	45		5,686,070	5%	2,162,799	4%
17	< 200,001	17		3,064,300	3%	1,116,851	2%
18	< 250,001	2		460,000	0%	220,287	0%
19	< 300,001	3		814,300	1%	385,193	1%
20	< 400,001	5		1,783,000	2%	716,715	1%
23	< 500,001	11		10,050,050	9%	4,388,169	8%
others	na	na		500,000	0%		
	subtotal	83	0%	22,357,720	19%	8,990,014	17%
		17,807	100%	116,429,781	100%	53,165,293	100%

Source: AHL computer, Lilongwe, to 23rd July 1992 (not including Limbe)

Notes: 1) Weight sold, inc. re-offers.

2) Percentages: 0% = < 0.5%

- Lilongwe A: Kasungu District, excepting Santhe
 B: Santhe, Mchinji and Nkhotakhota Districts
 C: Lilongwe, Dowa, Ntchisi, Dedza and Ntcheu Districts
 D: Salima District and the North
- Limbe : Southern Region - single group

5.4.8 Ignoring Limbe, the 14 day period (effectively twelve, as AHL does not receive on Sundays) would thus be reduced to a window of only three days (twelve days divided by four groups) in which to organise and effect delivery. This would be a formidable management problem if we recall that small growers must share transport with many others and, therefore, have little control over when the vehicle might arrive; still less over whether, on arrival, it may be backed up into a queue and miss the relevant group period. For direct delivery to Lilongwe the system has been modified by extending the delivery window to five days or, effectively, one week in the month for groups A-D. Thus minimum quota growers may only deliver four bales a month during the height of the season.

5.4.9 All this is carefully thought out. However, this season a number of special circumstances have meant that AHL has been unable to sell the 12,500 bales (One million kgs approx.), which is their Lilongwe capacity, in a timely manner. As a result of export transport bottlenecks, processed tobacco has built up in the factories to the extent that processors have been unable to take the full potential through-put. Unsettled conditions in the market have also given rise, on a number of occasions, to very high levels of rejection by growers' representatives (whose task is to ensure that the grower gets the best reasonable price for lots offered). As these lots have to be re-offered, they have also caused backlogs.

5.4.10 But the main reason for congestion, according to AHL, is the failure of growers to ensure that their transport arrangements coincide with their proper group delivery period. This is made worse by the number of growers who willfully ignore the size of their quota, abetted by transporters who are prepared to take any amount of tobacco claiming that they can get past the system. Sometimes they can manage over-delivery; very often they cannot (witness the heaps of bales dumped outside AHL, as well as the satellites and transporters' premises all over the country).

5.5 Satellites

5.5.1 AHL accepts delivery at its satellite receiving depots in Mzuzu, Mzimba and Kasungu. Local transporters deliver to the satellites, where loads are consolidated by AHL staff and dispatched to the main floors by large contract haulers. These loads have priority on arrival and payment for this leg of the journey is made automatically through AHL's computer, a system which seems to work well and means that small producers only have to finance the first, local, stage - almost invariably on a cash basis. Transshipment, as always, has costs and, other things being equal, direct shipments from club/estate to the floors would be cheaper. But local transporters may be unwilling to make the trip beyond the satellite and transshipment costs are probably lower than typical waiting time (demurrage) charges when

the queues build up. The Bunda College monitoring program is collecting data on transport costs against which it should be possible to test these observations.

5.5.2 The delivery quota rules are similar to those covering delivery to the floors themselves except that the delivery period, or window, is the full 12 days. While the satellites decentralise a problem which would otherwise make Lilongwe quite impossible, they suffer from the same problems as the auction floors' delivery yards. This is in part because the satellite premises themselves are not purpose-built and are simply not capable of storing tobacco in the disruptive peak periods when deliveries have to be suspended. The three existing satellites are small rented premises and only Mzuzu is fenced, making control of transporters exceedingly difficult.

5.5.3 AHL has commissioned a feasibility study to erect a network of satellites giving comprehensive national coverage. This is most welcome, as is the idea, yet to be confirmed, of compulsory delivery to satellites for all small and medium quota growers (inc. estates). This should solve the problem of congestion at the floors themselves, though the lack of discipline on the part of some growers and transporters should ensure that present difficulties will persist at satellites.

5.5.4 A project of this nature - with financial benefits which are difficult to quantify but clear economic benefits - is well suited to international development banking institutions. The feasibility study will presumably examine the simplified argument given above in satisfactory detail. It is understood that the World Bank may be able to provide finance but it is worth pointing out that these sorts of projects generally have considerable lead times, due to lengthy appraisal, approval and disbursement procedures. It is uncertain whether much of the proposed new network can be in place for the 1992-93 season.

