



**New Partnership for
Africa's Development (NEPAD)
Comprehensive Africa Agriculture
Development Programme (CAADP)**



**Food and Agriculture Organization
of the United Nations
Investment Centre Division**

GOVERNMENT OF THE REPUBLIC OF MALAWI

SUPPORT TO NEPAD–CAADP IMPLEMENTATION

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Volume II of V

BANKABLE INVESTMENT PROJECT PROFILE

Commercialization of High–Value Crops

January 2005

MALAWI: Support to NEPAD–CAADP Implementation

Volume I: National Medium–Term Investment Programme (NMTIP)

Bankable Investment Project Profiles (BIPPs)

Volume II: Commercialization of High–Value Crops

Volume III: Integrated Water Management and Rural Agricultural Credit

Volume IV: Livestock and Fishery Development

Volume V: Agricultural Technology Development and Dissemination

NEPAD–CAADP BANKABLE INVESTMENT PROJECT PROFILE

Country: Malawi

Sector of Activities: Agriculture

Proposed Project Name: Commercialization of High–Value Crops

Project Area: Nation–wide

Duration of Project: 5 years

Estimated Cost: Foreign Exchangen/a
Local Cost.....n/a
TotalUS\$7.6 million

Suggested Financing:

<i>Source</i>	<i>US\$ million</i>	<i>% of total</i>
<i>Government</i>	0.76	10
<i>Financing institution(s)</i>	0.61	8
<i>Beneficiaries</i>	0.15	2
<i>Development Partners/IFIs</i>	6.12	80
<i>Total</i>	<i>7.65</i>	<i>100</i>

MALAWI:
NEPAD–CAADP Bankable Investment Project Profile
“Commercialization of High–Value Crops”

Table of Contents

Abbreviations.....	iii
I. PROJECT BACKGROUND.....	1
A. Project Origin	1
B. General Information.....	1
II. PROJECT AREA.....	1
III. PROJECT RATIONALE.....	4
IV. PROJECT OBJECTIVES.....	4
V. PROJECT DESCRIPTION	4
<u>Component 1:</u> Promotion of Commercial Production of the Selected Crops.....	5
<u>Component 2:</u> Establishment of Farmers’ Producer Organizations	5
<u>Component 3:</u> Agricultural Market Development.....	6
<u>Component 4:</u> Research and Extension Support	7
VI. INDICATIVE COSTS	7
VII. PROPOSED SOURCES OF FINANCING	7
VIII. PROJECT BENEFITS	8
IX. IMPLEMENTATION ARRANGEMENTS	8
X. TECHNICAL ASSISTANCE REQUIREMENTS	8
XI. ISSUES AND PROPOSED ACTIONS	9
XII. POSSIBLE RISKS	9
Appendix 1: Map of Malawi Showing the Eight ADDs	11
Appendix 2: References	13

Abbreviations

ADMARC	Agricultural Development and Marketing Corporation
ADB	African Development Bank
ADD	Agricultural Development District
AGOA	African Growth Opportunity Act
CAADP	Comprehensive Africa Agriculture Development Programme
COMESA	Common Market for East and Southern Africa
DARTS	Department of Agricultural Research and Technological Services
DFID	Department for International Development (U.K.)
DWASCO	Dwangwa Sugar Corporation
EU	European Union
GDP	Gross Domestic Product
MASIP	Malawi Agricultural Sector Investment Programme
MoAIFS	Ministry of Agriculture, Irrigation and Food Security
NADP	National Agriculture Development Programme
NEPAD	New Partnership for Africa’s Development
NGO	Non-Governmental Organization
NMTIP	National Medium-Term Investment Programme
SUCOMA	Sugar Corporation of Malawi

I. PROJECT BACKGROUND

A. Project Origin

I.1. The project on the commercialization of agricultural products has previously been presented by the *Ministry of Agriculture, Irrigation and Food Security (MoAIFS)*. In its *National Agriculture Development Program (NADP)*, the *Malawi Poverty Reduction Strategy Paper* and the *Review of Agricultural Policies and Strategies* document, the MoA emphasized agricultural commercialization as one sure way to increase rural incomes and promote food security. Its vision as stated in its “*Guide to Agricultural Production and Natural Resources Management*” is to promote and facilitate agricultural productivity and sustainable utilization of natural resources to ensure food security, increased incomes and creation of employment opportunities. The implication of this vision is that agricultural production should go beyond mere subsistence production.

