

### **III. STRATEGIC OBJECTIVE ONE (SO1) PROJECTS**

#### **A. SUPPORT TO SMALLHOLDER FARMERS ORGANIZATIONS**

##### **1. Funding Levels and Project Goal, Purpose, and Objectives**

USAID has been providing support to smallholder farmers since 1993 to help them to organize, to better market their products, and to improve family income. This support has led to the creation first of the National Smallholder Farmers Association of Malawi (NASFAM) and more recently to the NASFAM group of companies which address the commercial and developmental aspirations of smallholders in Malawi. This section analyzes the development of NASFAM from the beginning and the contribution of USAID's support to its evolution. This assistance can be divided into three stages: the Smallholder Burley Club Strengthening Project, the Smallholder Agribusiness Development Project (SADP), and the NASFAM Strengthening Project (NSP). ACDI/VOCA has been the implementing partner during all three stages, under two separate Cooperative Agreements.

##### **Stage I: Smallholder Burley Club Strengthening Project**

Stage I, Cooperative Agreement number 623-0235-A-00-4006-00 and Stage II, Cooperative Agreement number 623-A-00-94-00006-12, were funded at \$8,457,255 and implemented consecutively from October 1, 1993 to September 30, 2000.

*Project Goal:* To expand the participation of smallholders in the national economy.

*Project Purpose:* To increase smallholders' cash returns from growing and marketing burley tobacco.

*Objectives:*

- ▶ To strengthen existing and new clubs and to improve their access to credit and their ability to cooperate;
- ▶ To make their operations more professional and businesslike; and
- ▶ To provide training to the Ministry of Agriculture and Land Development (MoALD) field staff who, in turn, would provide this training and technical assistance to the clubs.

##### **Stage II: Smallholder Agribusiness Development Project (SADP)**

*Project Goal:* To expand the participation of smallholders in the national economy.

*Project Purpose:* To make them stronger economic actors by increasing their organizational and technical skills and transforming selected smallholder clubs into viable business entities.

*Objectives:*

- ▶ To improve business and financial management skills of smallholder clubs and associations;
- ▶ To improve burley marketing skills of smallholder clubs and associations;

- ▶ To facilitates smallholder empowerment through business development, group action and policy impact;
- ▶ To strengthen business links between clubs and associations and market service providers;
- ▶ To improve the participation of women in smallholder clubs and associations;
- ▶ To promote crop development and diversification initiatives among smallholders; and
- ▶ To promote improved environmental practices.

### **Stage III: NASFAM Strengthening Project (NSP)**

The NASFAM Strengthening Project (NSP), number 690-A-00-00-00172-00 started on October 1, 2000 and is scheduled to end on September 30, 2003. It was funded at \$ 5,448,790 also under a Cooperative Agreement with ACDI/VOCA. The goal and purpose were the same as for SADP above, although emphasis is being placed on the changed roles of ACDI/VOCA staff from managers and implementers to advisors to Malawian managers. Its new objectives are:

- ▶ To develop and strengthen smallholder business associations and rural business, both on- and off-farm;
- ▶ To expand direct commercial interactions between NASFAM's farmer members and private sector buyers, suppliers, service providers, and market intermediaries;
- ▶ To expand crop production initiatives around coffee, cotton, spices and herbs;
- ▶ To introduce food security/land use planning/agro-forestry initiatives carried out through the smallholder association system;
- ▶ To expand the flow of business development, technical, and financial services to area associations through NASFAM Agribusiness Development Centers; and
- ▶ To pursue an aggressive policy impact program in which the NASFAM association structure becomes a focal point for organizing and transmitting smallholder perspectives on issues affecting the economy and the future of agriculture.

## **2. Findings**

### **a. The Projects**

#### *Smallholder Burley Club Strengthening Project*

The liberalization of tobacco beginning in 1990 gave rise to the formation of large numbers of smallholder tobacco clubs to take advantage of the opportunities offered by this high value crop. By 1992, smallholders had a quota of 3.5 million kg and were authorized to sell their burley tobacco to ADMARC, or directly on the auction floors, rather than through the estates, their only outlet before that time. Some clubs obtained Intermediate Buyers' (IB) licenses. Starting from nothing in 1990, their tobacco sales quota rose to 8.5 million by 1994 and the number of clubs reached 1,500 by 1994. Smallholder involvement in burley tobacco rose dramatically from the early to mid-1990s. Clubs were formed to obtain finance from the Malawi Rural Finance Corporation (MRFC), but needed assistance to make effective use of this credit for the production and marketing of their crop.

USAID's support started in 1993 with field visits and a survey of 150 smallholder clubs by ACDI staff. Based on this survey, the Smallholder Burley Club Strengthening Project started in February 1994. The basic assumption underlying the project was that club performance could be

improved through the credit and extension structures already in place. Initial assistance focused on strengthening these clubs through the extension service of the Ministry of Agriculture and Land Development. ACDI used a training-of-trainers approach: field assistants (FAs) were trained in accounting, record-keeping, grading, transport, marketing, and credit. FAs were then supposed to train clubs and pass on what they had learned. A system linking record keeping and reporting to the various entities involved in tobacco production and marketing was established. A manual and support materials were developed.

By late 1994, it had become apparent that the FAs were not passing on the information and skills being provided by the project. Smallholder success was seen to depend on long-term technical support to turn the clubs into viable businesses, to provide them with training in business skills, to improve the registration system for clubs, and to identify the clubs which were capable of developing into credit-worthy enterprises. Members needed to identify with their clubs as businesses, each having its individually determined procedures and business plans. Clubs needed to take advantage of the Intermediate Buyer program to function as intermediaries in marketing members' products. The conclusion was reached that provision of these business support services through Ministry of Agriculture field assistants, who did not possess the requisite training or skills, would be very difficult.

### *Smallholder Agribusiness Development Project (SADP)*

#### Phase I

The Smallholder Agribusiness Development Project (SADP) was implemented in two phases. The first phase covered FY1996-1998. Its guiding philosophy was "farming as a business," helping clubs become credit-worthy and viable enterprises. Five agribusiness development centers (ADCs) were set up and staffed by Malawian project personnel supported by expatriate volunteers who turned out business materials. Each ADC served two (or sometimes more) Extension Planning Areas (EPAs).

With the advice of ADC staff, quality improvements and improved production of tobacco allowed members to obtain better average prices, which soon reached par with the prices obtained by the estate sector. This had the effect of increasing smallholder incomes significantly, in accordance with the theme of "putting more money in your pocket, not more of your money in someone else's pocket."

Initially clubs operated independently, each doing its own collective marketing of members' produce. Soon clubs started collaborating among themselves to hire vehicles more cheaply to transport their products to market. Clubs banded together to achieve collective action to solve problems and to develop more structured associations of farmer clubs to acquire economies of size and collective power of voice. Initially, there were less than 20 farmers per club and under 100 clubs per association; in recent years, both the number of members per club and the number of clubs per association have risen (currently to over 50 members per club and nearly 160 members per association). However, gains acquired by collective input purchases and by joint transport and marketing of the tobacco crops of individual clubs were soon exhausted. Group action committees (GACs) were started during the second year of the project to achieve additional volume discounts on input prices and freight rates. Training centered on problem-identification, group decision-making to resolve problems, fair and transparent elections and

stress on good governance, financial accountability, and organizational sustainability. Changes resulting from the development of the clubs and GACs made it possible for smallholders to obtain for themselves most of the benefits from the liberalization of tobacco marketing which had been brought about by changes in Government policy. SADP also focused on institutional development and capacity-building and was therefore more than just simply a project which improved tobacco production and sales.. Individual farmer success depended on the responsibility of their leadership for each farmer's actions and on a clear understanding of issues and on building a consensus of the group before their leaders took and implemented decisions on the group's behalf. Strength of the organization spilled over into community empowerment and participation in local developmental activities.