Recommendation: MoA, and the donors associated with smallholder burley, should support AHL in the preparation, submission and implementation of a bankable project to extend the satellite network to cover deliveries of all small-quota burley. This a matter of some urgency if the project is to be effective in time for next season.

Note: At the presentation of the discussion draft AHL indicated that they may manage to finance this proposal through TAMA. It is no longer clear whether outside assistance will be called for.

6.0 CREDIT

6.1 Smallholder Agricultural Credit Administration (SACA)

6.1.1 Some informal credit is involved in hiring labour to help at peak periods and doubtlessly, clubs have had to raise cash in a number of informal ways to finance transport, but the overwhelmingly major source of credit to smallholder growers is SACA. In the past two seasons SACA has financed all inputs required for the burley crop, in both cases as something of an emergency, as the program has yet to be put on a long-term planning basis (see Section 4).

6.1.2 This, regrettably, is set to repeat itself for the 1992-93 season. At the end of August SACA had not received estimates of seed requirements from MoA. This failure is to be attributed to the late decision on distribution of quota and, to a lesser extent, unfortunate timing in the consultant's third visit. The estimates shown in Tables 10 and 11 (following page 27) were passed to the SAO Tobacco in mid-August. These are costed in Table 15. It is not known what action has been taken since but it seems that SACA will need to provide some 4.5 million Kwacha (with contingencies, Five million) for seasonal inputs for the 1992-93 season and that planning for this had hardly started before September. The discussion draft recommended immediate action on this but the recommendation must be redundant by now.

6.1.3 All is not well with SACA. The drought will push recovery rates from maize clubs down to around 30% and, though SACA has been relying on full recovery from burley clubs - as tobacco is less susceptible than maize - they now think that performance in this area will not be much better. There seem to be a number of reasons for this alarming situation.

6.1.4 The poor returns to smallholders in the 1990-91 season resulted in credit for that season being re-scheduled. This moratorium, followed this season by the necessity of moratoria on many (though not all) maize club debts, has given the wrong signals. SACA was also obliged, in the hasty formation of the burley clubs, to abandon their usual practice of insisting that farmers take their time in working out the constitutions and composition of their clubs. In the rush to meet ASAC and ASAP targets, smallholders were registered first and then bundled into clubs, thus sacrificing the voluntarism which is absolutely essential to the cohesion of this sort of institution. It may also be that there are wider reasons for this incipient breakdown in credit discipline, in the wake of the civil unrest earlier this year. What is certainly true of rural credit in general is that once recovery rates are allowed to slide, for whatever reason, getting them to increase again is exceedingly difficult.

6.1.5 It is true that the drought reduced the crop's potential almost everywhere and that, in a few areas, the effect was severe (Manjavira, in south LADD, is one the consultant knows of. But, as far as can be established, the overall smallholder crop was good enough to meet SACA obligations.

6.1.6 So, it seems that smallholders are trying their luck, hoping to be forgiven 1991-92 debts. They must not be allowed to get away with it, for their own good. If the clubs are to remain credit-worthy in a changing environment (see below) this season's debts must be recovered.

Recommendation: GoM should support SACA in the fullest possible way in their efforts to recover 1991-92 burley credits. This should include withholding licences from defaulting clubs for the coming season.

6.1.7 The future of SACA itself is uncertain. The World Bank is soon to complete appraisal of the Rural Financial Services project, which would aim to transform SACA into a broadly commercial bank - the provisional title is a rural trust bank. This is not the place to consider details but it is understood that a target date of 1994 is intended. Such an institution, if it is to work, would demand higher standards of credit-worthiness than SACA.

6.1.8 This situation reinforces the arguments in Section 4 - closing off the estate marketing option and freezing further expansion until things have settled down. It also heightens the need for the establishment of an appropriate authority to give the clubs a sounder formal status and to require accountability of them.

6.2 Direct Credit Recovery

6.2.1 The whole credit problem would be made easier if all clubs sold all their crop on the floors. A stop order on AHL's payment system could be made. But a problem exists since the computer deducts all proceeds until the creditor's account is satisfied. The clubs presently operate with a few farmers getting to market first, which presents a formidable management and extension problem. It would be difficult to explain to Farmers A, B and C that their entire proceeds are to be used to pay off everyone's SACA debt, but not to worry because as their fellow members sell, accounts will then be squared. Theoretically possible, perhaps, but it simply would not work.

