

Aspects of Participation in Economic Policy Reform
The Malawi Case Study
An Analysis of Participation in the Agriculture Sector

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ABSTRACT

Throughout most of the 1980s, Malawi was regarded as a development success story -- one of the few African countries which had pursued sound macroeconomic policies and experienced steady economic growth. However, it became increasingly apparent at the end of the decade that the government's development path had produced a highly dualistic agriculture sector with very skewed income benefits, and the highly touted national food security picture masked serious household-level food security problems. The lack of political empowerment served to reinforce limited economic participation.

In an attempt to reverse the food security problems and economic disparities, the World Bank and USAID proposed agricultural sector adjustment programs. Given the entrenched political and economic interests at stake, these programs were not highly participatory in their design, nor was there initially a strong sense of ownership. However, in the course of program implementation, participation has expanded. On a parallel track, as new economic opportunities were accorded the disenfranchised, the political system has opened dramatically, permitting the average Malawian to express his or her needs and desires. There is some degree of synergy between the political and economic empowerment which has developed in Malawi in the past couple years. USAID's Agricultural Sector Assistance Program (ASAP) has simultaneously facilitated economic reforms and political empowerment. This program may serve as a model for expanding African participation and ownership and help deepen our understanding of participation in the policy reform process.

INTRODUCTION

The last decade has witnessed an unprecedented opening up of sub-Saharan Africa, both economically and politically. Over thirty countries have undertaken economic reform programs, leading to a notable turnaround in performance for most economies. There has been increasing African ownership of structural adjustment efforts. African-led political liberalization has also swept the continent. Africans have demanded change: open political systems and accountable and transparent governments. The 19 national elections and innumerable regional and local elections held over the past three years have transformed the political landscape. These movements are fundamentally about greater participation and empowerment -- Africans want a greater role in shaping their economic and political destinies.

This sea change affects how donors "do business" in Africa. Expectations have clearly changed: Africans want to be partners in development, not simply beneficiaries. The dynamics between political liberalization and economic reform may also slow or speed the rate of change and progress which can be expected. Sustainability is enhanced with increased Malawian participation

and ownership, but reform designers must be flexible and responsive to the desires expressed. This may mean changes in timing, pace or sequencing of reforms.

This case study seeks to inform the donor community about some of the implications of this new "development environment." It examines the efforts to foster greater participation of local individuals and groups in the policy reform process, specifically in the agriculture sector. Our intention is to show how broad-based participation may be included at different stages of the economic reform process, and to assess the implications for ownership and sustainability of the reforms. The study first explores the participatory elements of the World Bank's Agriculture Sector Adjustment Credit (ASAC) since it preceded and bridged to USAID's Agriculture Sector Assistance Program (ASAP). It then focusses on ASAP, with specific emphasis on the reforms embodied on the Smallholder Burley Tobacco Program.

Methodology and Procedure

The basic methodological approach included review of all relevant documentation and key informant interviews with government officials, NGOs and associations, political party members, tobacco marketers, producers, etc. Information sources were identified with the assistance of USAID mission personnel in-country and appropriate backstop personnel in USAID/Washington and among U.S. consultants.

Defining Participation

There is nothing more basic to the development process than participation. Broad access by people to their country's economy and inclusion in their society's decision-making processes are fundamental to sustainable development. Participation, therefore, describes both the means and the end of sustainable policy reform.

Participation can take multiple forms. Participation includes, but is not limited to, consultation and dialogue. It can be administering or responding to surveys, conducting research, engaging in public debate and attending meetings. Perhaps more important is the notion of participation as coalition or consensus building, though participation can also be voluntary action and even coercion. It is, by its nature, dynamic and interactive.

A participatory process results in better decision-making and the understanding of the implications of the decisions by the decision makers and the affected. In the Malawi case, the results were decisions to liberalize a market and freedom for smallholder farmers to choose to produce burley tobacco.

Participation can influence policy change either positively or negatively. Positive or negative participation, we find, directly correlates with the actor's perception of his or her stake in the reform. There is a tendency to lump actors into general categories of participants such as farmers, donors and "the government". However, as we will see in the Malawi case, this cannot always be done. How a government staff member participated in directing the policy change depended on the stake he/she held in the intended reform. Also, farmers can be differentiated as "winners" and "losers" as a consequence of program reforms.

CONTEXT FOR THE PROGRAM

The Agriculture Sector and Rural Condition

During much of the 1980s, Malawi was heralded as one of the development success stories of sub-Saharan Africa: the government had pursued sound macro-economic policies, growth was robust by LDC standards, and Malawi had become a net exporter of maize, leading to the impression that it had achieved food security.

The aggregated data, however, masked the poverty of the vast majority of Malawi's rural population. Although there had been some early skeptics, in 1988 the success story began to come unravelled. In the course of developing an agricultural sector memorandum, a World Bank agricultural economist concluded that the national economic achievements were not being translated into improved incomes or household food security for the rural population; the smallholder farmer was not participating in nor benefiting from Malawi's cash crop economy. Using Government of Malawi (GOM) statistics, he articulated what many civil servants already knew [but the GOM had been unable to publicly admit]: Malawi's rural population suffered from rampant malnutrition, stunted growth, and high infant mortality.

Not surprisingly, the assessment was met with considerable skepticism: it refuted the "conventional wisdom" of the donor community, countered the GOM's own declarations of improved quality of life, and brought into question the efficacy of years of smallholder projects. A review of the initial analysis by a World Bank statistician provided an even stronger case for rethinking the government's and donors' agriculture sector strategy.