Advocacy began during this stage, with strong contacts being established with all major players in the tobacco industry. These contacts were used successfully in raising the quota for smallholder tobacco to 30 million kg by 1996, by which time smallholders accounted for 11 percent of tobacco sold at auction. A major theme of the advocacy work has been to allow smallholders to secure a higher share of the final auction floor price of tobacco, by improving and speeding access to the auction floor by the use of larger vehicles and by lowering freight charges by more expeditious loading and unloading. It was also argued successfully that smallholders should be exempt from the five percent tax on their tobacco sales.

Outreach efforts were also started during SADP in preparing 25-50 programs per year for transmission in the local language (Chichewa) on the radio. Content was broad-ranging and covered topics of general interest to smallholders. Radios were one of the first household items which smallholders purchased with their additional income. A newsletter was also started ("Titukulane").

New programs were established and linkages were developed with other institutions. Linkages were also made with intermediate buyers. A start was made in credit and finance by linking the more advanced clubs with the Malawi Union of Savings and Credit Cooperatives (MUSCCO), as well as with MRFC, and by encouraging those clubs that could to self-finance their production. Diversification into other crops started as new associations were formed around non-tobacco crops such as chilies, coffee, and others. Environmental work was begun through collaboration with USAID's Agro-Forestry project. Considerable efforts were made to assure equal opportunity for participation by women. Work was begun on MIS and on a monitoring and evaluation system.

## Phase II

Phase II of SADP covered FY 1999 to 2000. In July 1997, NASFAM was officially established with 14 associations of farmer clubs as founding members. It was officially incorporated under the Trustees Incorporation Act in February 1998. Until the end of the SADP I it was managed by the ACDI/VOCA project staff. SADP II started on October 1, 1998. From that point on, SADP staff came under the responsibility of NASFAM and the ACDI/VOCA expatriate staff became advisors to NASFAM. Additionally, at that point, NASFAM also became responsible for the provision of services to member associations. Budgetary control was retained by ACDI/VOCA, but all other aspects of operations were transferred to NASFAM. The General Manager and Deputy General Manager were chosen by the Board of Trustees and hired by NASFAM in June 1999. The Deputy General Manager was selected among senior Malawian

SADP staff and assigned the task of managing field operations. The transition was carried out smoothly and did not lead to noticeable operational problems.

At the start of SADP II, NASFAM was composed of 17 smallholder associations, 1,776 clubs, 196 Group Action Committees, and 33,821 members. Until that time, most associations focused on tobacco production, but as part of its strategy to diversify, farmer groups were developed focusing on coffee (in the North), spices and herbs (Lilongwe South), cotton (Balaka district), and chilies (Mulanje district). All associations began investigating crop options other than tobacco.

Between the beginning of October 1998 and the end of September 2000, the numbers of associations increased from 17 to 31, the number of clubs from 1,776 to 3,972, the number of GACs from 196 to 354, and membership from 33,800 to 72,700. NASFAM, which had been working in 24 EPAs, also increased this number to 46 (out of about 150 EPAs in the country) by September 2000. All associations covered the costs of operating their business from their own resources, with no subsidies from NASFAM or the project. Principal sources of income are membership fees and commissions on input and product sales. In newly established associations NASFAM does pay the cost of the general manager and his assistant on a declining basis, until the association generates a volume of business sufficient to cover their salaries. This does not include the cost of some of the infrastructure of warehouses, shops and offices whose construction costs have been paid by various donors.

Based on the results of a 1998 International Food Policy Research Institute (IFPRI) study, NASFAM members had higher yields, production, and income than non-members. The study also showed modest differences in the nutritional status of children in the families of members compared to non-members, confirming that NASFAM's strategy of focusing on the production of high value crops rather than food crops was a good food security strategy in most years when food is available for purchase in the marketplace. Following the recent food drought and crisis where food availability fell dramatically, NASFAM has increased its work in encouraging its members to produce basic food crops needed by their families.

While the first phase of SADP focused on institution building leading to the creation of NASFAM, the second phase build capacity within NASFAM, both at the central and association levels. The goal was to transfer project staff at the ADC level to the associations, as they developed the capability of handling the additional responsibility. This transfer was already substantially achieved in Mulanje by September 1999 (with only the ADC coordinator remaining on the SADP staff).

In order for associations to be members of NASFAM, they must fulfill the following conditions:

- ▶ Membership entrance fees and annual dues paid, membership base created;
- ▶ By-laws adopted by the Annual General Meeting;
- ▶ At least two general meetings held and committee meetings held regularly;
- ▶ Annual General Meeting held with elections, audited financial report, annual program reports, annual budget and annual work plan presented;
- ▶ Manual of standard operating procedures approved and abided by; and,
- ▶ Salaried manager in place with accounts, records, banking systems, and quarterly audits.

In short, associations must have good governance, be self-supporting, or following such a path, have a clear-cut plan of work and procedures to follow, keep clear and transparent accounts and have professional staff capable of managing the enterprise. Technical Service Advisers from NASFAM were gradually replaced by Association Field Officers (funded by the associations) providing assistance in forming and registering clubs, record-keeping, leadership and governance training, annual plans, establishing club credit requirements, assisting with club operations, marketing, and sales activities, and club participation in associations and GAC activities, and in resolving problems.

New funding came in from DANIDA and the EU, and later from NORAD. DANIDA funded NASFAM's expansion into new areas and in developing new associations to serve these areas: Mchinji (groundnuts), South Mzimba and Karonga (rice). The European Union's Promotion of Soil Conservation and Rural Production (PROSCARP) project provided funding for soil conservation and land use activities (and three advisers to support them), crop finance for bird's-eye chili, and finance for treadle pumps to allow for the dry season production of spices and high value vegetable crops, cereal and soybean seed, and fruit tree seedling production. The availability of the treadle pumps increased farmer income as well as the supply of products, such as strawberries in Lilongwe and other markets. NORAD supplied funds for training and outreach, community-based projects, the construction of shops, and for strengthening partnerships.

During SADP II cooperation was improved with MRFC and the National Bank of Malawi began providing some credit to associations. To convince a commercial bank in Malawi to finance small farmers is a huge step for a banking system that has always been reticent to finance agriculture, even the large estates. With funding from DANIDA and NORAD, associations built and managed farm supply shops, improving their earnings through profits from sales of fertilizer and other inputs, and also provided their members with a source of needed inputs and a modest selection of basic household goods (sugar, salt, flour). Some associations are, on their own, broadening the selection of goods that they carry, although this expansion is not actively encouraged by NASFAM, due to insufficient working capital and due to competition from other traders.

Furthermore, during SADP II, chili peppers were exported successfully. Coffee and cotton exports were less successful. Little coffee was available for export, since demand for processing for the domestic market absorbed most of the small crop at prices significantly higher than could be supported by prices in the international market. Cotton is facing serious problems because of low international prices. Farmers faced problems when the seed supplied by the ginnery was substandard and pesticides other than those ordered were delivered. Many farmers also sold to intermediate buyers for immediate (though low) cash payments, rather than selling to their association and waiting for a deferred but higher payment. Farmers who were producing spices and other products in Lilongwe South defected in large numbers from their associations and engaged in considerable side selling to nearby traders in Lilongwe.

NASFAM continued SADP's strong support for training at all levels from its own staff down to the club level in required business skills. DANIDA provided funding for literacy training, which reached 11,500 members in need of such training, most of them women; about a third of NASFAM's members are illiterate. The contribution of member literacy to good governance of an organization like NASFAM is hard to overstress, although the returns are hard to quantify.