B. General Information

I.2. The economy of Malawi is dependent on agriculture. The sector generates 36 percent of Gross Domestic Product (GDP), contributes 90 percent of foreign exchange earnings, accounts for 85 percent of paid employment and is the main source of livelihood for 85 percent of the population that is based in the rural areas. The agricultural sector is dualistic (i.e. comprises smallholder and estate sub-sectors). Smallholder agriculture contributes about 84 percent of sector output and the estate sub-sector contributes the rest (16 percent). The main problem is that smallholder agriculture is **mainly subsistence oriented**, and dominated by the production of maize, other food crops and a few cash crops (mainly tobacco and tea). The estate sub-sector is a significant component of the country’s agriculture. It is mainly commercial in its approach, and is the principal producer of the country’s capital-intensive cash crops: mainly tea; flue cured tobacco, coffee, sugar and cut flowers. The main contribution of estates to the economy has been as a leader and source of innovation for the agricultural sector as a whole.

II. PROJECT AREA

II.1. Malawi’s agro-ecological zones are suitable for various types of crops. The proposed project area will be nation-wide but with various crops targeted to their agro-ecological zones, with due consideration to the agro-ecological conditions and the crops suited to particular conditions. The table below (Table 1) illustrates the proposed locations (districts) with the crops specific to the area.

Table 1: Proposed Project Districts			
Crop	Proposed Site	Crop	Proposed Site
Cotton	<ul style="list-style-type: none"> • Salima • Karonga • Chikwawa 	Cassava	<ul style="list-style-type: none"> • Nkhata Bay • Nkhotakota • Dedza
Citrus Fruits (oranges and tangerines)	<ul style="list-style-type: none"> • Mwanza • Ntcheu 	Rice	<ul style="list-style-type: none"> • Karonga • Nkhotakota • Zomba
Paprika	<ul style="list-style-type: none"> • Lilongwe • Kasungu • Mchinji 		

II.2. The conditions with regard to **crops** that will be targeted are as follows:

II.3. **Cassava.** The current cassava production is estimated at 1.5 million metric tonnes (dry weight) which is mostly used as a food crop although the industrial domestic demand alone is around 2 million metric tonnes (dry weight). The commercialization of cassava production will also improve food security either directly or indirectly.

II.4. Currently the government and NGOs are encouraging production of the crop by supporting the establishment of primary, secondary and tertiary nurseries. Other commercial companies such as Universal Industries and HATCO have also ventured into commercial cassava production to try and meet industrial demand which is far from being achieved. NGOs are also supplying planting materials to farmers.

II.5. The critical food situation experienced in the country in the past two seasons led to vandalism of the planting materials both in farmers’ fields and institutional nurseries. Therefore there is need to increase availability of planting material through multiplication and organization of smallholder farmers.

II.6. Through agro-processing, industrial use and marketing there could be greater demand for cassava which could also create more employment opportunities. The biggest challenge to increased cassava production is provide planting materials to farmers. There are substantial opportunities to increase production because the weather is favourable and demand for the oil is also high.

II.7. **Cotton.** The current cotton production is estimated at 41 463 metric tonnes. However, cotton production has been on the decline due to a variety of reasons including climatic conditions, and economic and marketing conditions. The government is currently developing a *Cotton Sector Development Strategy Document* to address the above-mentioned conditions.

II.8. The major challenge is to increase the production of high quality cotton for both the domestic and export markets. The current demand for the crop is high due to the *Africa Growth Opportunities Act* (AGOA) that provides one of the greatest opportunities to expand production for the textile industry. Production of cottonseed oil, livestock feed and other by-products will provide another opportunity to substitute importation of these products, thereby saving the much-needed foreign currency. There is also an agreement between *Clark Cotton* (SA) and *Agricultural Development and Marketing Corporation* (ADMARC) to provide cotton inputs to farmers so as to boost production. In addition, the world quota has been removed, providing a good opportunity to explore.

II.9. **Paprika.** Paprika production is relatively new in Malawi with current production estimated at 10 323 metric tonnes. Nearly all the paprika produced is exported and far from reaches the demand. The major challenges in paprika are to increase production, and improve quality and marketing through farmer training and organization. The country has suitable agro-ecological zones for increased production of the crop. There are also marketing opportunities through AGOA, COMESA and other regional marketing groupings.