The World Bank's findings were presented at the Mangochi Poverty Alleviation Workshop in 1989, attended by high level and technical staff of the Malawi Government, the donor community, and prominent members of the private sector. There was general consensus that the severity of rural poverty required action. It was concluded that a lack of a viable cash crop was keeping the rural people poor; it was proposed that burley tobacco, a crop that is labor intensive, requires limited land and is well within the smallholder

farmer's technical capabilities, could enable smallholders to participate in the cash crop economy.

By the early 1980s, burley tobacco had become the most profitable venture in Malawi, earning close to 65 percent of Malawi's foreign exchange and generating high profit margins for the elite estate producers who had privileged access. Burley production was controlled by a production quota in order to limit production and ensure high quality so as to guarantee the relative high returns. Burley licenses or quotas has been an important part of the political patronage system in Malawi. The audience at Mangochi was comprised largely of the very people who had benefitted from the "closed" system. This fact, plus the controlled political climate of the time, meant that almost no one outwardly supported the World Bank's findings and proposal. The exceptions were those few Malawian academics and researchers who were intimately familiar with the consequences of poverty, as well as some members of the donor community.

The Political Environment

As has been noted, the political climate had a direct impact on the potential for this type of reform program. Consequently, it is important to review the Malawian political environment prior to the multi-party referendum in 1993.

After independence, the Malawian people had a lot of faith in their government, and foreigners were looked upon with suspicion. Malawians trusted public officials, and those in power, to work with them and act on their behalf. However, the citizenry began to lose faith in and support for the government as they saw that policies and programs did not always benefit the majority and the government was harshly intolerant of dissent. People then started looking to outsiders for help and support.

The political situation became increasingly closed, authoritarian and repressive after independence. The initial steps were to declare the freely elected head of state "President for Life" and to mandate constitutionally the existence of a single political party. The Malawi Congress Party, which was synonymous with the GOM, became progressively more repressive and ruthless in dealing with anything that had the appearance of being subversive. Malawians were all aware of the potential cost of standing up and speaking out, or even suggesting anything that would be interpreted as a criticism of the government. The government not only dealt with the "culprit", it extended its reprisals to all members of the extended family. The punishment received typically was greater than the crime. The price was so high that it was not worth voicing one's criticism, or even "concerns" which might be interpreted as criticism, no matter how relevant they might have been. If someone did express dissent, fear was so pervasive that

listeners would keep quiet, even if they inwardly agreed with the one voicing the criticism. Despite the Life President's advanced age, it was treason to contemplate what might happen if the President became sick or even died. People learned not to verbalize their thoughts in public places. There was a virtual religion of silence and non-involvement.

Malawians only spoke up in the presence of those people they trusted, in the confines of their own houses and cars. (Even expatriates were guarded about their assessments and careful about voicing any criticisms in public or over the telephone, fearing that phones were tapped). Government offices and public venues were not the place to voice any criticism about the government and those governing. Politics was discussed, but only the positive aspects of it. The general trend of thinking which prevailed, and was supported by this climate, was that things were much worse before independence -- and much better after independence. Away from the office, some civil servants were willing to admit that things were not improving, but this was always an "unofficial" point of view. People were unwilling to criticize publicly the policies or programs of government or the political system, or to suggest any changes that would be for the better. The climate effectively stifled any kind of constructive criticism.

Individual decision-making was not encouraged or appreciated. Pre-referendum Malawi was marked by the reluctance of people, even those in positions of authority, to actually make decisions. The system worked in a climate of deference to higher authorities; it was so comprehensive that it influenced actions and interactions from the village level all the way to the top. Malawians learned to survive within the system by being quiet and not saying anything except that which was praiseworthy.

Smallholder farmers were expected to do what they were told, even if they knew in their hearts that it was not true or appropriate. They knew that acquiescence meant survival. The African proverb of Chinua Achebe explains it well: "people stand in the compound of a coward pointing to the ruins of a brave man".

Given this political climate, with its broad impacts on social and economic relations, the smallholder agriculture sector reform which was so needed to improve rural income and food security and enhance equity would not, and could not, have been self-initiated. While the people were ready for change, the government was not. However, the Government of Malawi desperately needed financial aid, and this help was to come highly conditioned from those who were supporters of change -- the donors.

THE WORLD BANK'S PROGRAM

The Design

Despite the staunch official GOM opposition, after the Mangochi workshop the World Bank forged ahead with the design of the Agricultural Sector Adjustment Credit (ASAC) program. The program was designed by World Bank staff with little consultation with government officials, other donors, or the intended beneficiaries, the smallholder farmers. (Since many smallholders were already illegally growing burley tobacco, World Bank staff concluded that this was a reform smallholders would want and, in legalizing it, more income would flow to small producers; this legitimized the intent of their reform program, even if the design was not participatory).

The principal reforms proposed by the World Bank under ASAC were: (1) that legislation which prohibited farmers on customary land from producing burley be repealed; and (2) that the GOM direct a portion of the burley tobacco production quota to in areas where 75 percent of the smallholder farmers had landholdings of less than 1.0 hectare. The World Bank projected burley tobacco sales to increase from 65,000 tons in 1989 to 95,000 tons in 1993. It was proposed that the estates maintain their existing production quotas and that the additional 10,000 tons be allocated incrementally over the next 5 years to smallholders.