6.2.2 A better idea, and one worth trying, has been suggested by the Tobacco Officer of Mzuzu ADD. Members could contribute leaf to the first few sales, which would be blended and sold as general club tobacco without its individual members' identity, until the SACA debt was settled. Doubtless there would be some wrangling over grades and uncertainties about how many kgs. make up a monetary debt. But by taking a collective approach to credit repayment right from the beginning of the season, club members as well as SACA, would be assured of the club's continued credit-worthiness.

6.2.3 The other main area where a collective approach is needed is transport. A club transport cess (so many t/kg, from all sales), with funds carried over to the subsequent season would go help in solving their current transport problems. Clubs able to institute and manage such a fund would certainly put themselves in a good position when it comes to negotiating loans with the Rural Trust Bank, or whatever name it ends up with.

Based on physical quantities in Table 11.
Unit prices shown below.

ADD	RDP	Seed	Fertilisers			CAN	Hessian	Paper	ADD Total
			S'	Super D	OR D Comp				
NGABU	Chikwawa	180	700	26,775	34,099	17,986			
	Nsanje	270	1,050	40,545	51,643	27,234	17,850	5,100	156,112
BLANTYRE	BuShire	1,030	4,150	160,695	204,723	107,916			
	Mulanje	520	2,100	80,775	102,899	54,264			
	Phalombe	360	1,400	54,585	69,531	36,652			
	Mwanza	120	450	17,595	22,403	11,832	81,550	23,300	725,200
LJWONDE	Zomba	1,390	5,650	217,935	277,651	146,370			
	Namwera	1,030	4,150	160,695	204,723	107,916			
	Mangochi	340	1,350	51,345	65,403	34,476			
	Balaka	250	1,000	38,385	48,891	25,772			
	Kawinga	290	1,150	44,325	56,459	29,784	133,350	38,100	1,185,495
SALIMA	Bwanje V.	190	700	27,855	35,475	18,700			
	Nkhotakota	150	550	21,375	27,219	14,348			
	Salima	190	750	28,665	36,507	19,244	20,650	5,900	180,573
LILONGWE	Ntcheu	770	3,100	120,195	153,123	80,716			
	Thiwi/Lifidzi	300	1,150	45,135	57,491	30,328			
	Dedza Hills	290	1,150	44,865	57,147	30,124			
	Lilongwe E.	550	2,200	84,825	108,059	56,984			
	Lilongwe W.	0	0	0	0	0	76,650	21,900	682,032
KASUNGU	Kasungu	1,690	6,900	265,725	338,539	178,466			
	Dowa F.	150	600	22,455	28,595	15,096			
	Ntchisi	110	450	16,515	21,027	11,084			
	Dowa W.	200	800	30,555	38,915	20,536			
	Mchinji	310	1,200	46,755	59,555	31,416	99,400	28,400	883,439
MZUZU	Rumphi/N.Mz.	770	3,100	120,465	153,467	80,920			
	Mzimba S.	120	450	17,055	21,715	11,458			
	Nkhata Bay	140	550	20,565	26,187	13,804			
	Mzimba C.	170	650	25,695	32,723	17,272	47,950	13,700	425,146
KARONGA	Chitipa	290	1,150	44,325	56,459	29,784			
	Karonga	110	400	15,165	19,307	10,200	15,750	4,500	137,950
TOTAL		12,280	49,000	1,891,845	2,409,935	1,270,682	493,150	140,900	4,375,947

Assumptions:

	Units/	K/ha
1) Seed @ (K/ packet)	1.00	2.50
2) S' compound @ (K/bag)	50.00	0.21
3) Super D compound	45.00	na
4) OR - D compound	43.00	12
5) CAN	34.00	8
6) Hessian @ (K/metre)	3.50	60
7) Tobacco paper @ (K/metre)	1.00	60

Indicative grower costs per Ha

1,285 (inc. 20% credit costs; not inc. pesticides)

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6.2.4 But the question of where to start in inculcating a collective and forward-thinking approach to finance is difficult. At some stage, SACA must start to prepare their clients for the transition to a new approach to small farmer credit. Nothing much is likely to change before that point. All that can be expected in the short term is that the consultancy proposed for the evaluation of the clubs' present finances will discover some positive features on which to build.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 General

7.1.1 There is a widespread belief in the industry that Malawi burley production is out of control. Production in 1991/92 exceeded industry estimates by 18% but, fortunately, the drought prevented growers realising their total licenced weight (which exceeded estimates by some 70%). Given the right combination of good weather and no unexpected changes in supply in other markets, there is a very real danger of overproduction in the 1992/93 season and of a further collapse in real prices. The consultant endorses this view, though notes recent moves by MoA to deal with the problem.

