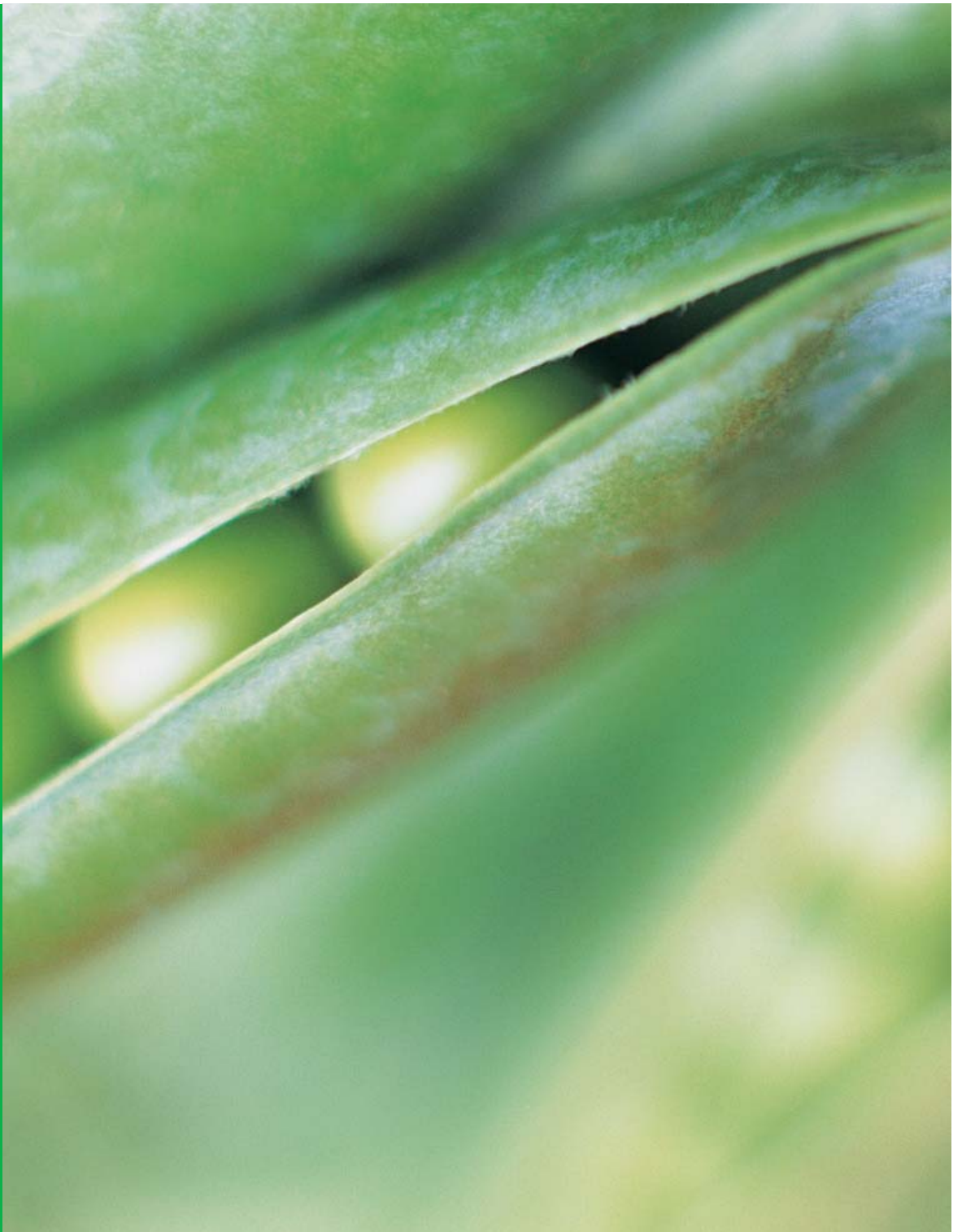


NASFAM: NATIONAL SMALLHOLDER FARMERS' ASSOCIATION OF MALAWI

EVALUATION OF NORWEGIAN SUPPORT TO NASFAM'S STRATEGIC
DEV. PROGR. 2003-2006; APPRAISAL OF PROGRAMME DOCUMENT
FOR SUPPORT TO NASFAM'S STRATEGIC DEV. PROGR. 2007-2011