Malawi Government's reaction to the reform program was not uniform. The political elite was not pleased that reform of the tobacco sector was on the donors' agenda. Many of them were estate owners who expected annual increases in their own quotas. Also, they were legitimately concerned that smallholders would produce a lesser quality tobacco, potentially jeopardizing Malawi's share of the world market. No doubt in an effort to undermine the reform program, immediately an additional 10,000 estates were registered and burley production quotas were issued to them. As a result the GOM claimed that there would not be enough production quota for smallholder production. Consequently the ASAC Smallholder Burley Program was reduced from the proposed massive participation to a pilot program where some 2,000 farmers were permitted to grow 3,000 tons.

On the other hand, genuine concern for smallholders and for the program was found among relatively junior Ministry of Agriculture (MOA) staff. They did not have licenses to grow tobacco but had a vested interest in seeing improvements in the lives of their "clients," as well as opportunities for their extended rural families. In fact, a technical division of the MOA proposed its own burley program. The plan would have allowed smallholders to grow for estates in a subcontracting arrangement; they could either become estate tenants, or they could produce on their own farms as

"tenants". Since many smallholders were producing burley illegally and selling their crops to estates, this plan would legalize what was already occurring and was least likely to be rejected by the estate growers, a formidable political force. Given the political context of 1989, this was a most radical proposal for a Malawian government ministry.

The World Bank rejected the MOA proposal because it engendered heavy administrative costs in technical assistance, supervision and finance. A World Bank field survey concluded that farmers preferred to grow on customary land as opposed to being tenants, and World Bank staff determined that it would be more cost efficient to empower smallholders as producers making their own decisions.

Although the actual design of ASAC was largely carried out by World Bank staff, they recognized that they had an ally in the technical staff of the MOA and slowly brought them into the design process. These mid-level career civil servants played an extremely important role in galvanizing the political support for the reform. According to a former Principal Secretary at the time ASAC was being proposed, donors did not have access to the top political power; they had to rely on key civil servants/technocrats to broker the details with the political elite. These technocrats easily could have sabotaged the process. However, they endorsed the findings of the World Bank study and were committed to poverty alleviation. But, given the importance of burley tobacco quota to the political elite and the autocratic political environment, they did not have enough leverage to raise the issues without the backing of the donor community.

Eventually, the political elite decided to proceed with the policy reform. However, participation in the design of the reform program and dialogue was very limited. In reality, the GOM, which was heavily dependent upon donor resources for its development budget, succumbed to donor pressure. The intended beneficiaries not only did not participate in the design of the smallholder burley program but at the time the negotiations were completed, they were still not informed about the new reform program that was about to impact their lives.

Nonetheless, this threshold policy change not only increased the smallholder opportunity to participate in the economy but opened the floodgates for future participation in policy dialogue and reform. And, more than one MOA official concluded in retrospect that although the donors acted coercively to initiate the reforms, ASAC and ASAP have been successful agents for rural poverty alleviation.

The 1990-1991 Season: The Beginning and the End

The ASAC pilot program was initiated in the 1990 - 1991 growing season. Smallholder farmers were allocated a national quota of 3 million kg. The program targeted a selected few Agricultural Development Divisions (ADDs). The Blantyre ADD program best characterizes the first season experiences of most ADDs. The participant quota for Blantyre was 2000 farmers with landholdings of less than 1.5 hectares. Initially, farmers were very skeptical of the program and only 200 farmers indicated a desire to participate. After a rigorous public relations campaign, 800 farmers agreed to participate. In part farmers were reluctant to participate because ADMARC, the agricultural distribution and marketing parastatal, was identified as the sole buyer of their tobacco. Based on prior experience with smallholder produced flue-cured tobacco, many did not trust ADMARC to give honest prices for the tobacco. Though the objective of the pilot was to attract the poorest farmers, in reality this group could not participate; they simply lacked the resources to finance the inputs beyond the seeds and fertilizer which were covered by the ASAC credit program, such as watering cans, poles, hired labor and grass. In the end, the ADD allowed farmers with larger farm sizes to register because it needed to secure participants for the pilot program.

The Blantyre ADD was relatively new to burley production, and the field staff were tasked with finding a way to best assist the farmers in production. The Program Manager successfully garnered the support of many of the chiefs, village headmen and local politicians. He attributes his success to having been born and raised in the ADD and, therefore, someone the village leaders could trust. The MOA-initiated public relations campaign involved several "awareness" meetings held at schools and chiefs headquarters. Field staff, local politicians, village leaders, farmers and members of the tobacco industry attended these meetings. The very nature of these meetings expanded participation in the program beyond donors and the government staff in Lilongwe. Technical teams educated the farmers on the revenue potential of burley tobacco. But uncertainty about the prices ADMARC would pay for smallholder tobacco complicated profit estimates, since ADMARC was the only marketing channel available to smallholders. Without market competition, farmers would be forced to accept whatever price ADMARC offered. If smallholders did not make a profit growing burley tobacco, the purpose of the reform program would be defeated. The World Bank included in the ASAC design a two part payment formula to ensure that the major portion of the sales profit would be returned to the farmer. The first price for tobacco was calculated as 45 percent of a rolling average price of the previous three years. Each of the twelve grades of tobacco commanded a specific price. Farmers were to receive the first payment at the time of sale to ADMARC, with a second bonus payment, amounting to 65 percent of the net profits earned by ADMARC from smallholder burley tobacco sales on the auction floor.

According to most of the program managers interviewed, the first year was a "total disaster". The prices, and thus profit margins, were very low for the participants. As the farmers suspected they received well below market prices from ADMARC for the first payment and the bonus payment did not materialize. Without the bonus payment, farmers were unable to pay back their loans required for seeds and fertilizer. The community was extremely disappointed in their village son. The program manager also was disappointed and recognized that under this arrangement the program was not sustainable.