Also during SADP II, policy, advocacy, and communications (PAC) activities expanded to allow NASFAM to: have good communications with its rapidly expanding membership, to act as the voice of smallholders on national issues affecting them, to provide specialized services in policy analysis and discussion, and to publish newsletters, and produce radio programs for broadcast. The PAC unit was responsible for carrying out a food security study funded by the international NGO “Bread for the World” and for hosting a conference at which food security issues were discussed. NASFAM’s support of gender issues was passed on to each association with assistance from DANIDA and was institutionalized by requiring that one of the three delegates sent by each association to the annual general meeting be a woman.

Moreover, during SADP II, land, natural resource, and soil conservation issues have been addressed with the support of the USAID-funded Agro-Forestry Extension (AFE) project and the EU’s Promotion of Soil Conservation and Rural Production PROSCARP) project. Seed multiplication programs for leguminous plants such as soybeans and groundnuts, which fix nitrogen in the soil -- allowed farmers to diversify their income and improve the nitrogen level of the soil. Land use management advisors also helped establish nurseries to provide tree seedlings and vetiver grass for soil conservation efforts affecting more than 2,000 participating farmers. Forty model farms were also set up. All of these efforts are expected to have long-term benefits for NASFAM members.

During SADP II, NASFAM also began to form its individual member database by installing computers (including internet access, where feasible) and by training data-entry operators. The goal of the information and data processing system is to allow two-way communication between members and their organization. When completed, this database will provide a strong tool for NASFAM’s marketing efforts on behalf of members, as well as a strong analytical tool for investigating the impact of policies, regulations, and procedures on smallholders. NASFAM also strengthened its accounting system at the association level and set up a standard accounting system for associations, institutionalized quarterly field audits, and provided back-stopping to association accountants for managing their accounts and improving their systems and procedures.

The GOM and various donors and development partners expressed satisfaction with NASFAM’s work with smallholders and its collaboration with their programs. The World Food Program (WFP), for example, congratulated NASFAM on its excellent management of a Food-For-Work (FFW) road rehabilitation and bridge building program. Nevertheless, considerable pressure began to be put on NASFAM to expand its membership and its coverage dramatically to include all parts of the country.

In summary, SADP saw the creation of NASFAM, institutionalizing the work of the project, and supported NASFAM in its establishment. It allowed smallholder farmers to retain part of the wide margins previously taken by intermediate buyers and assisted them in diversifying into other crops and to reaching new markets. It also established a system of good governance and strict financial accountability to safeguard the time and money that its members and those who have supported them have invested in creating the organization. Graft is not tolerated and any staff stealing from members are pursued and jailed as an example to others. Similarly, NASFAM holds members to a high standard in their own dealings, particularly with respect to honoring debts to credit institutions. It also made certain that women participated equitably in the benefits of association, with 28 percent of all members in 2000 being women.

### *NASFAM Strengthening Project (NSP)*

The NASFAM Strengthening Project (NSP) covers the period October 1, 2000 to September 30, 2003. The project continues to be implemented by ACDI/VOCA, which provides two expatriate technical advisors (a principal advisor and a finance advisor). The goal of this project is to institutionalize the gains made by smallholder farmers from earlier phases of USAID support, in light of NASFAM's five-year strategic plan for the 2001-2006 period. It covers the first three years of the five year transition period from a national smallholder farmers organization into a set of smallholder owned companies with mutually supportive purposes; the project is designed to make smallholders significant players in agricultural trading in Malawi and the region, as well as recognized stakeholders representing the rural development interests of smallholders, both members and non-members. The NSP, including the one-year extension to September 2003, is overseeing and backstopping the transformation of NASFAM from a multipurpose trust organization to a farmer association-owned holding company, NASFAM Development Corporation (NASDEC), which, in turn, owns and manages two companies pursuing different goals and activities benefiting smallholder farmers: NASFAM Commodity Marketing Exchange (NASCOMEX) to engage in trade and commercial activities of all kinds, and the NASFAM Center for Development (NASCENT) to pursue non-commercial developmental objectives and to provide in-group services to NASCOMEX and NASDEC.

The period spanned by the NASFAM Support Project also has seen the broadening of support for NASFAM to include other donors and an expansion of its commercial activities to include the marketing of other crops and the supplying of inputs and farm equipment, which both members and non-members need for growing these new crops. Most project equipment and infrastructure was transferred to these new entities.

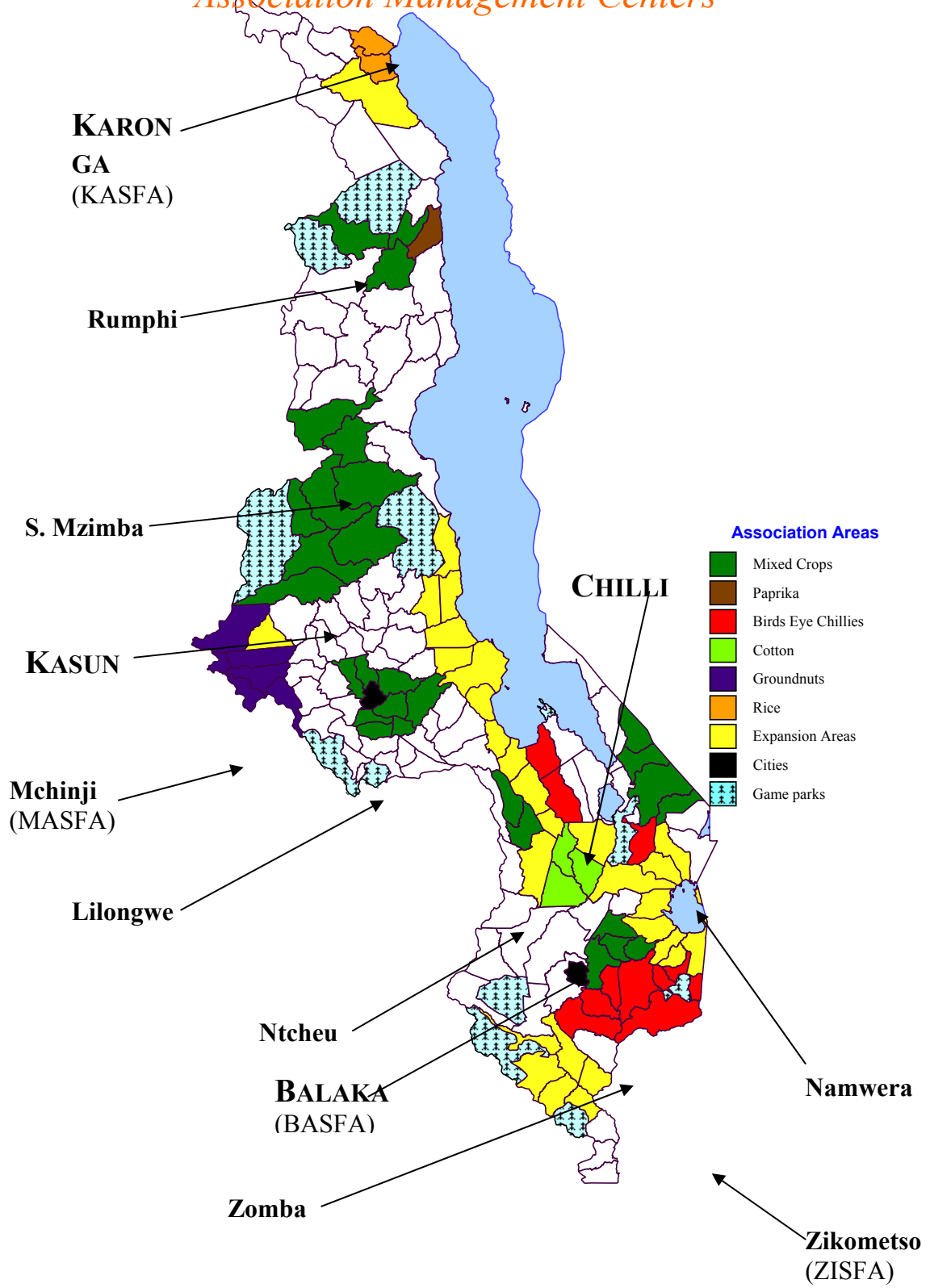
The three companies were approved at NASFAM's annual general meeting in early December 2001. NASFAM functions were divided up and transferred to the new companies. The holding company NASDEC became responsible for: organizational development, crop production, auditing and financial services, and administration and finance. NASCOMEX is responsible for business and marketing operations, and for seeking out new commercial opportunities to exploit. NASCENT focuses on program and policy development, management information services, and human resource development.