BY STEIN BIE AND TORBEN LANG

NORAGRIC REPORT NO. 38
DEPARTMENT OF INTERNATIONAL ENVIRONMENT AND DEVELOPMENT STUDIES
NORAGRIC



**NASFAM
NATIONAL SMALLHOLDER FARMERS'
ASSOCIATION OF
MALAWI**

**Evaluation of Norwegian support to
NASFAM's Strategic Development Programme
2003-2006**

**Appraisal of Programme Document
for support to NASFAM's Strategic Development Programme
2007-2011**

by
Stein Bie and Torben Lang

Noragric Report No. 38
December 2006

**Noragric
Norwegian University of Life Sciences**

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ACRONYMS

ACE	Agricultural Commodity Exchange for Africa
ADMARC	Malawi Agricultural Development and Marketing Cooperation
AIDS	Acquired Immuno Deficiency Syndrom
AMC	Association Management Centres
Danida	Danish International Development Agency
FY	Fiscal year
GDA	Global Development Alliance
GDP	Gross domestic product
HASNET	Health and Safety Network
HIV	Human Immunodeficiency Virus
HR	Human resource
HRD	Human resource development
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics
IT	Information technology
KASFA	The Karonga pre-Association
KRA	Key result areas
M&E	Monitoring and evaluation
MK	Malawi Kwacha
MUSCCO	Malawi Union of Savings and Credit Cooperatives, Ltd.
N&S	North and South
NAC	National AIDS Commission
NASCENT	NASFAM Centre for Development Support/NASFAM Development
NASCOM/NASCOMEX	NASFAM Commodity Marketing Exchange/NASFAM Commercial
NASDEC	NASFAM Development Cooperation / NASFAM Corporate
NASFAM	National Smallholder Farmers' Association of Malawi
NGO	Non-government organisation
NOK	Norwegian kroner
Norad	Norwegian Agency for Development Cooperation
NRC	National Resources Centre
NTDI	NASFAM Training and Development Institute
p.a.	per annum
RENEWAL	Regional Network on HIV/AIDS, Rural Livelihoods and Food Security
RNE	Royal Norwegian Embassy
SDP	Strategic Development Programme
USAID	United States Agency for International Development
USD	United States Dollar

1. EXECUTIVE SUMMARY

The Norad consultants conclude that there have been significant achievements in NASFAM's work during the period 2003-2006, during which time Norway has been a (co-) donor to NASFAM's programmes. NASFAM has offered valuable technical and social services to its now 108,000 members, although has not achieved the financial sustainability (derived from its trading activities) originally envisaged.

The consultants recommend continued funding of NASFAM during the period 2007-2011, within the frame of NOK 100 million over the 5-year period, and subject to adjustments suggested by the consultants.

2. ASSESSMENT OF THE ACHIEVEMENTS OF NASFAM THE STRATEGIC DEVELOPMENT PROGRAMME 2003-2006

2.1. THE BACKGROUND

The Norad consultants² have been asked to consider achievements by NASFAM during the period 2003-2006, and to assess a NASFAM request to Norad for further funding for 2006-2011. In part 1 of this report we will assess the achievements during the review period, and in Part 2 the proposal for further funding.

The consultants would like to express their thanks to all officials and individuals met for the kind support and valuable information, which the consultants received during their stay in Malawi and which highly facilitated the work of the consultants (including a well-arranged programme by the Royal Norwegian Embassy, and valuable logistics support from NASFAM). We similarly appreciate stakeholder comments on a debriefing note presented to stakeholders in a well-attended meeting in Lilongwe 12 June 2006 and comments subsequently received on an earlier draft. Whenever appropriate we have tried to accommodate the views in this report.

This report contains the views of the consultants, which do not necessarily correspond to the views of the Royal Norwegian Embassy, Norad, NASFAM, or the Government of Malawi.