7.1.2 Smallholder burley clubs would not be responsible for such a collapse. They are part of the wider phenomenon of proliferation of small growers. This is not to say that small estates are to blame. Institutions designed to cater for an industry, when the notion of "Dualism" made sense, are right now (before the new smallholders make much of an impact) under extreme pressure and showing it. As the structure of the industry develops, new institutions are needed particularly to act as intermediaries between small growers (smallholders or estates) and the floors.

7.1.3 Smallholders enterprising and lucky enough to have gained access to a freer market in a new crop are provided with free organisational advice, extension services and cheap credit. What they will make of these opportunities is still largely conjectural. There will be many recruits to take the place of those who fail - many more than there is room for. It therefore makes sense to place the interests of the industry above any other consideration. Rules designed to protect the industry should be followed sternly and the temptation to favour existing groups simply because they represent the project, resisted.

7.1.4 The clubs are a new form of enterprise in Malawi. These cooperative joint ventures have been created, almost absentmindedly, without much attention to the way they are to function or to their legal status. They offer solutions to a number of problems but they can only realise their potential if they are put on a sound footing.

7.1.5 A number of specific recommendations have been made at appropriate points in the text. They are repeated here, rearranged by topic, with page references.

7.2 Policy Issues

1. Clubs selling on the floors must be treated in exactly the same fashion as any other registered seller. (page 37)
2. GoM, in consultation with USAID, should eliminate the provisions in ASAP for all estates to be enabled to buy smallholder burley. Instead, a new category of licensed seller should be created and selectively licensed to buy

tobacco from clubs and estates. (page 35)

3. Government and the ASAC/ASAP donors should consider the need to make, or repeat, a formal statement of policy which would inform and, if necessary, reassure the industry as to what share of burley production smallholders are expected to eventually take up. (page 16)
4. MoA should seek a formal statement from TAMA as to whether or not they wish smallholder clubs to remain within the association and on what terms. If TAMA declines their company, membership and EEST levies deducted this season will have to be refunded. (page 12)
5. MoA and the ASAC/ASAP donors should consider freezing further expansion of the smallholder scheme in the 1993-94 season, in order to allow a season of consolidation, before resuming expansion in 1994-95. This should not affect the final target of 10.7 million kgs. (page 22)
6. The indefinite provision of 100% credit input packages offers an effective way to control production and ensure quality. This contradicts a recommendation in the section on credit stating that the credit and extension services should start making plans to wean the clubs and to make them self-reliant. This conflict of policy goals needs to be explicitly acknowledged and then resolved. (page 27)
7. Withholding tax should continue to be levied on smallholder burley club sales through AHL. (page 31)
8. No special provision of transport for smallholder clubs should be made by MoA. There is no realistic alternative to the private hire market, imperfect as it might be. (page 40)

7.3 Registration and Licencing

9. MoA should revise the workplan on which the account given here is based, making it absolutely plain what the respective responsibilities of the ADDs and the Ministry are to be in the 1992-93 season. This should be carried out and all involved notified by January 1993. (page 18)
10. Auction Holdings Ltd. (AHL) could provide an analysis of all licence numbers' results at season end, to be forwarded to respective ADD Quota Advisory Committees via TCC and MoA. This would be used to guide the committees in assigning quotas for the following year. Discretion would be needed to allow for the inevitable season's lag in the data. This information is commercially confidential and it is not necessary to supply detailed figures.

All that is required is an analysis showing those numbers which significantly failed to meet, or exceeded, quota by more than an agreed spread (+/- 20% perhaps; the width of the band needs careful consideration). A similar index for average price, indicating producers of poor or above average quality tobacco could also be produced. Calculations in this case are tricky, given fluctuations in the season, and also need careful consideration. Guidelines as to what punishments and rewards might be appropriate should be drawn up by TCC, after wide consultation in the industry. (page 19)

11. All smallholder clubs, irrespective of their declared marketing intentions, should follow the same registration procedures prescribed for all growers, including the payment of registration fee. They should be allocated production quota just as estates are and be licensed following the same system. The exception to this principle is, of course, that the total smallholder quota is guaranteed under ASAP while that of the estates is not. (page 21)
12. MoA should formally request USAID assistance in further development of the smallholder registration package aimed at improving its operation, integrating it with the MoA system, and ensuring adequate hardware capacity at the ADD level to handle all tobacco registrations. (page 23)
13. ADMARC should only register smallholder burley growers able to present their individual quota/seed authorisation certificates. Market officers should record the number of the certificate on both market cards. It might also be advisable to require the endorsement of the club's leadership. Existing regulations under the Special Crops Act (Cap. 65:01) and the Tobacco Act (Cap. 65:03) may need to be revised and Gazetted. (page 32)