II.10. **Groundnuts.** Groundnuts are the second largest crop after pulses. The bulk of the groundnut produced is of CG 7 variety which was recently recommended to farmers. This variety has some shortcomings in particular its high oil content which renders it unsuitable for domestic use. the shelf life is also short. There is therefore need to promote varieties that are high yielding and suitable for the local and export markets such as Chitembana, Chalimbana, Manipintar and Mawanga. The major challenge is to increase the production and marketing of these varieties.

II.11. **Sugar Cane.** In an effort to promote production of sugar cane for sugar processing by smallholder farmers, government has established two schemes, namely *Kasinthula* and *Dwangwa Cane Growers*. Currently smallholder productivity levels are 90 000 kg of cane per ha against the potential 103 000 kg of cane per ha. In both schemes there is substantial potential to expand production. Increased production in Kasinthula is being hampered by a huge debt, which was incurred at the time of establishing the scheme. Farmers are willing to continue growing the crop but the huge debt is making the whole project unprofitable. Therefore, there is need to review the loan conditions to make the project viable.

II.12. Furthermore, the existing schemes need to be expanded and where possible, new schemes should be opened. The excess processing capacity at the two commercial estates of Dwangwa and SUCOMA will be able to handle the increased sugarcane production. There is great demand for sugar both on the domestic and international markets.

II.13. **Banana.** The current banana production in the country is low due to a serious outbreak of banana bunchy top virus disease which wiped out most of the bananas in the main banana growing areas of Nkhatakota and Nkhata Bay since 1994. The disease is spreading to new areas but at a slow rate. The decimation of the banana crop in the main growing areas has resulted in a loss of income for many farmers whose livelihoods depend on banana production and marketing. The government has sensitized the communities in the major growing areas on how to control the disease so as to revive banana production. The challenge is to provide clean (i.e. virus-free) banana planting material, to the farmers so as to restore banana production in the affected areas.

II.14. **Fruit Tree Nursery Development.** Commercial fruit production in the country is very low with the exception of tangerines in Mwanza district. Government efforts to improve production have been mainly through assisting smallholder farmers to establish fruit tree nurseries to produce seedlings of various types for sale to those farmers that require them. Up to 40 nurseries have been established throughout the country but the number of seedlings being produced is not adequate to meet the demand. There is need, therefore, to improve the productive capacity of the existing nurseries and to also establish new nurseries, especially in areas where the government is establishing new irrigation schemes through canalization technology.

II.15. **Rice.** Rice is one of the cereals grown along the Lakeshore, Phalombe Plain, the Shire Valley and areas around Lake Chilwa. The national aim is to increase paddy yields per unit area in irrigated rice schemes and also to increase both the yield and area of rain-fed rice to meet both the domestic and export demand.

II.16. The present low yield of 1,000 to 1,500 kg per ha for Faya 14-M-69 and other cultivars under rainfed conditions should be increased to 3,500 to 4,000 kg per ha. The present cultivated rainfed area of 26,000 to 30,000 ha should be increased to the potentially available area of 70,000 ha. For irrigated rice, the yield of 4,000 kg per ha is low in comparison with the potential yield of 6,000 kg per ha.

III. PROJECT RATIONALE

III.1. The Malawi economy depends on a few selected crops such as tobacco, tea, sugar, and coffee for its foreign exchange earnings. The unfavourable terms of trade affecting some of these crops, especially tobacco, has led to the decline in foreign exchange earnings. The country has, however, suitable agro-ecological areas for the successful production of numerous crops. There is need, therefore, to promote the production, processing and marketing of potentially high value crops. The crops that are being targeted in this project are cassava (*for industrial use*), cotton, paprika, groundnuts, and some fruits such as tangerines, oranges and bananas so as to widen the economic base of the country. The idea is to commercialize the smallholder agricultural sector so that the mindset of farmers can change towards production beyond mere subsistence farming.

III.2. The over-dependence on tobacco, which is facing considerable problems such as declining terms of trade and the anti smoking lobby, necessitates diversification into other high value crops to supplement the foreign exchange tobacco brings in the economy. Currently, production of high value crops is low although there are considerable opportunities to expand production. These opportunities include the preferential treatment of cotton under AGOA, excess capacity for sugar processing, and the favourable ecological conditions for the production of a variety of crops.