2.2. THE SETTING

During the period of review (2003 – 2006) and also earlier (when funded by USAID and Danida), NASFAM has operated in a national environment where the central state has been unable to offer adequate technical and social services to its rural people. Liberalising of the economy has taken place in the last few years but the marketing systems for agricultural inputs and outputs reflect serious failures of the market economy. There are possible political signals in government policies (e.g. through the recent subsidized fertilizer scheme) of a more centralistic, interventionist thinking, but there are no direct statements from the government to this effect. During the period 2003-2006 NASFAM's membership has grown to approx. 108,000. Thus through NASFAM about 10% of Malawi's agricultural smallholder families have now organized themselves to create and organize some essential technical and social services and to find alternatives for sales and purchases of agricultural inputs and commodities. NASFAM constitutes an organizational structure that does not wish to challenge the overall authority of the state, is non-political, non-religious and non-ethnic and gender-neutral but with an intention to ensure a better deal for women. If the Malawian government on its own had been able to provide adequate agricultural extension services to smallholder farmers, adequate schooling leading to universal literacy, to deliver itself on strong programme to combat HIV/AIDS, and promote a trading system that would allow also smallholders in more remote areas access to agricultural markets – national and international - at recognized fair prices for critical products, then the need for a NASFAM of the current type would largely have been eliminated. The consultants acknowledge that the Government of Malawi itself has realistically assessed its own limitations in recent years, and encouraged a wider, more multifaceted and complementary approach to the strengthening of the nation, including reliance on farmers associations. The consultants also acknowledge that 90% of

² Stein W. Bie, Agricultural Specialist/Team Leader and Torben Lang, Economist

Malawian smallholders are outside NASFAM, leaving much scope for additional institutional arrangements, both in the government and civil society spheres, without causing undue demarcation disputes or unnecessary competition for scarce resources.

2.3. NASFAM'S FINANCIAL SUSTAINABILITY PRINCIPLE

NASFAM was from the beginning constructed on a financial sustainability principle, where the proceeds of produce sales from NASFAM members would generate funds that can be used to deliver the required technical and social services to NASFAM members. The concept of financial sustainability was derived from the initial USAID-supported project, and an important factor then in attracting foreign funding. All foreign donors of aid reasonably assume a sustainability principle creating a foundation for their exit strategies from a project or programme. Projects that become donor dependent, and possibly donor driven, are not favoured neither by the donor nor the recipient. It was anticipated by NASFAM and the then donors (USAID and Danida) in 2002 that financial sustainability would be reached by 2006. In 2005 this was adjusted to be achieved in 2007. In a sense NASFAM operates as a micro-state, which taxes itself to find funds for the required services, which generate themselves no direct income. In the initial years of NASFAM, during the establishment of the self-financing model, and including the years 2003-2006, NASFAM has enjoyed external financial support from international donors (notably USAID, Denmark and Norway, and some NGOs, including the Norwegian Development Fund) and obtained national grants (themselves in part of donor origins) for some of its services (e.g. on HIV/AIDS from the National AIDS Commission). It should be noted that communities basing the running of social and technical services solely on the surpluses from agricultural production, particularly low-value staple foods, have faced severe difficulties in both industrialized and developing countries. It has often not been do-able. Most industrialized countries have subsidized their agricultural services, re: the WTO difficulties in the Doha and previous rounds of negotiation. When farmer-organized institutions have branched into sales of agricultural inputs back to members, the potential conflicts with commercial traders have become more pronounced. The success of such cooperative schemes has been limited in this part of Africa. NASFAM is not organized as a cooperative (with its associated legal status in Malawi) but has many traits similar to cooperatives.