7.4

Monitoring and Evaluation

14. TCC, using the Auction Holdings Ltd. (AHL) data base, should be requested by MoA to make an analysis of average prices (by comparison with daily prices, to smooth out market fluctuation) by quota size category (including smallholder clubs) and the number of years the grower has been licenced. The purpose of such an analysis is to pinpoint stronger and weaker sub-sectors in the industry. (page 5)
15. As the clubs, or producer associations, seem set to become an increasingly significant source of Malawi burley, policy makers (and the industry as a whole) need to know more about them. The monitoring system under Bunda College should address this need by laying an equal emphasis on clubs as business entities as well as sample data on individual members. (page 10)

16. Ongoing monitoring programs should endeavour to establish what significance is attached to the possession of an individual quota allocation slip by the average smallholder. Is this costly administrative procedure a worthwhile control? (page 24)
17. MoA should draw up terms of reference for a consultancy to evaluate present club accounting practices, make recommendations for their improvement and identify a suitable body which would be responsible, in the long term, for auditing club accounts and determining their legal status. MoA may wish to seek USAID assistance, under ASAP, in implementing this recommendation. (page 31)
18. In the profile of clubs as businesses, which has still to be drawn, it should be established - and with a greater degree of clarity than possible in this report - how in fact those clubs which have managed the AHL route this season have financed transport. (page 38). Evaluation of the 1991-92 pilot project should attempt to establish whether there were significant differences in AHL sales (as a proportion of quota allocated) between areas with greater or lesser transport difficulties; by comparing, for instance, Zomba and Chiradzulu with Naniwera and Ntcheu (where clubs used Railways, at Balaka). (page 40)

7.5 Operational Issues

19. Immediate action was required in September to establish SACA's budget for input requirements for the coming season. (page 44)
20. The second consultancy report by Bunda College should, as a matter of priority, fully analyse data collected so far on input use in 1991-92. It is hoped that this can still be done in time for the answers to be of help in improving smallholder input use in 1992-93. Also, a clearly defined standard input package needs to be established, if not already done. (page 27)
21. MoA should drop plans for the issue of quota coupons. The idea is unworkable and would give rise to corruption. (page 34)
22. The SAO Tobacco should co-ordinate, with Planning, revised budgets from all ADDs for submission in next year's Ministry budget. In addition to activities in the ADDs, provision should be made for the cost of supervision of the program at the ministry level. (page 13)
23. No club should be registered to sell through AHL unless the total of its members' individual quota exceeds 3,000 kgs. The size of individual quota should not be adjusted to ensure this but should be the same as that applied in the surrounding area. This will determine the minimum size of club

membership. (page 24)

24. No upper limit should be imposed on the size of clubs, though PMs should be able to encourage larger clubs to divide if internal problems are evident due to the size of the membership. (page 24)
25. MoA field staff should ensure that clubs fully understand that the quota shown on the Licence over-rides any minor discrepancies in the sum of individual quotas. Procedures exist for revising licenced weight but these should only be resorted to in extraordinary cases. (page 25)
26. MoA should shelve, for the time being, plans for the construction of relatively expensive club central grading sheds. The extension service should continue to generally advise on dimensions and so on, leaving construction to local initiative. (page 29)
27. The extension service should encourage clubs to make up bales of, say, three members with 30 odd kgs each of a particular grade, with a rota by which each member takes turns to sell an equal quantity of tobacco. (page 29)
28. Licencing authorities must be prepared to cancel club licences where recorded sales fail significantly below quota. The opportunity to do this will come in the 1993-94 season, a period of consolidation in which it is recommended that no new smallholder licences are granted. (page 37)
29. MoA, and the donors associated with smallholder burley, should support AHL in the preparation, submission and implementation of a bankable project to extend the satellite network to cover deliveries of all small-quota burley. This a matter of some urgency if the project is to be effective in time for next season. (page 43)
30. GoM should support SACA in the fullest possible way in their efforts to recover 1991-92 burley credits. This should include withholding licences from defaulting clubs for the coming season. (page 45)

SCOPE OF WORK

SMALLHOLDER BURLEY PRODUCTION AND MARKETING STUDY

A. Objective:

The objective is to analyze the constraints and recommend options for improving the smallholder burley production and marketing systems in Malawi.