NASFAM's ten Agribusiness Development Centers (ADCs) have been closed and their equipment and staff transferred to Association Management Centers. These are operated by 12 for-profit Association Group Companies. Technical services are provided on a fee-for-service basis by three regional teams (north, central and south). Each team is composed of an auditor/financial systems advisor, a management systems advisor, and a NASCOMEX regional representative.

The following map shows the locations of NASFAM activity and the principal crops grown.

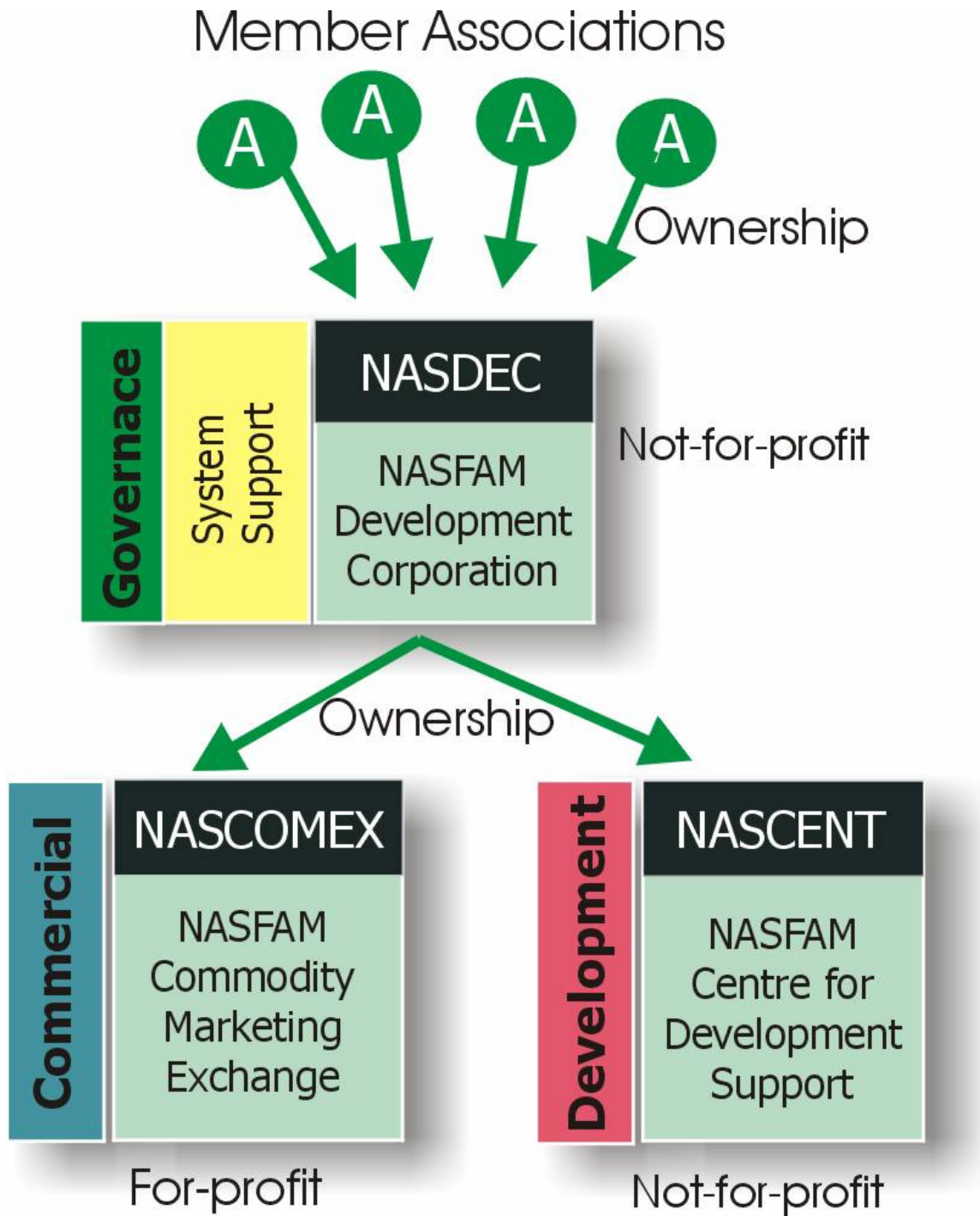


NASFAM 2001 - 2002  
*Association Management Centers*



Revised: October, 2001

The following organizational chart portrays the relationship between the three organizations:



**b. The Current Organizations and their Functions**

*NASFAM Development Corporation (NASDEC)*

NASFAM Development Corporation (NASDEC) is a not-for-profit company set up to manage the NASFAM business system. It is owned by NASFAM member organizations. It provides these organizations with financial resources, training and technical assistance to support their development. It will help member organizations in their own transformation into viable business enterprises. It will share certain costs with member companies on the basis of fee-for-service agreements outlined in joint work plans. These arrangements will facilitate direct contact between member companies and NASDEC staff, rather than having to go through layers -- thus improving communication between members and NASDEC staff.

NASDEC will oversee the development of NASCOMEX, the NASFAM's trading company and commodity exchange and of the NASFAM Center for Development Support (NASCENT), which will provide information, training and advocacy and communications services to members. NASDEC will establish the management of the holding company and develop its ability to oversee the operation of the component units of the NASFAM system.

NASDEC's Board of Directors was chosen at the annual general meeting in December 2001 and is 100 percent Malawian. The Board meets quarterly to set policy and review progress in the achievement of corporate goals. An advisory committee composed of NSP's expatriate Project Director and Assistant Director, and of NASFAM's CEO and Chief Operations Officer, handle day-to-day decisions on a consensus basis. (The Assistant Director and the Chief Operations Officer both left in October 2002, after being with NASFAM and its predecessors from the beginning.) In September 2002, the committee was enlarged to seven members to include the Director of NASCENT, the General Manager of NASCOMEX, and the Director of Finance. The Finance and Administration Department is installing a new corporate accounting package (at a cost of \$35,000, plus annual maintenance). The department is responsible for the management of the assets and accounts of the three corporate entities.

Revenue and Funding Sources

All revenues and grants for the 99/00 through the 01/02 financial years were incorporated into a single NASFAM budget audited and projected for 02/03 by KPMG.

**TABLE 2**  
**NASFAM Grants and Revenues by Percentages**

Revenue Source	99/00	00/01	01/02	Projected 02/03
USAID/NASFAM Support Project	54	38	47	41
EU-PROSCARP	7	4	0	0
DANIDA	33	27	0	0
NORAD	0	27	19	40
NASFAM Revenues	6	4	14	19
Totals	100%	100%	100%	100%

The EU Promotion of Soil Conservation and Rural Production (PROSCARP) project ended in June 2002. DANIDA abruptly withdrew in May 2002 due to dissatisfaction with accounting for funds supplied to other projects (unrelated to its funding for NASFAM). (It should be noted that DANIDA was very satisfied with its collaboration with NASFAM and left in place funds for buying crops, which had originally been provided as a loan.) NORAD support followed that of DANIDA by one year, and when DANIDA withdrew, NORAD stepped in to fill the breach. NASFAM's own revenues have been rising and covering a higher percentage of costs. Proportionately, USAID's support has fallen from 54 to 41 percent over the four-year period covered.