In fact, ADMARC routinely downgraded smallholder tobacco so that the initial payment to farmers was even below the average price paid to tenant growers on estates. However prices on the auction floor were very high. If ADMARC did not have to pay the bonus payment it stood to make a substantial profit. Moreover, the bonus payment would triple smallholder revenues compared to the tenant farmer who generally did not receive bonus payments. Estate owners were incensed, realizing that this smallholder windfall might encourage their tenants to leave the estates to take up smallholder burley farming. The GOM believed that this program risked undermining the tenant structure so the GOM did everything possible to derail ASAC, including "delaying" the bonus payment. (When the initial bonus payment was offered, it was well below what was necessary for smallholders to repay their loans).

The World Bank informed the GOM that it would not receive any further balance of payments support until the bonus payment was paid. In response three high ranking Malawian officials flew to Washington to meet with a senior official of the World Bank. The Malawian team made a convincing case in favor of delaying the second payment based on the chaos it would cause among estate owners and tenant farmers. Unable to get hard figures on production quality and the impact of the program on the smallholder sector on such short notice, the World Bank staff agreed to disburse the remaining tranche of ASAC on the promise that ADMARC would then make the second payment. ADMARC, estate owners and their political representatives had successfully thwarted the advancements of the policy reform despite contractual agreements with the World Bank. The World Bank lost all leverage with the GOM, and ADMARC continued to delay the second payment.

When farmers saw that they were not getting their second payment, that ADMARC was making a considerable profit at their expense and that the first payment would not cover their investments, many farmers decided to drop out of the smallholder burley program.

USAID ENTERS THE GAME

The Program Design

Returns to burley tobacco for estates producers were so extraordinary that investments were disproportionately drawn into the crop at the expense of the resources needed for other crops. Increasing amounts of customary land were alienated to estates. Excess rural labor in densely populated areas of the south could find employment generally only as tenants or day laborers on estates. Both the World Bank and USAID realized that improvements in the standard of living of the rural poor would require specific efforts to address the growing inequities in the agriculture sector. USAID's involvement through ASAP would liberalize the production and marketing of cash and food crops, particularly of smallholder burley, and help improve conditions of employment for estate laborers and tenants through support for a more open labor market. USAID met the same government opposition encountered by the World Bank. USAID and the World Bank worked in tandem to present a single clear message of the intent of their development objectives to the GOM. The GOM clearly was not committed to the reforms. However, USAID was able to convince the GOM that USAID's assistance would be put at risk without real cooperation in ASAP. It should also be noted that the balance of payments deficit was mounting and Malawi urgently needed the foreign exchange that ASAP would provide.

Although USAID/Malawi had been involved in smallholder agriculture, its program focus was food production, agricultural research and extension; it had very little knowledge of the tobacco sub-sector or smallholder cash crop production. USAID attempted to address its weak analytical base by commissioning a series of studies on the tobacco sub-sector to a consulting firm in collaboration with a Malawian university. The first study, "Beyond Dualism", by Richard Mkandawire, Sandra Bertoli and Stephen Jaffe, detailed the evolution of the small and medium size tobacco estate sector in a tightly controlled political environment. The Malawian participation in terms of sector analysis and keen insight to the political and cultural makeup of the country, critically shaped the direction ASAP would take.

In approving the development of an agriculture sector reform program, USAID/Washington clearly stated two principles which had to frame the design: first, there had to be a clear commitment by the GOM to an open and level playing field for all smallholders to grow the crops of their choice and market them through a variety of channels; and, second, a level playing field and market choice had to be the expressed desire of the Malawians participating in the reform process. The concept of freedom of choice propelled both the program design and the execution of ASAP.

USAID staff tested these criteria with a group of farmers in Zomba. Not speaking the local language, a USAID agricultural officer drew a circle in the dirt and indicated that the three pie pieces represented an available market option. The officer asked the farmers to whom they wanted to sell their crops. Unaccustomed to having options and making choices, no one moved, no one answered. Finally one farmer came forward and angrily jumped all over the pie piece representing ADMARC. Several other farmers then articulated that they did not want to sell to ADMARC and that they wanted to sell to the auction floor. For the first time in the reform process, the intended beneficiaries had an opportunity to participate in policy design; those expressed preferences directly influenced the ASAP design.

The program design expected broader participation in execution. Two committees were established to manage the overall implementation of the reform. A more senior committee made up of Principal Secretaries, heads of institutions and the USAID director monitors the progress towards achievement of conditionality. A Project Implementation Committee (PIC) was established to make decisions about how best to implement program activities, review studies and recommend action on the findings and address new issues as they as they arose. The PIC is chaired by the Minister of Agriculture and has as its members the various ministries and local and donor institutions involved with the program, as well as estate and private sector industry leaders. Both opposing and supporting viewpoints are represented on the committee. The PIC was the first formal institution for participation in setting policy agenda and evaluating progress. However, absent from the committee are the farmers; the committee relies on the eight ADD committee members to represent smallholder farmers.

ASAP was designed as a three year program, disbursing \$20 million of non-project assistance in three installments. Local currencies were generated and project aid was programmed to provide finance to government's Smallholder Agriculture Credit Administration (SACA), to ensure that adequate credit was available to smallholder farmers; supplement training for extension staff; and, provide data collection and computer programming support.

In contrast to ASAC, ASAP was designed in consultation with other donors, representatives of the private sector and parastatals. Considerable time was spent assessing the reaction of smallholder farmers to the proposed program. The GOM agreed to increase smallholder access to agricultural inputs, output markets, cash crop production alternatives and labor market information. Despite increased participation, many government officials speculate that the decision to go forward with ASAP was based more on the need for foreign exchange than the positive results of the collaborative effort.