Trading in agricultural inputs and outputs need not have a technical or social dimension. Commercial traders, both in Malawi and elsewhere, do not normally take upon themselves to provide significant social and technical services not directly linked to their trade (although some do, also in Malawi, in terms of proprietary technical advice or financial services). The “internal tax” therefore imposed by NASFAM on its trading activities translates largely into profits for trading companies (who unlike NASFAM may, however, be taxed by central authority). There is an inherent risk of competition between NASFAM as an agricultural output buyer and input seller, and commercial companies that perform similar services, but then on commercial terms. The rationale for NASFAM is not competition with existing traders but to open up markets for emerging farmers in areas poorly served by normal trade, or facing very unfavourable terms of trade. Donor support to NASFAM may be interpreted by traders as undue market interference, distorting the markets. The consultants have interviewed several commercial traders who, whilst complimentary of NASFAM's social and technical services (which also indirectly benefit the commercial traders), are concerned about cross subsidizing of commercial services. It has therefore become important both for NASFAM, donors and Malawian traders that the commercial activities of NASFAM (agricultural inputs

and outputs) are handled separately – and without significant donor distortions - from its technical and social provisions of services, so as to create a level commercial playing field. It remains, however, that NASFAM still sees it as a social and technical service to provide reasonable marketing opportunities and at fair prices in areas not hitherto significantly covered by commercial traders. It is a challenge to operate in more marginal areas where commercial operators have not found trade attractive.

The consultants have interviewed a significant number of NASFAM members from several NASFAM Associations. The prospect of being able to market their produce into the national and international markets and thereby to have access to and have better prices for their produce, appears to have been the number one priority for the majority of NASFAM members during the period 2003-2006. NASFAM has never targeted the poorest subsistence farmers, but those with a potential surplus to bring to market. Most NASFAM farmers have therefore in the period 2003-2006 primarily judged the success of NASFAM on its ability to generate cash income for them. Our discussions with farmers, NASFAM clubs and associations indicate that other services rendered (literacy, agricultural extension, HIV/AIDS advice, nutritional advice) – appreciated as they may be - are secondary to getting their produce timely to market and obtaining a fair price. However, we have also heard voices that value improved social and technical services – particularly functional literacy classes, especially for women – above increased cash income. The ability of women to participate more fully in communal activities through both general and commercial literacy, has been particularly noted. We observe a growing number of well-spoken and confident female NASFAM club and association officials, and recently the election of a female farmer president of NASFAM itself. The point has also been made that the provision of social and technical services to NASFAM members also readily filters through to non-members, this in effect greatly increasing the number of households and individuals benefiting from these NASFAM activities. We have no way in quantitatively assessing these spin-offs as part of this review, but note that claims of 2-4-fold effects have been voiced. This may be conservative. Somewhat similar estimates from ILEIA indicated an up to 10-fold uptake in Ethiopia.

Since the rationale for NASFAM has been to become self-sufficient from the trade in produce also to finance social and technical services, it is appropriate to review NASFAM in this light. However, as consultants we question whether this basic rationale is realistic, as most countries finance such services from other sources of income. Low agricultural commodity prices combined with extremely high financing interest rates in Malawi (30-40% p.a.) make the rationale highly optimistic. We urge a serious reconsideration – by NASFAM itself and the donors - free from popular political trends - of this rationale as applied to Malawian smallholder farmers in a globalised agricultural economy³. There is inherently no point in asking to be judged on criteria that are obviously unattainable. Where we are in full agreement with the rationale, is on the issue of the NASFAM trading itself. It is of course not sensible to trade at a loss, and every effort should be made to balance NASFAM organizational benefits from sales with the desire to offer NASFAM farmer members better terms of trade than normally available in the rural Malawian markets. We appreciate efforts to raise crop finance through cooperating finance institutions, e.g. MUSCCO and Opportunity Bank, although we also note the difficulties encountered, particularly with the credit line organized through MUSCCO. The consultants (themselves also farmers!) have severe reservations about the serviceability of agricultural loans at 30-40% annual interest rates. We note that loans incurred at these rates carry major financial risks for the borrower, and could

³ In these considerations the alternative financial costs of providing emergency food aid, and the social and political costs of creating aid dependence at community level must be factored in.

easily have negative social consequences in case of crop failures or market collapses. We note with interest early NASFAM trials with drought insurance linked to Opportunity Bank loans.