IV. PROJECT OBJECTIVES

IV.1. The overall objective of the project is to increase producers' incomes and diversify farming activities by promoting commercial investment in the selected crops. There are four main objectives to the project:

- to promote production of the selected crops beyond subsistence levels.
- to build the capacity of producers in value adding activities for the selected agricultural commodities;
- to promote the formation and capacity building of producers groups/associations/cooperatives for effective dissemination of agricultural technologies and access to agricultural inputs; and
- to promote access to both domestic and international markets for the agricultural products.

V. PROJECT DESCRIPTION

V.1. The project will run for five years and would comprise four components:

- Promotion of commercial production of the selected crops;
- Establishment of farmers producer organizations;
- Agricultural Market Development;
- Research and Extension Support.

Component 1: Promotion of Commercial Production of the Selected Crops

V.2. This component will aim at achieving the diversification of agricultural production by encouraging farmers to venture into the commercial production of the selected crops ensuing into a divergence from tobacco dependency.

V.3. The activities of this component include:

- ***Establishment of nurseries for some selected crops.*** The project will identify varieties with required attributes such as high yield, and disease and pest resistance. Nurseries will be established for the multiplication of the varieties and distribution to farmers at a reasonable cost. The activity would mainly target citrus fruit in those agro-ecological zones that are suitable for such crops. Mwanza District is one of the areas where such fruit performs well in Malawi. Most of the fruit (i.e. tangerines and oranges) trees in Mwanza District are very old and their productivity is therefore very low. These trees need to be replaced with new and more productive ones.
- ***Seed multiplication.*** Commercialization of agricultural production (especially for crops) could only be achieved if farmers have adequate access to all the required agricultural inputs, including seed. All the new and improved varieties of the target crops that have been developed by the research institutions in Malawi will have to be multiplied and distributed to the project beneficiaries (i.e. smallholder commercial farmers). The project will, in collaboration with the research institutions, identify seed producers who will initially be provided with the start-up improved seed for multiplication in their localities.
- ***Loans for agricultural inputs.*** Agricultural inputs are costly. The cost of finance from both commercial and development banks is also very high, and is therefore unaffordable to most of the farming communities. To facilitate commercial agricultural production, the project will establish a special fund for on-lending to eligible farmers at concessionary interest rates.

Component 2: Establishment of Farmers’ Producer Organizations

V.4. Farmers have been operating in an unorganized manner for some time now and this has made it difficult for them to (i) be fully involved in policy making, and (ii) take advantage of the current liberalized crop and marketing environment.

V.5. Smallholder farmers generally depend on government for all services. For these support services to be effective and efficient, strong, dynamic and efficient farmer organizations, which include farmer groups, clubs, cooperatives and associations, are required.

V.6. The lack of capacity of communities to develop their local plans has led to little or no involvement in policy making. As a result, local development programmes are poorly developed and implemented. Formation of producer organizations is one way of increasing farmers’ capacity to manage their agricultural businesses effectively. As a group, the farmers will be better able to negotiate for better product and input prices. Producer organizations also facilitate dissemination of agricultural technologies and distribution of inputs. These producer organizations include farmer associations and/or cooperatives. For each crop, the farmers would be organized into groups. For some of the crops, producer organizations are already in existent e.g. *Zipatso Association of Malawi* (an organization which promotes the production and marketing of citrus fruits), *Paprika Association*, and

Cotton Association. The project would endeavour to enhance the activities of the existing organizations so as to extend them to other areas.

V.7. Capacity building would be done at two levels (i.e. at farmer level and at agricultural extension staff level). The component aims at increasing the capacity of farmers to better manage their businesses and organizations. The activities will include:

- Preparation of training materials in management skills for associations/cooperatives;
- Development of business management and marketing skills of producer organization members;
- Training in crop husbandry techniques for all the commercial crops covered in the project;
- Value-adding technologies;
- Farmers’ exchange visits to successful producer organizations;
- Futures market.

V.8. The project would also provide training to agricultural extension staff to provide them with the skills required for the dissemination of appropriate agricultural technologies.