B. Purpose:

The purpose of the Scope of Work is to assist in the effective execution of the implementation of the burley production and marketing program to which the GOM and USAID have agreed. This consists of a three month study, to specifically address smallholder burley marketing systems. The study will describe and analyze smallholder burley marketing options and to assess existing public and private services which are available to support direct access to auction floors through groups.

C The Problem:

Although Malawi has one of Africa's strongest economic performance records, there are underlying structural weaknesses which tend to limit the distribution of economic benefits which have resulted from this success. These structural weaknesses are most evident in the agricultural sector. The problem facing the GOM and USAID is how to rectify these structural weaknesses.

D. Tasks:

The consultant will undertake the following activities:

1. Organization

- a. Analyze organization systems required for the marketing of burley through:
 - i. Farmers' Marketing Groups;
 - ii. ADMARC;
 - iii. Estates; and
 - iv. others as may seem appropriate.
- b. Identify management requirements and structure at the farm level for the efficient operation of the marketing of burley through each of the systems;
- c. Identify possible organizational constraints that would affect the efficient operation of the marketing systems and possible measures to ensure successful

implementation of the system;

d. Identify management training requirements and recommend ways to provide such training for group leaders and managers and cost involved;

e. Identify the optimal range group quota and viable group size in each of the three regions paying particular attention to the smaller landholding sizes in the South and the wood grass shortages for the construction of curing sheds.

f. Project the implications for the MOA's extension services, the Auction Holdings' computer capacity, transportation facilities, credit flows, and group organizational strength to handle 7 million kgs. of smallholder burley in 1992-93; 8.5 million kgs. in 1993-94; 9.2 million kgs. in 1995; and 10.7 million kgs. in 1995-96.

2. Production

a. Assess the current registration system including its criteria and operational mechanism and recommend changes to introduce improvement. The system should describe in detail an optimal system for flow of information to ADDs, farmers, and ADMARC and feedback of this information for improvements in efficiency.

b. Evaluate the use of individual production quotas for each grower and marketing quotas for each group who sells directly on the Auction Floors.

3. Marketing of Inputs and Outputs

Inputs

a. Provide an assessment of smallholder agricultural input supply alternatives (ADMARC, private sector) to determine what changes need to be made to facilitate procurement of inputs by smallholders. The assessment should include any special arrangements which need to be made regarding obtaining and repaying financing from SACA or other sources.

b. Specify options for procurement and delivery of tobacco paper, hessian, and twine.

Outputs

a. Describe the marketing system of Farmers' groups, ADMARC and Estates which are most suitable to the farmers in terms of management and profitability

and recommend to the Government strategies for phased development. As for Farmers' groups', the following channels of Marketing should be assessed.

- i. farmers to ADD for rehandling (grading and baling, transportation) then to Auction Floors;
- ii. farmers to commercial grader for rehandling (grading and baling) then to Auction Floors;
- iii. farmers to farmers' collection center for rehandling and then to Auction Floors.

b. Identify equipment and infrastructure requirements for the farmers' marketing group system;

c. Identify burley tobacco on-farm grading, marketing group regarding for final presentation to auction floors, assembly system and rehandling requirements;

d. Identify grading training needs (on-farm; group level final presentation to auction floors);

e. Assess the information dissemination flows (MOA headquarters to ADD to RDP to EPA) to farmers with respect to the following;

- i. government floor prices (ADMARC)
- ii. auction floor prices
- iii. marketing channels
- iv. estate price negotiation process (options i.e.: contract modes between estates and smallholders)

4. Transport

a. Identify sufficient as well as cost effective transport arrangements under the group system of burley marketing;

b. Assess the capacity of a private transport system;

c. Evaluate the auction holdings system for direct payment to private transporters.

5. Credit

a. Identify credit requirements by region (North, Central, South) for:

i. seasonal loans for inputs such as:

* seed

- * chemicals
- * fertilizer
- * transportation
- * commercial grading
- * management
- * hessian, twine, tobacco paper
- * curing shed poles, grass, and plastic in densely populated areas

ii. medium term credit for:

- * baler
- * scale
- * storage shed
- * others

- b. Identify alternative sources of credit such as SACA, commercial, etc.
- c. Assess the repayment methods including consideration of direct payment to SACA via "stop orders" by Auction Holdings;
- d. Assess the capacity of SACA and the ADD-extension service to provide the necessary credit services.

E. Output

The effort will conclude with a final report and ACDI recommendations for the effective execution of the burley production and marketing program, covering organization, production, marketing, transport and credit to be implemented by the Ministry of Agriculture and other relevant institutions. A steering committee will be formed to supervise implementation of the study, and review draft reports at one and half months and 3 months prior to end of the study. The consultant will be required to present the results to a meeting of the ASAP PIC Committee and to submit 10 copies of the final report.