2.4. NASFAM DEVELOPMENT

In respect to NASFAM Development⁴, we note a general satisfaction with the literacy programmes operated as part of the activities. Both the basic literacy classes and the training given on simple business principles have clearly been of immense benefit to about 30,000 NASFAM members. Through literacy – also numeric literacy - has come greater self-esteem, and women feel more empowered also to take part in business opportunities and make financial decisions for their families and their communities. Among NASFAM members, 30-40% of households may be female-headed. The roles that NASFAM teaching material and NASFAM field officers have played in uplifting their members, their clubs and associations in respect to literacy over the last 4-5 years cannot be underestimated, also in linking individuals and communities into the greater outside world much beyond NASFAM. Paradoxically the increased numerical literacy of NASFAM members may have given them the ability to more critically review NASFAM trading practices and the degree of transparency of the whole NASFAM organization. To install a sense of business entrepreneurship in smallholders opens up very wide horizons of which predominantly subsistence farmers previously had little experience. NASFAM is generating for itself a more critical mass of members, which is highly laudable. Reports from other non-governmental organizations, but also from government departments, indicate that NASFAM literacy material is highly valued, and that NASFAM support in assisting other organizations in tailoring material to their specific situations is much appreciated. We are uncertain whether NASFAM Development charges realistic rates for such assistance. Whilst we note that this expertise is a potentially tradable service, we also appreciate that – in view of on-going and future cooperation - it may not always be wise to insist on realistic payments.

NASFAM Association field officers undertake agricultural extension work. Extension officers of the Ministry of Agriculture may typically serve as many as 600 – 1,000 individual farmers, sometimes more. Unfortunately, they are often short of transport and other essential tools. NASFAM field officers base their extension on meeting with the NASFAM clubs, and on farmer-to-farmer outreach through a “training-of-trainers” approach where a particularly talented farmer serves as a local extension point. Thus one field officer may see a group of farmers once a month or sometimes more often. Although NASFAM field officers also experience shortage of fuel for their light motorcycles, they appear quite mobile and versatile in advising on mixed farming as well as specialized crops. The shortage of trained agricultural extension officers (normally coming from the Natural Resources Centre (NRC) or Bunda College of Agriculture) has meant that NASFAM during the period of review has had to train secondary school leavers for field officer duties. Concern has been raised about the suitability of all such officers. In most recent years NASFAM has entered into cooperation with NRC to attract more qualified field officers. The interest voiced by NRC and Bunda College to ensure the supply of qualified officers is welcome and could improve NASFAM outreach services beyond what has been achieved during the review period. We conclude, however, that NASFAM agricultural extension services have served useful functions and are appreciated. We also applaud the close research and outreach cooperation with ICRISAT on the introduction of new aflatoxin-resistant groundnut varieties.

⁴ See section 1.6 for a structural overview of the legal constructs of NASFAM

During the period of review HIV/AIDS has continued to spread in the Malawian countryside and forms a constant threat to NASFAM members and to non-members. The field officers are also involved in an HIV/AIDS information campaign to stem HIV infections. The campaign, financed by a National AIDS Commission grant, appears to be of a classic type stressing celibacy, fidelity and condom use as key elements to avoid infections. Whilst we were impressed by the dedication of a field officer to demonstrate sensitive issues, e.g. the use of condoms, we are less certain whether a wider community approach as pioneered by HASNET and RENEWAL in Malawi and Uganda would not add value to current efforts. The relatively wide coverage of NASFAM in rural areas and its well-recognized brand name could have been used more aggressively in the fight against HIV, particularly in creating community understanding of the links between rural poverty and the lack of assets, and vulnerability of young girls to HIV infection due to e.g. transactional sex. We nevertheless applaud NASFAM for having sought to play an active role in the national HIV/AIDS campaign. Unlike some other NGOs they have perceived the direct link between agriculture and HIV/AIDS, both in the way that AIDS-sick people lose the ability to provide agricultural labour, the asset-stripping of rural households to provide for the sick and funerals, and changes to farming systems to cope with decreased labour availability. The massive premature deaths leading to very young and very old members of the community involved in active farming also contribute to distortions in the knowledge chain; NASFAM extension efforts must be tailored to this fact. We urge NASFAM to continue its disease prevention work, and to further explore the link between other infections (malaria, gastric infections, tuberculosis, aflatoxing effects) and HIV/AIDS. Nutritional aspects, part of technical services provided by NASFAM field officers, are also closely linked to health in general and HIV vulnerability and AIDS survival.