The 1991-1992 Season: A Successful Restart

ASAP challenged both the GOM and Malawian smallholders to take a great leap forward into market liberalization. The Government agreed to a series of conditions that included: implementation of a smallholder registration system and credit program; issuance of a production quota to registered smallholders; a plan for timely supply of fertilizer and seed; and a plan for the dissemination of market price information. USAID's conditionality also required that ADMARC pay the bonus owed to smallholder farmers who participated in the ASAC pilot program.

One of the most significant reforms was undertaken by Government: smallholders were provided direct access to the tobacco auction floors, in addition to selling their produce through ADMARC. This decision had serious institutional ramifications. Registered smallholders had to form burley clubs in order to control the number of selling units that came to the floor. (Clubs are issued a minimum delivery size equal to that of the estates and only one person from the club may accompany the delivery to the auction floor.) Nonetheless, Auction Holdings Ltd., the owner of the auction floor, had to increase their physical, managerial and computer capacity to accommodate the additional volume produced by the smallholders. The tobacco Control Commission also trained burley club members in packaging and presenting their produce on the auction floor.

In the field, the outcome of the previous season discouraged many farmers. Though the smallholder quota was increased, registration for the second season was low. ADDs had to restart the participation campaigns. Awareness meetings were held and farmers were informed about their new marketing option. Many farmers were hesitant, fearing that in the end the auction floor would not be a real option. Nevertheless, 310 clubs were formed and sold 1 million of the 3.5 million kg smallholder quota directly to the auction floor. Smallholders sold approximately 400,000 kg to ADMARC. The remainder of the smallholder quota was presumed to have been sold illegally to estates.

The program provided additional training to MOA extension workers which allowed them to work with farmers more effectively. Consequently, field staff instructed clubs on techniques from planting to packaging and presentation for the auction floor. The clubs also received training in record keeping and profit distribution. ADD program managers reported that the field assistants were extremely conscientious in their work because they realized how important this opportunity was for the farmers in their communities.

In sharp contrast to the first season, the 1991-92 season was very lucrative for smallholders. Prices received for smallholder burley on the auction floor were extremely competitive with the large

estates, proving that smallholders could produce high quality tobacco. Burley clubs that chose to sell to the floor obtained on average MK5/kg after deductions were made (for tobacco research and extension fees, Auction Holding levies, income taxes, stabilization fees, etc.). ADMARC paid an average price of MK3.16/kg. Clubs were able to repay their tobacco loans. In fact, the Smallholder Agriculture Credit Administration (SACA) loan repayment was nearly 85 percent. The extra income earned enabled farmers to pay off loans used for hybrid maize seeds and fertilizers, pay school fees, clothe family members, purchase bicycles and radios, and make home improvements.

For those participants who had been producing burley tobacco illegally prior to ASAP, the program had the unquantifiable benefit of removing the constant fear of being discovered by the authorities. As one farmer put it "this is the independence we were looking for. Now we do not have to grow tobacco behind our maize".

While the evidence is still limited, it appears that non-growers in areas where the program is operating may also be gaining from the program. One major benefit reported by a number of smallholders is employment creation on smallholder burley plots. Others are benefiting from spin-off industries. Some former estate tenants have become tobacco graders and transporters. Increased incomes for smallholder burley growers has translated into increased demand for goods and services. Poultry, groceries and bicycle repair industries have been boosted along with an increase in low cost housing development.

With USAID funding and technical assistance and the MOA developed computer-based tracking systems to monitor the progress of smallholder production and sales. These data are frequently used to refute claims that smallholders cannot produce high quality, competitively priced tobacco. USAID's forethought to create this monitoring and evaluation system and to widely distribute the results have been credited with helping to move the reform process forward.

Nevertheless, opposition to the smallholder burley program continued. The Tobacco Association of Malawi (TAMA), the largest and most effective interest association in the country, has led the opposition to the burley program since its inception. All legal producers of tobacco are members of TAMA since membership dues are automatically deducted from tobacco sales on the floor.. Initially, TAMA was focussed on limiting production to maximize rents, and was the main promoter of the myth that the smallholder program is driving over-production and hence low prices of burley. TAMA has since abandoned the production issue and now focusses on maintaining low tenant prices and low wages for laborers, the key issues for estate owners, since ASAP has put upward pressure on these prices.

While farmers participated in determining market options, very few participated in the design of the burley club or how they would be managed. In theory, extension staff are supposed to work with farmers to establish appropriate mechanisms for technical assistance, channels for communication, and club management practices. In practice, however, many ADDs have designed their own plans based on guidelines provided by MOA headquarters. This approach has fostered a sense of dependence on field assistants for information on pricing, markets and transport (even making arrangements), and for overseeing accounts and profit distribution. Thus, though a formalized two-way channel of communication was established, there is very little ownership and control by members of club operations.

The Third Season: 1992-1993

In the third season, a third marketing channel was opened up to smallholder burley growers. Registered smallholder burley could be legally purchased by quota-holding estates, within the existing limits of those estates' own quotas. In addition, the smallholder quota was increased from 3.5 million to 7 million kg and tenant employment conditions were addressed.