Component 3: Agricultural Market Development

V.9. Marketing of agricultural produce is a major problem that is characterized by poor marketing infrastructure, an inefficient marketing system, lack of market information, low prices of farm products, high input prices, dominance by a small number of uncontrolled key players, and limited competition. This component of the project is meant to address the marketing problems that confront the majority of farmers. Some farmers have been producing some agricultural commodities without any certainty in the market. This problem has discouraged commercial crop production in the country. The activities will aim at ensuring that farmers have access to markets. The project would provide linkages between the farmers and the large agribusiness firms.

V.10. The component would have two sub-components:

- ***Contract Farming***; and
- ***Establishment and Improvement of Community Infrastructure.***

V.11. Contract farming would be promoted among farmers so that they can participate in more lucrative ventures, and negotiate product prices and quantities for their agricultural products before the actual production is executed. Some agribusiness firms have already started this initiative, especially in tobacco. The concept should be extended to other crops.

V.12. Infrastructure is required to facilitate the commercialization process for all agricultural products. For example, fresh products like vegetables, which are very perishable, need to have proper storage facilities (e.g. cold rooms); cotton could have small ginning plants located in the areas of production and managed by the farmers themselves through their producer organizations. Small scale to medium scale value-adding technologies will be promoted through the farmer producer organizations. The project would embark on the identification of other required infrastructure and examine the feasibility of provision.

Component 4: Research and Extension Support

V.13. The project would also support the transfer of research information from the research institutions to the farmers through the organization of field days. The field days would be organized to expose the farmers to various agricultural technologies available. In addition, the farmers will also learn from the experiences of their colleagues.

VI. INDICATIVE COSTS

Table 2: Indicative Project Costs	
Item	Cost (US\$'000)
Seed Multiplication (nursery establishment) (a)	0.50
Agricultural Loans (for production and value-adding activities) (b)	4.50
Market Development (c)	2.00
Technical Assistance	0.15
Project Management, including Research and Extension Support (d)	0.50
Total Project Cost (for Five Years)	7.65
Notes: a) Funds to be used for the purchase of seed and preparation and establishment of nursery beds. The seedlings would be sold to the farmers. b) The loan is proposed to be managed through a reputable financial institution at the going commercial rate to ensure sustainability of the facility. c) Funds to be used for the establishment of a Market Information Systems (MIS) which will compile market information and distribute to the farmers regularly. d) Funds for the day to day running of the project (stationery, workshops, travel salaries and the like)	

VII. PROPOSED SOURCES OF FINANCING

VII.1. The financial support for project implementation is expected to come from government sources, the private sector and from Malawi's development partners. The Government contribution will be in kind, i.e. in terms of staff, supplying offices/buildings for research and extension staff. Through yearly budgetary provisions, direct financial support would be availed to the project. It is expected that the Government will increase its financial allocation to the MoAIFS so that more funds can be channelled into this project.

VII.2. The bulk of the funding for actual project implementation will come from co-operating partners, especially those that have an interest in the promotion of food security and enhancement of rural incomes. In Malawi, such co-operating partners include the *European Union* (EU), *Department for International Development* (DFID) and *African Development Bank* (ADB).

VII.3. It is expected that both the private sector and the producers (farmers) will contribute in-kind towards the project. The private sector is part of the marketing chain, and thus should be able to finance their business activities. The private sector will also be encouraged to assist in the establishment of the Market Information System. The farmers, through their producer organizations will contribute their labour and land towards the project. The producer organizations will also assist their farmers to transport the produce to the market.

VIII. PROJECT BENEFITS

VIII.1. The project is expected to have the following outputs:

- Subsistence farmers transformed into commercial farmers with a business approach to their operations. Through training and exposure to various agricultural technologies, farmers will be encouraged to change their perception of agriculture and adopt a more entrepreneurial attitude to their farming operations.
- Operational Producer Organizations: These producer organizations will act as lobbying forums for policy changes in the agricultural sector; negotiate for better prices for both product and agricultural inputs; and also act as vehicles for technology dissemination.
- Improved understanding of both domestic and international market needs by the farmers.
- Improved relationship between the farming community and the private sector. Through their producer organizations farmers will be able to establish business relationships with the private sector. Market access for products and inputs will therefore be facilitated.
- Strong research and extension linkage.