F. General Time Frame

The study will be undertaken by an individual under contract to ACDI. He/she will be selected by the ASAP Sub-Committee on "Smallholder Burley Production and Marketing" composed of COM and USAID representatives. Once recruited, the consultant will complete the activities in three (3) months.

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MALAWI GOVERNMENT

SPECIAL CROPS ACT
(CAP. 65:01)

(Two copies to be submitted by 30th June to the Programme Manager of the Agricultural Development Division where the estate is situated).

Section A

**APPLICATION FOR LICENCE TO GROW AND SELL
AND/OR BUY AND RESELL**

(This section to be completed by occupiers of private land who wish to grow a special crop on their land by paid labour and/or to buy a special crop grown on their estate other than by paid labour.)

A.D.D. Name: _____ R.D.P. Name: _____ E.P.A.: _____

Current Seller Number: _____

I/We (name of grower in full) _____

of (address) _____

hereby apply for a licence to grow by paid labour and sell and/or to buy and resell (describe special crop) _____

_____ in the season 19____/____ on our (name) _____

Estate in the _____ District, held under Deed No./Authority No. _____

Total hectarage of estate: _____

Hectarage of special crop to be grown: _____

No. of tenants producing special crop: _____

Estimated quantity to be bought: _____

Quantity being applied for: _____

Lease status: Amount of rent due: _____ K _____

Amount of rent paid this year: _____ K _____

G.R. No.: _____ Date: _____

Station where rent was paid: _____

Date: _____

Signature or thumbprint

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Section B

APPLICATION FOR LICENCE TO GROW AND SELL

(This section to be completed by smallholder farmers who wish to grow a special crop on customary land occupied by them under customary law).

I/We (name in full)
of (address)
hereby apply for a licence to grow and sell (describe special crop)
..... in the season 19 .. / .. on land I/We occupy under customary
law in the (specify area)

Chief District

Total hectareage of land:

Quantity expected to be sold, only estimate:

Date:

Signature or thumbprint

Section C

COMMENTS BY PROGRAMME MANAGER OF AGRICULTURAL DEVELOPMENT DIVISION

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.....
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2350 • CONFIRMATION / SEED AUTHORITY FORM FOR 1991/92 SEASON FLUE-CURED TOBACCO

Reg No.: 0716 Estate : TEMWANANI MCHIPA DISTRICT, MZUZU ADD.

Name of Grower: WOWA A. Address: BOX 14, BULERO.

Quota: 6,000 Ha. of Crop: 4.0 No. of packets of SEED authorised: 2

Licence Fee of K50.00 has been paid, GR.NO. 517552 Station : 17)

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MALAWI

GOVERNMENT

SPECIAL CROPS ACT

(Cap 65:01 under Section 6)

FORM II LICENCES

Reg No. Lic. No.

.....

.....

.....

.....

ADD

LICENCE TO GROW & SELL — LICENCE TO BUY & RESELL

Name of licensee

(address)

hereby licensed in the season 19 / to grow by paid labour and sell —
and/or to buy from tenants and resell (describe special crop)

of (name) estate in the District

held under Deed No./Authority No. Hectarage of special crop

of tenants producing special crop

This licence shall be valid until 30th September next following the season for which issued, unless
it is cancelled or suspended.

This licence is issued under and subjected to the provisions of the Special Crops Act, and any
regulations made thereunder, and the following special conditions:

That you sell at the Auction Floors
That you only sell grown on estate.
That Licence Fee due has been fully paid.

Date of issue

No. of Licence

Quantity for which licence is valid

Rate

(Issuing Authority)
For The MINISTER OF AGRICULTURE

The Licence Fee of MK has been fully paid
vide GRV No. Dated

.....

LICENCEE

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There are three kinds of charge or deduction - those calculated on a percentage basis, those calculated on a flat charge per kilo sold and those calculated on a flat charge per bale. This is the order they appear in the seller's sheet (Limbe auctions, Lilongwe may be different.)