In the field, the number of applicants for smallholder burley quotas well exceeded the available quota allocated to each ADD. In an attempt to redress the equity concerns, ASAP required that an increasing percentage of the national quota be allocated to female-headed households, especially in the south where there is a disproportionate number of landholdings less than 1.5 hectares. In 1992-93, the tobacco sub-sector experienced record yields. Smallholders sold 77 percent of their total allocation directly on the auction floor. But, because of two currency devaluation, the seemingly high prices paid for burley were low in real terms. Consequently, loan repayments began to decline. Some ADDs have reported repayment rates as low as 25 percent. This has had serious implications for credit availability during the fourth season.

Those who monitor the trends of the world tobacco market such as TAMA and the Tobacco Exporters Association of Malawi became concerned that the world recession and large stocks were adversely affecting the demand for Malawi tobacco. They also attributed the season's over-production to poor projections by the buyers. According to the General Manager of Auction Holdings, the buyers had expected the Eastern block countries to be a substantial cigarette market. But an Eastern European cigarette market did not materialize.

The General Manager, however, does not see the decreased demand as solely a world recession problem. In fact, he sees the future as being pretty bright for Malawi tobacco industry. "Certain sections

of the Eastern block have slowly come around. All of the burley has sold. Now the problem is transporting the tobacco out of Malawi". Another hopeful sign for rekindled demand is that the EC has stopped subsidizing tobacco, causing many EC farmers to decrease and even discontinue tobacco production.

As the program progressed, it became clear that the MOA would play the role of the advocate for smallholder farmers. Extension workers serve as conduits between smallholders and senior officials of the MOA for problems and complaints farmers may have with the program. Though TAMA now claims that they are representing the interests of smallholder farmers in discussions with the government and other members of the industry, the smallholders have yet to elect a smallholder farmer to the TAMA board. In fact, the farmers interviewed for this study when asked about TAMA said that they did not know what TAMA did beyond sending them brochures, and no one recalled voting for his/her regional representative.

The Fourth Season 1993-1994

Malawi is currently in the production cycle of the fourth season of the smallholder burley program. It has not been an auspicious beginning with poor rainfall, a credit crisis, and a devaluation as a result of the elimination of exchange controls. Nevertheless, the smallholder burley quota was increased to 8.5 million kg and, for the second consecutive season, there were more applicants than there were shares of the quota to be distributed.

There is still strong opposition to the program, particularly among the small and medium size estates. TAMA has effectively represented the concerns of this group in dialogue with Government. Many of these estates were formed by smallholders, usually with extended family members, who have combined landholdings to a minimum 10 hectare plot in order to obtain leaseholds; others owe their access to an estate license and burley quota to political connections. Research indicates that this group is less efficient than the larger estates and highly dependent upon low tenant and wage prices for their profitability. They are ineligible for the ASAP-supported Small Agricultural Credit Administration (SACA) program and the MOA extension services which are directed to smallholders in the program. Moreover, because of their inefficient operations, they are seen as too risky for commercial finance and many are not reached by estate extension services.

The Changing Political Environment

The liberalization of Malawi's authoritarian political systems during the past year has affected the ASAP program implementation in a number of ways. First, the politicians who traditionally represented the estate sector concerns have recognized that they

now need the support and votes of the smallholder; consequently, they cannot publicly denounce the program and registration of smallholders.

In addition to providing some new modicum of representation, many smallholders now feel empowered to represent their own interests. An incident recounted by the Program Manager (PM) of the Lilongwe ADD (LADD) demonstrates what can happen with the synergy of political liberalization and economic reform. The ADD received over 2,000 applications for the burley quota this season by newly formed smallholder estates. The applicants had paid fees to have their land surveyed and registered, as required for a burley license. Farmers became outraged when they learned that LADD had been allocated a quota of only about 200 licenses to distribute. A initial few protestors grew into an angry mobbed of several hundred who literally broke down the door of the LADD Program Manager to demand a refund of their land survey fees if they were not to receive a license. They became violent when the PM said he couldn't refund money which belonged to the Land Department; the police had to fire warning shots into the air to restore order. The PM then called the Principal Secretary (PS) of Agriculture but, as the PM explained, "He (the PS) wasn't grasping the gravity of the situation." So, the Program Manager told the crowd that he did not have the authority to make a decision about additional quota but offered to meet with the farmers on the 12th of the month at which time he would have a decision for them. The PM immediately formed a committee, including representatives from MOA, Ministry of Justice, the regional administrator, and the district commissioner, to analyze the problem. On the recommendation of the committee, the PS of Agriculture decided to offer an additional 1 million kg quota. The farmers in the meantime, put up notices announcing the meeting. Having some leverage with the additional quota, the committee was prepared to negotiate with the farmers. On the eve of the meeting, the PS called the program manager and withdrew the additional quota. Extremely upset by the reversal, the PM said that he wanted to resign; he called the police and told them to prepare for a riot. The farmers arrived at 6:00 am on the 12th. The government committee told them that they would only deal with a committee of farmers; this was quickly formed outside the ADD office. The two committees met for four hours. The farmers' committee was told that there would be no additional quota and no refund of survey fees. Some impatient farmers became furious when they barged into the "meeting" only to find the two committees drinking cokes and eating cookies together; they began forming another committee. The new farmers' representatives declared that the farmers would not leave the ADD until they received the additional quota or the refund. At 1:00 pm, the Program Manager called the PS and again relayed the severity of the situation. After a half hour conversation, the PS finally relented and approved the 1 million kg additional quota. Although he thought the farmers were overly zealous in their reaction, the PM concluded that such overt and aggressive participation by the farmers in

economic decision-making would not have been possible before the referendum on multi-partyism. People's expectations and sense of empowerment were being enhanced; there was clearly a synergy at work, reinforcing and furthering economic and political liberalization.