IX. IMPLEMENTATION ARRANGEMENTS

IX.1. The project will be housed in the MoAIFS, in the *Department of Crop Production*. The department will recruit a project implementation team and will play a key role in the implementation of the project. It will be responsible for the recruitment and maintenance of project staff, provision of office accommodation and coordination of all project activities, including sourcing of project funds, financial management and project evaluation. The project would be implemented in collaboration with other stakeholders like, the *Department of Irrigation* and the *Department of Agricultural Research and Technical Services* (DARTS). DARTS would generate technologies that will be packaged in a user-friendly way by the *Department of Crop Production* for its extension staff. The *Department of Irrigation* will facilitate irrigation development in all suitable areas. The *Planning Division* will conduct monitoring and evaluation, while *Land Resource Department* will assist in land resource management. The NGOs and other organizations, including the private sector that is already involved in such crops will be consulted at every stage of the project.

X. TECHNICAL ASSISTANCE REQUIREMENTS

X.1. Technical assistance will be required for this project, especially in the area of contract farming. Contract farming is a relatively new idea in Malawi and it is not yet widely practiced. An expert will therefore be required to help train the farmers and agricultural extension staff on this aspect of the project. If the idea of contract farming is to be meaningful, the private sector will have to be involved. The private sector constitutes the major buyer and processor of agricultural commodities. Training in contract farming will therefore have to be extended to the private sector as well. This expert could either be a Malawian national or an expatriate as long as he/she has proven experience in contract farming. The preference, however, is for an expatriate, especially from a country where contract farming is prevalent.

XI. ISSUES AND PROPOSED ACTIONS

XI.1. **Multi-Sectoral Implementation.** There are many organizations that are involved in the activities outlined in this project. Some are involved in seed multiplication (e.g. Action Aid), others are involved in market information (e.g. Cisp International) and many more are involved in agricultural extension activities. These other organizations operate in some parts of the country, but are generally restricted to small areas. Implementation of this project will therefore require proper collaboration with all these stakeholders to avoid duplication of activities.

XI.2. **Participatory Approach.** Enough lessons have been learnt about poverty and the poor. It appears that poverty can be reduced only if programmes are built around what rural people already know and what has been learned from them; their realities and experiences. To the extent possible, this project will use a participatory approach in the design and implementation of activities to ensure that beneficiaries’ realities are taken into account.

XI.3. **Sustainability.** Sustainability of the project will be ensured through provision of services to those who are willing to participate, contribute labour, and have the determination to maintain their interest in program-related activities. These beneficiaries, in farmer group associations, will be provided with resources and training to empower themselves and ultimately manage their own as well as community development infrastructure. Adequate provision will be made in the project to effectively supervise the activities and provide incentives to the beneficiaries so as to ensure their full participation even after project implementation.

XI.4. **Private Sector Involvement.** The importance of the private sector in a project of this kind can not be over emphasized. Commercialization is a business idea, thus the private sector which is a crucial part of the market channel will have to be actively involved. The project is likely going to increase production of the selected crops and the private sector will have to be ready to absorb the increased production. Contract farming is only possible if the private sector is willing to participate. It will therefore be necessary to involve this sector right from the beginning of the project through to the end.