EU's contribution provided MK 9.5 million principally for the construction of warehouses, land use management services, sprayers, inputs, and crop finance (for buying crops). Before it left, DANIDA provided nearly US\$1 million for equipment and training needed to expand NASFAM's coverage area, office construction, and crop finance. NORAD funding started in October 2001 with a budget of \$1.5 million and covered human resource development, material support, commercial programs, overhead, and community action programs.

### Staffing

With the changes in NASFAM's structure, its staff numbered 85 (including drivers and other support staff). With the closure of the ADCs, the associations and the regional offices have picked up their staff on a cost sharing and declining percentage basis. NASDEC field staff numbers 22, (down from 36 a year ago), including 9 drivers. Associations employ 189 managers and staff, 70 percent of NASFAM's total workforce.

Over the years, volunteers have been used extensively by NASFAM, starting with those provided by VOCA in the early years. Other organizations providing volunteers include the US Peace Corps, VSO, UN Volunteers, APSO, and WUSC. These volunteers have worked in a variety of capacities from business management skills training to audit services. Currently a UN volunteer is providing assistance on NASFAM's new gender policy.

### Central Audit and Financial Services Unit

This unit provides financial services and oversight as an honest broker to the entire NASFAM system, including maintaining accounts and carrying out audits. This assistance is provided on a fee for service basis. The unit maintains the budgets and accounts of the various departments and units and produces necessary financial reports. Its Grants Management Section handles all flows of donor money to the NASFAM system, or through it to member organizations. The unit is also developing lease-purchase schemes for the acquisition of equipment for value-added operations of member companies, to be paid for out of the stream of revenue derived from these activities.

Annual audits of member associations are compulsory and a basic criterion for membership. The unit is involved in setting up and maintaining operational systems, stock control, financial links with the associations and on systems within the associations. Significant work remains to be done with the associations in regards to their accounting and financial systems. The AFSU staff goes from association-to-association and farm supply shop-to-shop, helping with the books and auditing the accounts. This unit needs longer-term support, including expatriate assistance and salary support for local staff.

## Crop Production and Marketing

When support from USAID started in 1993, it was channeled through the Ministry of Agriculture's field assistants. It soon became apparent that their skills in the business areas were lacking, forcing the reorientation of support in a way that has led to the formation of NASFAM and its member companies. However, even in the standard agricultural extension area, the Ministry has for many years been unable to provide the basic advice that farmers needed to efficiently grow the crops which NASFAM was helping them market. NASFAM has found it necessary to establish a Sustainable Agricultural Production Unit staffed by a manager and 12 Crop Production and Marketing Managers, who supervise 40 Associations Field Officers (AFOs). This unit and its staff supply the information and support that farmers need to improve productivity in growing the crops marketed through their associations.

## Association Development Support

NASDEC's organization development unit coordinates field staff (managers of association and regional management advisors). It provides technical assistance through regional management systems advisors to association managers, and to crop production and marketing managers. It also coordinates the rural self-help program (road improvement, bridge repair), association equipment (motorcycles and computers), and the program of matching grants for warehouse, office, and supply shop construction (with local materials and unskilled labor being provided by the associations).

Twelve Association Management Centers (AMCs) have been established (in replacement of the ADCs) to assist the 32 associations, 5000 clubs, and 400 market centers of NASFAM's 97,000 members. As of September 2002, NASFAM was operating in 61 (out of 160) EPAs, an increase of three in the past year. New crops are being given priority and associations are active in marketing cotton, coffee, rice, soybeans, paprika, and groundnuts in 52 of these 61 EPAs. The number of farmers active in marketing crops other than tobacco, reached 78,400 (82 percent of total membership), up from 32,000 farmers (34 percent of members) the previous year.

**TABLE 3**  
**NASFAM Membership Growth 1996 to 2002**

Membership	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	% increase last 2 yrs.
EPAs	12	24	36	46	58	61	5%
Farmers	18,759	33,821	50,088	67,580	93,542	95,322	2%
Clubs	990	1,776	2,551	3,663	5,162	5,105	-1%
MACs/GACs	105	196	257	344	453	438	-3%
Associations	12	17	23	31	34	32	-6%

Women now constitute 38 percent of all members, 58 percent of chairpersons of associations, and a mandatory 33 percent of representatives to NASFAM's General Assembly. Women's clubs constitute 21 percent of all clubs. Women, who also comprise a majority of other staff, manage many of the farm supply shops. Except for representation at the annual general meeting, gender quotas are not imposed. NASFAM simply follows the principle that dealing fairly with women is good business for the organization, as well as for the women themselves.

In 2001/2002,, all associations showed a surplus, although on aggregate the surplus was lower at \$114,000 for all associations compared to \$250,000 for the previous year. It should be recalled that through cost sharing, some association staff are partially or fully funded by NASFAM. Also, some costs that might normally be borne by the Government, such as crop extension, have to be covered by NASFAM, because of deficient or non-existent Government services.

Since 1966, a large part of the work has focused on training farmers, clubs, and associations in business management skills appropriate for each level. In 2001/2002, over 5,300 training meetings were held and attended by 131,500 participants, a third of whom were women.

#### Warehouse and Office Construction

Using funding provided by EU-PROSCARP and DANIDA, 24 market centers, 15 office-shop-warehouse complexes and four large regional warehouses were built. Under these matching grants, skilled labor, equipment and non-local materials are funded, with the associations and members bearing a share of expenses through labor input and local material supply. These buildings put NASFAM on a more even footing with private traders and with ADMARC, which, for the most part, own their own facilities and do not pay rent.

#### *NASFAM Center for Development (NASCENT)*

The NASFAM Center for Development (NASCENT) is composed of three program units: the Policy and Programs Unit (PPU), the Human Resource Development (HRD), and the Management Information Systems (MIS). Though its primary focus is on members, NASCENT in fact provides services to and serves as an advocate for all smallholder farmers.

#### Program and Policy Unit (PPU)

The Policy and Programs Unit (PPU) provides news and information and is active in the advocacy of policy issues affecting all smallholders. Taskforces are being established in member companies to monitor and report on areas of interest. NASCENT has four priority policy areas: 1) access to financial services, 2) marketing systems, 3) agricultural marketing and 4) rural infrastructure. Every other year there is a smallholder conference that focuses on whichever of these issues is deemed a priority for that year. As issues within these areas come up, NASCENT does advocacy work as appropriate, such as paid insertions in the press when actions are taken which are detrimental to the interests of its members and to the country as a whole -- as was the case with tobacco exports to Zambia and Mozambique.

Each quarter the PPU distributes 6,000 copies of its newsletter (*Titukulane*) to members, agribusinesses, donors, and to the Ministry of Agriculture, and these issues also reach non-members. Two thirds of the newsletters distributed are in Chichewa; the remainder is divided equally between Tumbuka and English. The PPU also issues its own crop bulletins on principal crops marketed by smallholders through NASFAM, to provide production and market news to farmers. NASFAM produces a large number of radio programs each year, with the help of the Ministry of Agriculture and Irrigation's Communications branch. This is the medium of choice, since it reaches large numbers of farmers, many of whom are illiterate and cannot be reached through the more expensive print medium -- and brings messages to a broad spectrum of non-members as well as members. A variety of awards and demonstrations are conducted with clubs

and associations to encourage excellence of various types. NASFAM is an active participant in policy advocacy and joins in coalition with other interested parties on policy and environmental issues of interest to smallholders. It collaborates with a variety of institutions from the Malawi Chamber of Commerce and Industry to the National Resource College, ICRISAT, and MUSCCO on issues of common interest. Its role in advocacy work will only tend to grow in the coming years. It is also investigating the possibility of setting up an endowment fund to cover the costs of capacity-building for members. The PPU also handles program monitoring and reporting to donors for resources they supplied and for programs operating with donor funding.