These developments of this past year could be likened to a slow, but definite process of re-awakening. As the anecdote above demonstrates, people were beginning to realize that the risks which existed were slowly being removed. Malawians began to see that they could speak openly without fear of reprisals to themselves or their extended families. This realization did not just happen overnight; it grew with the gradual reduction of perceived risk. The GOM was not quick to accept that things were changing. Government officials played dual roles. As civil servants, they towed the government line; as private citizens, they welcomed the changes. People in the rural areas welcomed this awakening, and years of repressed emotion seemed to suddenly give way to some degree of freedom of expression. In the eyes of the people, the Government had oppressed them, treating them as tenants on the "Malawi Estate".

The political impact of the success of many participants in the smallholder program is multiplied by the new political conditions generated by liberalization. For the first time, open discussion of political and social issues is allowed. Channels for the expression of demands have emerged. The ability of the political structure to contain the flow of information has been substantially weakened. Program managers have reported that political liberalization has made their jobs much easier. They are free to express concerns of the smallholder farmer to the MOA without fear of reprimand from local politicians. They can pay less attention to the local political climate and more attention to the needs of the farmers.

The results of the referendum gave the people of Malawi the mandate they had been waiting for -- the ability to decide what they wanted, how they wanted it, and when they wanted it.

It is likely that participants and non-participants perceive the burley program as facilitating the weakening of control of the existing system. As long as the political process continues to be open, there will be powerful incentives for both incumbents and challengers to support the program. As if all too timely, the Malawi Congress Party in its pre-election manifesto, has claimed ownership of the reforms in the agricultural sector, especially the smallholder burley program, and deemed them a success of its leadership and administration.

The Smallholder Burley Program provided people the opportunity to put into practice what they had been wanting all along. It gave people the opportunity to participate in their own development.

The political changes helped the program take root as people saw the opportunity to participate actively in their own destiny. Since the program was seen to be initiated and implemented by donors, people identified donors -- not government -- as working on their behalf and for their betterment. This role, which some donors have cast for themselves, will likely need to continue for sometime until reform becomes permanent.

Lessons Learned

The economic and political changes sweeping Africa are forcing donors to re-examine the way they "do business". Fundamentally, these changes are about empowerment and participation. Africans are demanding to participate in the processes that determine their economic and political futures. Malawi is one of several countries experiencing this transformation. Our analysis of participation in the Malawi case provides several lessons that can inform donors about this new "development environment", and perhaps foster greater participation in policy reform, especially in a dynamic political context.

1. **Participation is fundamental to the sustainability of reform processes.** As the Malawi case clearly shows, in expanding the opportunities for stakeholder involvement in program design and implementation, and for beneficiaries to express their preferences both directly and through their actions, an iterative process resulting in significant expansion of economic opportunity has occurred. The reform began tentatively with a few internal champions and substantial external pressure, but the balance has shifted over time. The program evolved in response to the demands and behaviors of the clientele, such that there is now a broad-based source of support and pressure for maintaining (and perhaps furthering) the reform of the smallholder agricultural sector. The momentum created in the villages is unlikely to be reversed. Certain challenges remain - women and those with insufficient landholdings must be incorporated, for example. **Participation must be consciously pursued through stakeholder identification, coalition-building, transference of ownership, supporting the articulation of views of all actors and the actual conditionality.**

2. **The degree and extent of participation will most definitely depend upon the degree and extent of freedom to articulate desires for change.** Participation is limited and constrained without open channels of communication. Hitherto, observations of economic behavior derived from smallholder survey responses were the principal means by which target beneficiaries indicated their preferences. Now, the fact that we were able to conduct this study is evidence that the political environment is changing. Former and existing government officials, technocrats, farmers, etc., were comfortable talking most freely and frankly about their experiences with the reform program. Two Malawian professors were able to actively participate in this case and present their views on the political constraints to participation. For the first time, open discussion of political and social issues is allowed. Channels for the expression of demands outside the local political structures have emerged. The ability of the political structure to constrain the flow of information has been weakened.

3. In the design phase, donors may need to use alternative measures to direct face-to-face consultations with stakeholders and potential beneficiaries (or their legitimate representatives) in environments in which political discourse is constrained. Donors need to have a strong sense that the reforms they are proposing would be accepted by the intended beneficiaries if the political system allowed them to articulate this desire. Strong, empirical survey work, as well as intensive qualitative investigation indicated that smallholders already recognized the financial benefits of producing burley, for example. Their decision to opt out of the ASAC program when the second payment was withheld was another strong, empirical indicator of behavior and preference.

4. Donors should identify those in the government that have a positive stake in the success of the reform program, particularly in a politically restrictive environment. These individuals may be able to exert the needed influence to get donor interests on the development agenda of the government.

5. Coordination among and between the donors is essential. The unified political and financial pressure of the World Bank and USAID were necessary to convey the seriousness of the poverty issue and the proposed solution. Consequently, the host government received and was able to respond to one clear message on donor expectations in agriculture reform.

Donors need to coordinate strategies so as to not overtax the limited human resources available for implementing the host government reform agenda. This will ensure more effective and focussed participation on objectives that are most crucial to the overall development process.