2.5. NASFAM COMMERCIAL

During the period of review the commercial branch of NASFAM has been separated from general NASFAM development activity, ostensibly to create greater freedom for commercial enterprises. As argued above, the success of NASFAM Commercial (also known as NASCOMEX) is defined as critical to the financial sustainability of the NASFAM concept. We can only note that in the period of review NASFAM Commercial has struggled to achieve financial surpluses for itself and its Association farm input shops. Whilst we appreciate that the task to generate significant surpluses is most difficult, and that the undertaking to make NASFAM Commercial financially self-sufficient by 2006 may also have been somewhat undermined by the hastily introduced government fertilizer subsidy scheme in 2005, we do note a series of possible weaknesses in the approach to and execution of commercial activities. We applaud the success in having designated NASFAM groundnuts for fair trade in Europe.

The challenge for NASFAM Commercial is to create and execute trade for smallholder farmers, some of whom have not been able to sell their produce before because of distance from the marketplace. Others have found themselves in monopoly buyer situations, where buyers have offered prices that compare unfavourably with those obtained in more competitive marketplaces. NASFAM Commercial clearly offers an outlet for members otherwise outside the reach of favourable trading conditions. It requires extraordinary trading skills to open fair markets to smallholders where the commercial markets have failed, at least in the eyes of the farmers. During the review period NASFAM Commercial has clearly had problems in recruiting the equivalents of commercial traders, with rural trading experience.

NASFAM Commercial has during the period had a number of self-imposed constraints, some of which may not have been conducive to generating trade. Firstly, NASFAM Commercial aims to pay an attractive price to the NASFAM farmer-producer making it a competitive buyer compared to commercial traders. The price to be paid is set centrally in Lilongwe, whilst commercial traders may adjust their buying prices continuously. Secondly, NASFAM Commercial aims to offer the same price for all farmers within the Association, which means that more remote areas will receive a significant transport subsidy normally reflected in a lower price paid by commercial traders. In an extreme case, NASFAM Commercial may be purchasing produce beyond the trading routes deemed profitable by commercial traders. During the period of review NASFAM farmer members appear to have increasingly focussed on the price paid by the buyers. They have not always chosen to sell their produce through their own Association, when the Association could not arrange for timely purchase of produce (for lack of funds or logistics) or when they felt they could get a better price from other traders. We note that loyalty to own Association may have been ephemeral, although the honesty of NASFAM weighing scales has been universally praised. There seems to be little understanding among farmers for the need to buffer for fluctuations in the market, i.e. the actual business situation seems poorly understood by members. This may be an educational issue. Similarly, extravagant and unrealistic price demands from farmers for their produce (e.g. recently for rice) need to be handled in a sensitive way.

We further note that NASFAM members have been divided in their views as to where the profit margin between NASFAM purchase (at ‘fair prices’) and NASFAM sales should be invested. Some farmers we have met as part of this evaluation appear to think that they as individual farmers should directly benefit from the ‘profit’ made, in the form of a bonus or dividend, whilst others give preference to such funds being made available to their Association for general use, including development activities. There seems a widespread perception among farmers and association officials of an undue proportion being retained by NASFAM Corporate for headquarters expenditures. This is not an unusual situation in member organizations, and certainly not confined to NASFAM or Malawi. Such perceptions, whether correct or otherwise, can only be eliminated by proper transparency at all levels in the organization, also headquarters. Whilst we have not in any way been confronted by member allegations of headquarters misuse of funds (itself noteworthy in a country with a less than perfect record on management of funds), there certainly seems room for improvement on transparency of the commercial activities and the investment of funds, including headquarter use. Similarly there seems to be little appreciation at Association and member levels that Associations at times do receive very sizeable transfer of funds from the centre. It is regrettable that wrong perceptions may have grown over the period reviewed, as there seems to be no reason why models adopted could not have been given wider and more participatory scrutiny that would ultimately have led to more transparency and member understanding. In particular we note that the transfer of funds (e.g. as salaries) from NASFAM centrally to Associations have been insufficiently understood at club and member level. We also note that such salary subsidies do not entail any incentives for improved performance of the Association or Club but may create dependency and undue expectations of central and ultimately donor support.