#### Human Resource Development (HRD) Unit

The Human Resource Development (HRD) unit provides training courses and workshops to staff consistent with their needs to improve their service to members. Donors have provided strong and consistent support for training; these donors recognize that, as of result of the limitations of education in the past, even college graduates require specialized training to work effectively in supporting the development of the business and development-oriented organizations within the NASFAM system. Content is based on a rolling three-year training plan. There were 568 participants in 2001/2002, 25 percent of these are women. The unit is also responsible for adult literacy, which, through the provision of 400 five-month courses, has reached over 12,800 member farmers. Participants were overwhelmingly women (84 percent), but more male participation is expected in the future -- as male members get over their shyness in learning alongside women and in studying subjects that they missed out on, and which their children already know.

The Strategic Development Plan envisages the role for the HRD unit of providing a broad range of training to NASDEC, NASCOMEX and NASCENT board members and staff, to assure good governance and to improve their business operations. It will also assist member companies with training courses designed to meet member concerns and needs identified in their internal assessments. A proposal has been made to set up a NASFAM Human Resource Development Institute as a permanent training program for smallholders and for those who serve them, possibly in conjunction with the National Resource College.

#### Information Services Unit

NASFAM has established and maintained an up-to-date computerized database of its membership concerning their purchases, production, intentions, sales, and gender. Combined with crop marketing, fertilizer sources, and price bulletin (August to November), commodity source and price bulletin (May to November), quarterly and annual progress reports and program tracking reports systems, the MIS system can constitute an important business tool for management of the three companies. The unit will support NASCOMEX' ability to provide a broad range of market pricing and market news information. The database on members, which includes business history as well as biographical and socioeconomic data, can be used, once it is fully operational, as an analytical tool to simulate the impacts of policy changes on smallholders, thus helping to avoid some of the policy mistakes of the past.

### *NASFAM Commodity Marketing Exchange (NASCOMEX)*

One of the main reasons behind NASFAM's decision to restructure was the need to broaden its business base and to separate its business from its developmental activities. NASCOMEX is a for-profit market development and trading company. More than a simple commodity exchange providing commodity brokering and price information, NASCOMEX will assist member companies to identify and market high potential crops, and, where justified, to add value to and then market these products in the most profitable presentations. NASCOMEX is a company oriented primarily toward exports, but able to pursue any agro-based business opportunity in Malawi, which would provide benefit to its members or to other smallholder farmers. Unlike standard commodity exchanges, such as have been operating in Zimbabwe (now closing due to changes in Government policies), NASCOMEX controls significant quantities of its own members' products, which can serve as a basis for larger trading operations combining member production and purchases from non-members. In other words, NASCOMEX will function as a smallholder-owned trading company, marketing member produce together with products bought from non-members. Trading can be either domestic or for export. Sales in the domestic market may either be sold at wholesale, or as brand name packaged products for sale at retail, or for sale at retail in supply shops owned by member companies. Trading in food crops, such as maize, which has been limited to small buying operations designed to establish food reserves for members, can be expanded to include purchases for holding and sale to the public in general, as is already occurring with aromatic rice from Karonga currently sold at retail nationwide.

As long as tobacco represents nearly three quarters of Malawi's exports, smallholder burley tobacco is likely to remain NASCOMEX' core business for many years to come. However, NASCOMEX is pursuing a broad range of other cash crops for the export and domestic markets. Some of these products are being developed in new geographical areas with newly formed associations; in other cases farmers are substituting these crops for burley tobacco, in view of declining tobacco prices.

NASCOMEX' main goal is to produce a profit in order to sustain the whole system and to provide financial support to other parts of the NASFAM system. Its operations will include purchases of significant volumes of products from non-members. Wherever possible, NASFAM will make use of services offered by associated companies like NASDEC (for accounting and financial services) rather than incurring the cost of establishing in-house units to provide for these needs and for NASCENT (for training, communications and policy advocacy).

### *New Product Marketing*

Zikometso Association has been marketing chilies for the past five years with 250 clubs and 50 marketing centers located in nine EPAs for its 5,000 farmer members. In the 2002 marketing season (beginning in March 2002), over 70 metric tons were bought at a farm gate price of \$62,500, despite significant competition from local traders. Nine containers of chilies worth \$147,000 were exported to Europe. A similar program is also starting in Balaka (BASFA association) in addition to its usual marketing of cotton, which is faring less well, due to problems with major buyers, crop finance delays, and increased competition.

The Mchinji Association (MASFA, visited during fieldwork for this evaluation) was originally organized to market groundnuts, but now also markets soybeans. Last year it handled 343 metric



tons of groundnuts and 57 of soybeans. For the association to be self-sufficient, it will have to reach marketing volumes on the order of 1,000 metric tons, by buying and marketing a greater volume of product. Currently NASFAM is picking up the salary costs of the general manager and of the crop production and marketing manager.

The Karonga pre-association (KASFA) in northern Malawi bought 121 metric tons of paddy rice by August 2001, having the rice milled and packed in 50 kg bags, which it sold in Blantyre. It has also begun packaging and marketing one and two kg bags of rice in NASFAM shops around the country and in selected supermarkets in Lilongwe and elsewhere. This move by the association marks a break with past practice in NASFAM, which saw a high-level of value-added in processing as being beyond the capabilities of its members. At the end of the first season, members in South Mzimba had sold 27 metric tons of paprika to Cheetah (a regional company with headquarters in Zambia, also operating in Mozambique). Eight associations in the Rumphu and Kaasungu areas have taken up the crop; in one association, paprika is replacing coffee as the main crop. Four associations (including MASFA) are engaged in soybean marketing, which is fast becoming NASFAM's major secondary crop, followed by paprika (sold to Cheetah Malawi). A total of 62 metric tons of all non-tobacco commodities were marketed in the 2001 season; for 2002, the amount will be in the neighborhood of 300 metric tons. Total sales for non-tobacco crops for NASCOMEX during the March 1 to September 30, 2002 marketing season were \$650,000.

### *Business Operations*

Over the years, NASFAM has been negotiating tenders with local suppliers of fertilizer and have brought the prices down significantly by being able to negotiate for large amounts of fertilizer from a single supplier. The sales are made through the local association, which, in the 2001 sales season earned almost \$19,000 in commissions (1 to 3 percent of sales volume). Associations get free delivery of produce to their marketing centers and prices to members average 10 percent less than local retail prices.

In the 2002/2003 season, however, NASCOMEX decided to directly import fertilizer itself from a South African supplier through an arrangement with a Malawian partner (Rab Processors). Its imports account for five percent of total fertilizer imports into Malawi. NASCOMEX shared the margin obtained with participating associations, although a few associations decided to go with another supplier (Hydro). In markets where NASCOMEX was in competition with them, other traders lowered prices to undercut NASFAM's (cross-subsidizing them by raising prices in markets not served by NASFAM). Since associations lost projected revenue of MK20-40 per bag (out of which they pay their costs), some associations (not NASFAM itself) in their quarterly general meeting fined their members MK30 per bag for not taking delivery of fertilizer which they had ordered. Traders have filed a complaint with the Ministry of Agriculture. Until NASFAM is accepted as a permanent feature in the fertilizer market, similar non-competitive behavior by other players can be expected. NASCOMEX can expect to make significant income from fertilizer sales to member associations, while reducing average fertilizer costs to both member and non-member farmers and in introducing a strong element of competition (i.e., lowering prices) in the fertilizer market in areas where it is actively selling through its farm supply shops and member associations.