6. Donors need to concentrate on affecting change in more manageable interests of the economic or political systems. It is unlikely that donors will be able to change the fundamental ideology of a government (i.e. authoritarian to democratic) overnight through conditionality. When enough of the smaller components come together, the environment may be better suited for broad-based fundamental political change. The donors were not going to engender multiparty democracy in Malawi prior to the early 1990s. However, the focus on agriculture sector liberalization, that is, allowing smallholders to grow burley tobacco, opening up new market channels, assisting the government to develop information systems and channels for communication have facilitated the overall political liberalization. The smallholder marketing of burley on the auction floor and receiving substantial cash incomes have raised the consciousness of the lack of equity in the existing arrangements. The reforms of the agriculture sector has torn apart the very fabric of that which continued to promote political elitism. There is little doubt that the empowerment of the smallholders will lead to increase the political pressure for greater participation in the tobacco sector and elsewhere.

7. **An appropriate legal and regulatory framework is vital for enabling participation in the process of policy reform and is important for actual participation in the economy.** Without the repeal of the legislation prohibiting burley production on customary land, and the implementation of the new rules, the reform program in its current design would not have occurred. The broader implication is that this threshold policy change opened the floodgates for future policy dialogue and reform.

8. **The full and frequent use of the implementation committee was very critical to the success of the reform program.** It became the vehicle through which the donors could transfer more ownership of the reform program to the decision-makers and those of influence in the sector. The committee created a forum for open debate whereby members were held accountable for their interventions and decisions and were challenged openly. For example, the eight ADD program managers gradually shifted from passive spectators at these meetings to real advocates for their smallholder clients. It was the first time ever that buyers and sellers, donors and government sat together in the same room.

9. **There was extraordinary value in involving the local academic community in the reform process.** The university staff not only provided sector data and analysis but contributed a local perspective that shaped the design and direction of the reform. Interestingly, despite the closed political environment, the Malawi government permitted academic and research institutions to conduct research and articulate analysis that could be viewed as contradicting the story that government would want revealed.

10. **The implementation of a monitoring and evaluation system administered by program stakeholders was central to the survival of the program.** These data are frequently used to refute claims that smallholders cannot produce high quality, competitively priced tobacco. USAID's forethought to create this monitoring and evaluation system has been credited with moving the reform process forward and keeping it from being dismantled.

11. **Structural features of African economy and society, and intrahousehold and intrafamilial dynamics must be well understood in order to ensure that women as well as men benefit from the liberalization of a cash crop market.** In general, women face structural constraints - shortage of labor, land, cash and markets for small quantities of product; shortage of overall time, given other obligations such as food production, child care and domestic work; access to resources only through male relatives which sets the terms of intrahousehold dynamics - which reduce incentives and capacity to realize profits. Recognition of the complexity and deeply-rooted nature of the constraints facing women will assist donors in formulating a policy and investment agenda that works to diminish or remove these constraints. The Malawian case demonstrated special complexities for women. Matrilineal and

patrilineal entitlement and polygamy dictate women's access to land and to production entitlements. Women engaged in production on customary land, particularly among female-headed households and in regions where matrilineage customs dominate, tend to have increased job security, greater investment incentives and more control over revenues than women participating in estate tenancy arrangements. Also, burley tobacco production on smallholder plots has complicated the definition of female-headed household. There have been several instances where the female-head of the household, specifically targeted by the ASAP, married shortly after receiving a burley tobacco quota.

12. **The greater the risk of economic reform, the more participatory the process should be.** USAID, the GOM, and other participants in the agriculture sector are presently discussing the design of the next phase of ASAP. The political environment is dramatically different from that in which the first phase design occurred. There is far greater support for the smallholder burley tobacco program and many of the other aspects of the reform program. And, there is far greater ownership of the reforms as evidenced by language in the Malawi Congress Party manifesto. It is likely that the "coercive" approach is unnecessary but what is imperative is for the decision-makers and particularly the implementers to participate in determining the next steps of the reform. Since discussion of the next phase is taking place prior to the upcoming election, it is important to involve all potential decision-makers and implementers in the debate. Malawian involvement has been and will continue to be particularly critical since there are many possible reforms being discussed that may have serious implications for food security and foreign exchange earnings. The Malawians will have to live with the consequences of these decisions so they must continue to have role in making them.

Interviews

Dr. Stephen Carr, Consultant

Dr. Graham Chipande, former Principal Secretary for the Ministry of Finance

Mr. Windham Freyer, General Manager, Press Corp.

Ms. Joanne Hale, Sr. Agriculture Officer, USAID/Malawi

Mr. Stanley Hiwa, The World Bank

Mr. H.W. Kabambe, Tobacco Marketing Controller, ADMARC

Mr. Edward Kabuye, Acting Chief, Agriculture Extension and Training Services, Ministry of Agriculture

Mr. Kachala, Program Officer, Ntcheu Regional Development Program, Ministry of Agriculture

Ms. Mai Beatrice Kuwengana, burley tobacco farmer, Zomba

Mr. Francis M'buka, The World Bank

Mr. Justin Malawezi, former Secretary to the President's Cabinet

Mr. Steve McDougal, General Manager, Auction Holdings

Mr. Johnston Mhango, Controller of Agriculture Services, Ministry of Agriculture

Mr. Mike Mughogho, Economist, Planning Division, Ministry of Agriculture

Mr. Muyaya, Program Manager, Lilongwe Agriculture Development District, Ministry of Agriculture

Mr. D. Sankani Marketing Services Controller, ADMARC.

Mr. Penembe, Program Officer, Zomba RDD, LWADD

Mr. John Phiri, former Principal Secretary, Ministry of Economic, Planning and Development

Mr. Steve Shumba, Agriculture Officer, USAID/Malawi

Mr. Thanda, Vice Chairman, Mulemba Burley Club

Dr. G. A. Thyangathyanga, Executive Secretary, Tobacco Association of Malawi

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