During the period reviewed NASFAM Commercial reallocated USAID funds originally intended for a NASFAM commodity exchange system to another exchange under construction (with the approval of USAID). The soon-to-be-launched internet-based Agricultural Commodity Exchange for Africa (ACE) contains a concept for Malawi and

regional trade that is very promising. Yet to be proven it may offer a much better platform also for NASFAM trade and thereby strengthen NASFAM's ability to assist its members and member Associations to obtain good prices in the marketplace. NASFAM (and USAID) deserved praise for its foresight in reallocating the initial financing for ACE. We find it very wise of NASFAM to have stepped back from operating its own commodity exchange to initiating a broader, even regional, concept. We urge close cooperation between NASFAM and ACE to ensure that the system becomes viable, and to find – if necessary – additional donor funding to overcome minor funding gaps before the ACE becomes financially self-sustaining (which it should be). We will also encourage NASFAM to find a broad trading base for ACE, also involving parties that so far have been considered trading competitors.

Associations operate farm input shops with basic goods for farming operations, and have recently been given full responsibilities for the shops. Stocked centrally from NASCOM, issues have been raised as to the actual selection of items for each set of Association shops. There have been complaints of insufficient match between local farmer needs and goods available, or that the range of goods have been insufficient. During the last year of the review the financial viability of NASFAM Farm Input shops has been negatively affected by the introduction of a government fertilizer subsidy scheme. The wish of the Government of Malawi in 2005 to make available low-cost fertilizers to poor farmers may in itself be laudable, and has been generally accepted by most parties that we have interviewed. The targeting of the poorest farmers, as identified by village headmen, through a voucher scheme, may in itself have created a problem, in as far as really poor farmers cannot afford fertilizers even at a subsidized rate. An illegal trade in fertilizer vouchers apparently exists, with fertilizers not being used by many in the original target group. NASFAM farmers have often been excluded from receiving vouchers, being considered 'better-off'. The reliance of NASFAM Association trading shops on fertilizer sales (said to constitute 50-60% of regular turnover) made them vulnerable to distortions in the fertilizer market, e.g. as created by the government direct import and distribution system, and the exclusion of the private sector (including NASFAM). The consultants appreciate that there are ongoing discussions between NASFAM, commercial traders, fertilizer companies and the government on the subsidized fertilizer issue, itself a highly politicised item, and it is beyond our task to suggest alternative solutions. We note, however, that a prior risk assessment could have identified fertilizer sales as critical to NASFAM shops, and that the structuring and profile of NASFAM shops might have been different if the risk had been properly assessed in the business plans. The current outcome (as many as 50% of NASFAM shops (temporarily) closed) is unfortunate both for NASFAM farmers and NASFAM itself. On the other hand the rapid introduction of the subsidized fertilizer scheme caught most commercial companies off-guard and has destabilized the market. NASFAM is not the only organization that has suffered.

A handful of court cases of theft and fraud at Association trading store levels have been reported to us, and are referred to in official NASFAM publications. We acknowledge the transparency of NASFAM on these issues and its vigour in the pursuit of culprits. We have seen no signs of systemic mismanagement, and note clean audits from reputable auditors at both store, association and headquarter levels. This is a remarkable achievement in present-day Malawi.