CHARGES		CREDITOR	
Auction Fee	%	Withholding tax	%
Cess	U/kg	Transporters	K/bale
Hessian	K/bale	Rehandlers	(see notes on page 2).
TAMA/FES Fund Levy	%		
TRIM Reseach Levy	%		
Tob Assoc Levy	U/kg		
Tob Assoc Class	U/kg		
Stabilisation	U/kg		

Rearranging these, we get the following, with the rates used:

Auction Fee	3.25%	Cess (TCC)	0.720	U/kg
Withholding tax	5.00%	Tob Assoc Levy	0.525	U/kg
TRIM Reseach Levy	0.65%	Stabilisation	0.050	U/kg
TAMA/FES Fund Levy	0.35%	Tob Assoc Class	0.750	U/kg
Total, % basis	9.25%	Total, U/kg basis	2.045	U/kg
		Hessian	1.25	K/bale
		Transporters	na	K/bale

Suppose a club sells four bales, we can work out from the seller's sheet what the deductions on a percent basis should be for each bale (or "lot"):

LOT NUMBER	WGT KGS	PRICE T/KG	Gross Proceeds	% basis
1	91	5.60	509.60	47.14 K }
2	68	6.73	457.64	42.33 K } to be
3	85	7.80	663.00	61.33 K } deducted
4	43	7.40	318.20	29.43 K }
Total	287		1,948.44	

We can then work out what the deductions on a U/kg basis should be:

LOT NUMBER	WGT KGS	U/kg basis	or	U/kg basis
1	91	2.045	=	186.10
2	68	2.045	=	139.06
3	85	2.045	=	173.83
4	43	2.045	=	87.94

or

1.86 K }
1.39 K } to be
1.74 K } deducted
0.88 K }

Note: All these numbers rounded to the nearest tambala at each stage.

The net proceeds payable to members are therefore:

LOT NUMBER	Gross Proceeds	% basis	U/kg basis	hessian	Net Proceeds
1	509.60	(47.14)	(1.86)	(1.25)	459.35 }
2	457.64	(42.33)	(1.39)	(1.25)	412.67 }
3	663.00	(61.33)	(1.74)	(1.25)	598.68 }
4	318.20	(29.43)	(0.88)	(1.25)	286.64 }
Total	1,948.44	(180.23)	(5.87)	(5.00)	1,757.34

To check the charges + deductions, add them together and compare with the seller's sheet.

180.23	+	5.87	+	5.00	=	191.10
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Notes

1. Transport charges vary from place to place. They will particularly affect clubs using Auction Holdings satellites (eg. Mzuzu). Not all clubs will face these charges. If they have arranged, and paid for, their own transport no charges will appear on the sheet. Transport deductions are made on a per bale basis. Divide the total under Creditor by number of lots and deduct accordingly. If bales are rejected, carry forward the deduction until the lot is sold (see 3).
2. The name under "Creditor" is that of the transport/rehandling company concerned.
3. Rehandling charges are made on a number of different U/kg bases, depending on what needs to be done to a lot, ie. mixed/regrade, mouldy, foreign matter etc. The only way of dealing with these deductions is to keep track of reject bales and, when they are sold, apportion these costs on a U/kg basis, pro rata. To apportion actual rehandling charges to individual lots is too complicated to attempt. Fortunately, re-handled lots usually appear on a separate seller's sheet, as they form a separate consignment. Don't forget to locate any transport charges (from earlier sheets) which may apply to rehandled lot numbers. They will have been deducted from the sheet when the lot was first delivered to Auction Holdings.
4. A number of clubs (RDPs) have already started apportioning charges and deductions on a simpler than that shown above; by just dividing all charges and deductions by total kgs sold, multiplying the resulting deductions per kg by the lot weight to reach the net proceeds figure per bale. This is not strictly correct and has the result that members with better quality tobacco end up subsidising those with lower prices. To see how this is so the example on page 1 is reworked below.

Total deductions		=	191.10 Kwacha /		Total weight	287 kgs =		0.67 K/kg. deductions		
LOT NUMBER	WGT KGS				Gross Proceeds	Net (A) Proceeds	Net (B) Proceeds	Gain/Loss	PRICE T/KG	
1	91 x	0.67 =		(60.59)	509.60	449.01	459.35	10.34	5.60	
2	68 x	0.67 =		(45.28)	457.64	412.36	412.67	0.31	6.73	
3	85 x	0.67 =		(56.60)	663.00	606.40	598.68	-7.72	7.80	
4	43 x	0.67 =		(28.63)	318.20	289.57	286.64	-2.93	7.40	-1.29%
	287				1948.44	1757.34	1757.34			

Net Proceeds A = simple method; B = method on page 1. It can be seen that the member(s) with the lowest price, hence the poorest tobacco, gains more than K 10; while the best tobacco is penalised. Strictly speaking, this is unfair. However, it is simpler and field staff may decide that the complications in explaining the more correct method to smallholders (and the chances of error) are not worth the small gain in fairness.