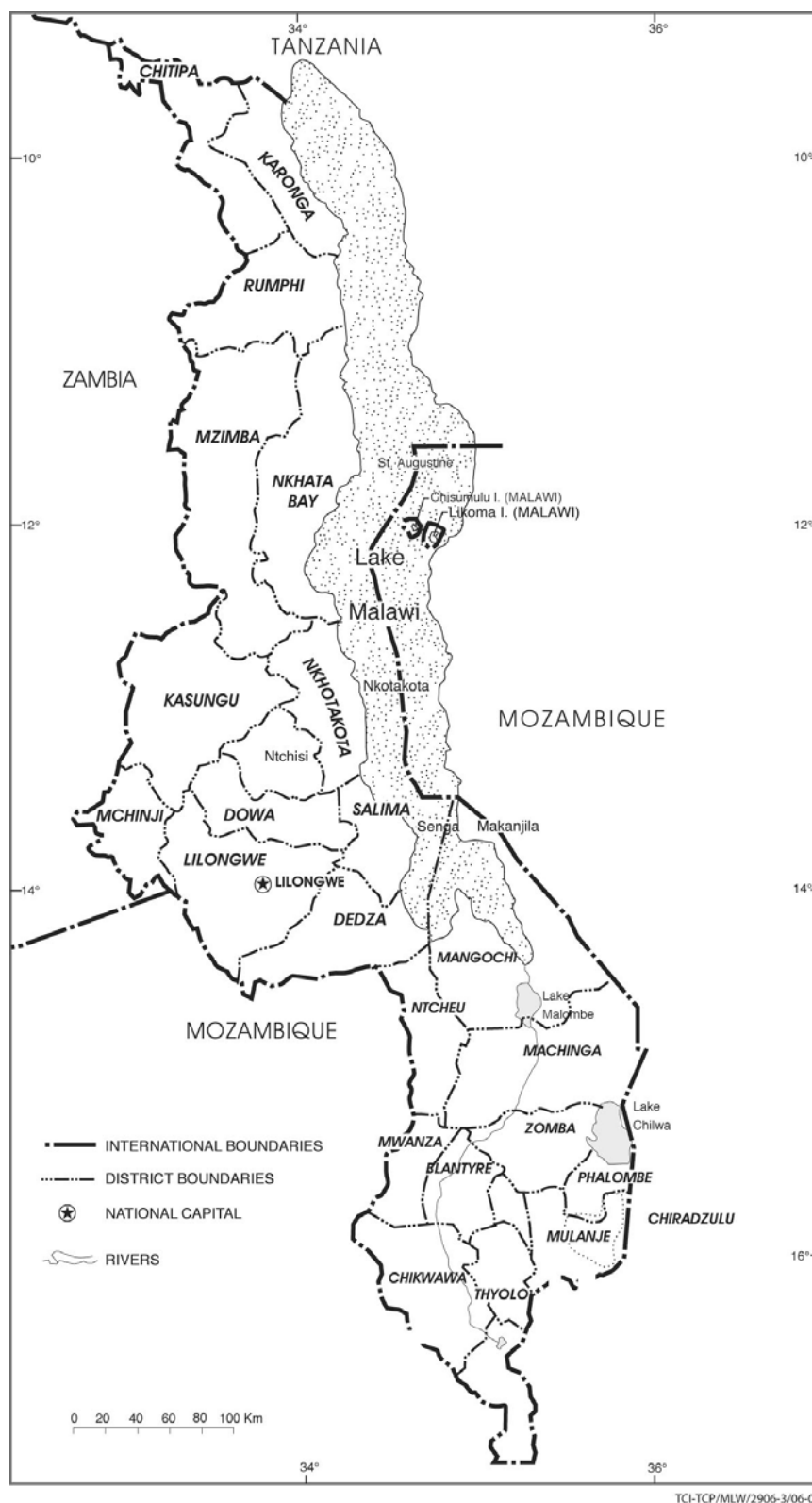
XII. POSSIBLE RISKS

XII.1. There are several risks, which may affect the project. These include:

- **Delays in sourcing funding:** The bulk of the finances are expected to be sourced from co-operating partners. However, the country may experience delays in sourcing such funds, particularly given recent experience. The solution lies in vigorously marketing the project proposal to potential funding agencies by government.
- **Government commitment:** The government is also one of the sources of the project finance. This requires strong political will on the part of the government to make sure that the 10 percent allocation or more of the budget to the Agricultural Sector is indeed done as is expected in CAADP.
- **Private sector involvement:** The private sector is one of the key players in the project, thus, its involvement is crucial. Every effort will have to be made to make sure that the private sector is involved to encourage them to invest in agribusiness.

- ***Economic stability:*** Investment in agriculture is usually affected by the state of the economy. Macro-economic factors like interest rates, inflation and exchange rate are crucial if the private sector is to be attracted to invest. The government has to make sure that economic policies are conducive to the investments.
- ***Lack of credit finance:*** Agricultural inputs are expensive in Malawi and most of the farming communities cannot afford them. The project will therefore need to link farmers to financial institutions. It will even be easier if the farmers are organized into organizations and a special fund is set up as suggested in the proposal.
- ***Drought*** is a major risk to the project. Agricultural performance in Malawi has varied widely as a result of recurring droughts. The introduction of small-scale irrigation and soil and water conservation measures should minimize this risk.

Appendix 1: Map of Malawi Showing the Eight ADDs



Appendix 2: References

1. **Government of Malawi.** 1999. *Review of Malawi Agricultural Policies and Strategies.*
2. **Government of Malawi.** 2000. *Guide to Agricultural Production and Natural Resources Management.*
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