NASCOMEX also competes on other farm inputs with other suppliers through a network of 34 farm supply shops (26 of which opened in the 2001/2002 year). Lacking working capital, these shops work largely on consignment, maintaining a minimum inventory of fast-turnover items that are much needed by farmers. Some basic household goods like sugar, flour and maize are also stocked. Although not encouraged to do so by NASFAM, shops stock other items such as biscuits, matches, razorblades, etc., in areas where there is little competition and where such goods are otherwise unavailable. The shops are seen by members as providing a much needed service in meeting farm input needs; they are appreciated also for their contribution to association revenues needed to meet their costs of operation (gross sales of \$244,000 in 2001/2002 for non-fertilizer items). Some items like treadle pumps are supplied from NASCOMEX headquarters, under arrangements that it has with donors and with the Ministry of Agriculture. In some places where such services are not available, local associations are seeking to add maize mills and paraffin pumps with assistance from NASCENT; they seek funding for these investments whose returns are more long-term and benefit the community in ways that go beyond the commercial interests of the association alone.

### *Transportation*

At a late stage in its development, NASFAM obtained two small trucks (4 and 7 ton) that are managed by NASCOMEX and which earned a net surplus of \$20,000 on gross revenues of \$45,000. NASCOMEX also manages bulk transport contracts for its members worth nearly \$600,000, on which it received revenue equivalent to \$17,000 in 2001/2002. One of the early roles of NASFAM and its predecessor projects was to help farmers band together to find cheaper sources of transport.

### **c. Pipeline and Requested Support for the Consolidation of the NASFAM System**

The Strategic Development Program 2001-2006: A Plan for Transition, Growth and Sustainability, proposes an extension of the current agreement with ACDI/VOCA through 2006 to provide support to NASFAM; this support should last for the period of time that it takes for the recently constituted structure of associated companies to become well-established and operating firmly within the commercial market targeted by NASCOMEX and also to become thoroughly networked into the development community (NASCENT).

A year ago, a proposal for an extension, along the lines laid out in the strategic plan, was submitted to USAID by ACDI/VOCA to fund the remaining three years of the transition period. The alternative of funding NASDEC, without separate direct funding for external technical assistance, has also been discussed and likely outcomes of such an approach have been noted. The remaining three years (late 2003 to late 2006) is envisaged as the consolidation phase for the newly established structure of NASFAM companies; for the transformation of associations and groups of associations into for-profit companies in their own right; for establishing the linkages with international and regional markets; and for putting the NASFAM group of companies on an even footing to compete with the well-established traders and trading companies which currently dominate agricultural marketing. The consolidation of the NASFAM system is designed to give smallholder farmers the option to participate in the benefits accrued from the marketing and processing of their own products and, for non-members, the option of selling their products to or buying their inputs from a group of companies dedicated to serving smallholder interests and to

increasing competition in rural areas. At the same time, the consolidation phase will improve retail trade in rural areas, which has languished for years, since the forced departure of Asian traders -- as associations open farm supply and essential goods shops in areas currently not served by other traders.

### **3. Conclusions**

Over the course of time and since USAID first started supporting smallholder farmer incursions into the marketing of high value crops, an organization has been created which has allowed member farmers to organize, to develop their business skills, and to retain for themselves and for their member-owned businesses a significant fraction of the wide margins formerly enjoyed by intermediate buyers. Initial support resulted in its meeting its original goal of assuring smallholders a role in the national economy, and has strengthened smallholder clubs and helped them to operate in a more businesslike fashion.

Initial project support to these clubs has been transformed into support for the development of a national organization (NASFAM), which has been instrumental in assisting smallholder farmers in the marketing of their crops, in taking advantage of economies of size on both the product and input sides, and in developing an organization capable of analyzing the challenges facing (and opportunities available to) smallholders and representing their interests in public fora. The impact on member incomes has been positive and significant, in the process of turning farming from a way of life into a business producing income which was significantly higher than farmers had ever achieved before -- and higher than incomes now obtained by non-member farmers with similar resources.

Farmer associations have had a positive impact on communities both from a commercial standpoint by raising farmer incomes; also as contributors to local development through their cooperation with schools and other community projects, and through the provision of services which are otherwise unavailable (private health clinics, farm supply shops and paraffin pumps). As farmer associations were able to make more money through the improved marketing of crops, interest surged in improving crop production practices; farmer efforts have been supported by crop production and marketing activities of Association Field Officers, whose private extension efforts helped farmers increase the volume of products that they could market through their associations. The associations also contributed by setting an example as democratically run, transparent and financially responsible institutions. NASFAM clubs and associations have also been heavily involved in community development efforts (school construction, bridge rehabilitation, etc.) and literacy efforts not directly tied to their central focus of turning farming into a business.

Donors other than USAID, who have come to cover an increasing proportion of the costs of developing this organization and of expanding its coverage to other areas, have perceived of the initial investment of USAID, which was instrumental in its creation, as a good one. They have financed the construction of permanent offices, warehouses, and marketing centers, lending an air of permanence to NASFAM's operations. NASFAM still runs its headquarters operations out of rented premises; however, the organization is seeking to construct its permanent headquarters building and has purchased a plot in Lilongwe for that purpose. The Government recognizes NASFAM's contribution to raising smallholder incomes and improving their status, and is

constantly putting pressure on the organization to expand its membership and geographical coverage.

Within the past year, new corporate structures have been developed which clearly delineate NASFAM's commercial operations and separate them from its developmental activities. NASFAM has set up a holding company (NASDEC) to control the two companies established to manage its two different types of operations: the NASFAM Commodity Exchange (NASCOMEX, a commercial trading company able to carry out a broad range of trade operations with members, with the general public and for its own account); and the NASFAM Center for Development Support (NASCENT, focusing on advocacy and communications, training and human resource development, and information services). The mandate of NASCOMEX has been broadened to allow it to engage in any kind of commercial operations in agricultural marketing or processing which, after analysis, appear to be profitable. Though new, it is becoming a large enough force in marketing in Malawi to generate criticism from traders whose privileged control of markets and monopoly profits are being affected, and who are being forced to lower prices for inputs and raise prices for the products they purchase in markets where NASCOMEX is active. Nevertheless, after less than one full season of operation, the new structure cannot be said to have proven itself to be fully established in markets long dominated by a few, financially powerful traders.

A trading company like NASCOMEX, even when buying products from its members, has to have access to a large volume of funds at the beginning of and throughout the marketing season for a given crop, in order to buy successfully, fulfill its marketing plans, and meet commitments to the buyers it in turn is supplying. In a number of cases members hard-pressed for cash, have sold to intermediate buyers and lost many of the advantages of their status as members, because of NASFAM's lack of sufficient liquidity at critical times during the marketing season. Unlike the situation in other countries (such as in Mozambique) where major crops come in at different times of the year, providing some continuity in demands on finance and allowing funds to be employed in marketing throughout the year -- in Malawi most crops are harvested at almost the same time. NASFAM needs a much larger amount of liquidity than it currently has available in order to operate efficiently and to be in a position to buy crops as they become available during the marketing season from non-member smallholders, as well as from its own members. When it closed its operations in Malawi, DANIDA left behind a small marketing finance fund; though originally provided to NASFAM as a loan, DANIDA converted it into a grant in recognition of NASFAM's successful use of the fund for buying smallholder crops. USAID might be able to supplement these funds and other funds that NASFAM has access to, by either providing a grant for use in crop purchasing; or, alternatively, it could use the Development Credit Authority (DCA) to facilitate NASFAM's access to borrowed fund at a preferential rate, at a relatively low cost to the USAID/Malawi mission. (The DCA provides a 50 percent US Government guarantee to institutions that have had a risk analysis by USAID. The risk percentage amount is then deposited in the US Treasury by USAID. The Treasury makes up the difference to achieve coverage of 50 percent of the amount that the institution wishes to borrow).

Likewise, NASCENT, in taking over the developmental side of NASFAM's activities, needs time to develop a full network of contacts within the development community which will permit it to attract and make the best possible use of development resources that donors and NGOs want to channel toward smallholders.

The timeframe established in the strategic development program is reasonable for putting newly established businesses and business units on a sound financial footing. Despite the complications affecting the agricultural economy as a result of uncertain rainfall and those brought on by the continuation of old and the introduction of new unsound economic policies (both within Malawi and in neighboring countries), within the six-year period contemplated -- the companies in the NASFAM system stand an excellent chance of succeeding, provided the investments called for in the program are in fact made. Past investments of their own supported by USAID have made smallholders a significant force in production and marketing for the domestic and export markets, with their own national organization to promote their interests. Additional investments are necessary over the three years remaining in the program to transform the national organization into a set of allied smallholder-owned companies pursuing an integrated approach to the economic and social development of smallholders. Without continued support from USAID to guarantee successful management of this transformation, the likelihood of success will be significantly reduced, despite any complementary support NASFAM may receive from other donors.

#### **4. Recommendations**

##### **Recommendation 1**

USAID should consider reviewing and responding to the proposal that NASFAM sent a year ago concerning the implementation of its five-year strategic program for 2001 to 2006. The investment in such a program can rightly be viewed as insurance on the rather substantial investment USAID has made, over the years, in developing and in laying out a structure for farmer associations and farmer-owned businesses in Malawi to belong to and to grow with in the years to come.

##### **Recommendation 2**

An alternative has been proposed to replace current funding through ACDI/VOCA by providing funding instead to NASDEC and allowing it to decide whether or not to hire external technical assistance. This alternative is unlikely to achieve the goal of assuring continuity in the provision of the level of technical assistance NASFAM needs during the 2003 to 2006 transition period. It is unlikely that Malawian managers would be willing to hire external technical assistance, given the difference between national and international salary scales.

Since the failure to continue with external advisors would have an adverse impact on the likelihood of a successful transition to sustainable commercial and developmental activities of the new NASFAM structure, it is advisable that USAID continue to fund expatriate technical assistance directly until the end of the transition period, even if most of the funding to NASFAM itself is channeled directly to NASDEC.

##### **Recommendation 3**

For NASCOMEX to function profitably and for NASFAM to provide properly for the needs of its members, NASCOMEX will have to have access to a much larger volume of financial liquidity. USAID might be able to provide for this need at a relatively low cost by accessing the

Development Credit Authority, which USAID/Ethiopia has used very successfully for a similar operation.

#### **Recommendation 4**

Funds are also needed to cover the costs of putting the finance, accounting, and MIS systems in place, down to association and even club level; expatriate technical assistance will be required for these systems to be the most modern possible.

#### **Recommendation 5**

Networking of NASCOMEX staff with international traders in inputs and principal products is necessary, and its initial cost would have to be borne by outside sources of funding.

#### **Recommendation 6**

Moderate growth from its current membership of nearly 100,000 members should be supported, but should be guided, as it has been in the past, by careful selection of areas with the greatest commercial potential and integrity and accountability of potential members. The primary focus of growth should be in expanding membership in existing associations and in areas contiguous to those in which NASFAM is already operating -- thus providing a greater density of service, rather than expanding geographically to new areas with low commercial potential.

#### **Recommendation 7**

Support is needed on both the business and developmental side of NASFAM to consolidate these operations within the new structure being established under the terms of the 2001-2006 Strategic Development Program. On the business side, in order to put NASCOMEX on an even playing field with traders and trading companies which have received considerable favors and special conditions in the past -- capital expenditures need to be supported for buildings, equipment and machinery for new value-added and trading operations, communications and travel for establishing international business contacts needed for promoting and maintaining competitiveness in export trading, and for external technical assistance for new product and new market development work. On the developmental side, NASCENT needs support to improve the depth of its analysis of issues affecting smallholders and to better present their interests to Government and to the general public through the appropriate media; to improve and adapt its training efforts to the needs of the new structures now being established within NASFAM; and to put in place a nationwide data-capture and analysis system to provide other NASFAM companies, donors and Government with a tool for analyzing the impacts of proposed commercial and developmental strategies. NASDEC needs support to put in place financial systems in all NASFAM companies and to provide them with top-quality financial services, towards assuring accurate and transparent operations necessary to allow informed member decisions and good governance.

## **Recommendation 8**

Support is needed to put crop production and marketing services in place to replace Government extension services which have ceased to function, particularly for the commercial crops that NASFAM encourages its members to grow.

## **Recommendation 9**

In view of recent food security problems which have affected even NASFAM's commercially oriented farmers, NASFAM needs support to help its members increase family food production, as well as family income from the cash crops whose marketing and production has been NASFAM's main focus since it started in the mid-1990s.

### **5. *Lessons Learned***

- ▶ The agribusiness orientation to producer organization support and development was unproven at the time that USAID/Malawi proposed moving its support in that direction. The approach adopted by the Malawi Mission has now been proven and confirmed by USAID missions across the African continent in similar programs, from Mozambique to Mali and Ethiopia to Malawi.
- ▶ Long-term support and continuity are essential for a smallholder farmer development program to succeed. Short-term, pilot projects are unlikely to achieve the development of institutions capable of handling farmer needs in the long-term.
- ▶ Based on their success derived from initial support from USAID, NASFAM and similar organizations in other countries are able to leverage significant support from other donors, to expand the number of farmers served and the areas covered, and to increase the percentage of their operating costs covered by their commercial operations.
- ▶ Keeping the focus on improving farmer income has been a key element to the success of NASFAM in maintaining farmer interest in the organization and farmers' willingness to devote their own efforts to help make their local clubs, associations and national association a success.
- ▶ Initial marketing of raw products with improvement in grading and quality due to organization and external business-oriented support are the best focus of resources.
- ▶ Programs need to concentrate at the start on those high-value crops that smallholders know best and which they can manage most easily, in this case burley tobacco (which does not require wood for curing).
- ▶ Subsequently, other crops can be added in the same areas or new areas opened up, using new, high-value crops for which a market is well established.
- ▶ Initial bulk purchases of inputs from the local market are probably the best way to develop these markets and to assure farmers at the same time of the economies of bulk

buying; direct import of fertilizer and other inputs, once organizational capacity has been developed, can also improve profits and lower costs to farmers.

- ▶ Value-added processing activities and direct importation of inputs are better left until later, and when they are done, should concentrate on those crops most easily processed (such as rice) and on the most commonly used inputs (basic kinds of fertilizer, common pesticides, etc.).
- ▶ Input supply shops of farmer associations should concentrate on the main inputs used by farmers and should minimize the size of their inventories by stocking only high-turnover products. Other items and services (basic household goods, paraffin sales, maize milling, etc.) should only be added where market conditions and association management are favorable to their addition to the shops' basic inventories.
- ▶ Good governance and accountability of leaders and managers for member funds are essential for the sustainability of the organization.
- ▶ Accountability for borrowed funds is part of an organization's accountability to members; if members do not honor commitments to financial institutions that have provided credit because of the good name of their organization, the ability to obtain financing in future years will be reduced.
- ▶ Complaints of major traders are an indication that the organization is beginning to have an impact on improving marketing for smallholder farmers, and should serve as a guide for continuing interventions in the future to improve marketing in precisely the same areas as are the focus of such complaints.