2.6. NASFAM CORPORATE

NASFAM Corporate (NASDEC) is the corporate head of the NASFAM system. It is registered as a company limited by guarantee. The owners of the company are the member farmers' associations, currently 35 associations representing approximately 108,000 smallholder farmers corresponding to approximately 10 percent of all smallholders in Malawi. The supreme management and policy body of the company is the Annual General Meeting of the member associations. The Annual General Meeting elects a Board of Directors, which is responsible for policy issues, approval of strategic plans, major management decisions including the appointment of the Chief Executive Officer and for approving annual work plans and budgets as well as the annual progress reports. The Board consists of eight representatives from farmers associations. It has recently been decided to include four external members to the Board – a lawyer, a business manager, a marketing manager and an ex-banker. This is expected to add value to the work of the Board and strengthen its decision-making platform. The Board is currently female-headed but has a skew male gender profile. The Chief Executive Officer, answerable to the Board, is overall responsible for the daily management of the corporation.

During the period of review NASDEC has been largely financed by donor contributions, with only very minor contributions from NASFAM Commercial. We note that major investments have been made in acquiring a headquarters building and associated office equipment, and in staffing the headquarters. Some of these investments appear to have been undertaken on the assumption of further rapid growth of NASFAM membership and related associations. The sizing of the physical infrastructure seems adequate to cope with a significant expansion of membership and associations. What may at the moment of review seem oversized may ultimately be put to good use.

Technically NASDEC is the holding company of the two NASFAM subsidiaries: (i) NASFAM Development (NASCENT) and NASFAM Commercial (NASCOMEX). NASFAM Development is a company limited by guarantee and is owned jointly by NASDEC and NASFAM Trust each having one share in the company. NASFAM Commercial is a limited liability company jointly owned by NASDEC (99 shares) and by NASFAM Development (1 share).

The main functions of NASDEC includes:

- Represents NASFAM in national, regional and international fora;
- Liaison with development partners and other key stakeholder;
- Overall coordination of members' activities;
- Serves as the link between associations and the services of the two subsidiaries;
- Overall financial management and control;
- Maintains the NASFAM IT system; and
- Human Resource Management and Development.

In connection with the preparation of the new Strategic Development Plan, it has been decided to decentralise some functions of NASFAM to three newly established regional offices. The regional offices will *inter alia* be responsible for:

- Oversight and coordination of the Association Management Centres (AMC);
- Institutional and business development of associations;

- Commercialisation;
- Crop production; and
- Audit of associations.

We have not at the present time been able to assess the success or otherwise of the introduction of the regional offices, as they have only functioned for a short period during the years of review. Our general impressions of NASDEC is that it has become a highly respected body both nationally and internationally, and a model that is widely studied. NASDEC has certainly assembled a group of very capable senior staff.

We note that the period under review (2003-2006) has seen NASFAM grow substantially, which in itself is a sign of its growing acceptance in the smallholder community in Malawi. (We also note that other farmers associations exist and have been formed during the period, for other groups of farmers but not smallholders). At the same time we note that a steadily better informed NASFAM membership (itself a product of NASFAM work) is able to view and analyse NASFAM activities to a significantly greater degree than previously. It has yet to be proven that the model based on financing of NASFAM Development activities can be achieved through surplus derived from commercial activities, as originally assumed. Associated with this, there is underlying tension between members, their associations and NASFAM Corporate (NASDEC) on how commercial income will be distributed. There is a need for further discussion and transparency on this issue. The investment in the creation of an Agricultural Commodity Exchange for Malawi and beyond offers interesting prospects.

We note that during the assessment period NASFAM has not reached a level of self-financing, they had said they would. We do not believe that this failure is due to mismanagement of the organization. More likely it has arisen from the combination of many factors, including over-ambitious assumptions about the development of trade based on smallholder produce. We believe Norway, and other donors, should revisit the assumption of a self-financing NASFAM. It will only lead to frustrations in NASFAM and among donors if unrealistic expectations are adhered to for the financing of technical and social support services to its members.

With this in mind we urge that NASFAM accounts are presented in such a way that both members and donors can obtain a simple and clear financial overview of ongoing activities. The integrated nature of NASFAM programmes need not be endangered by clear, precise accounts, which map clearly management structures, so as to allocate financial responsibilities unambiguously. Whilst we acknowledge the robustness of the NASFAM financial management system now in use, and applaud the absolutely clean audits received from the external auditors during the period reviewed, it has not been easy for the reviewers to obtain a comprehensive overview of accounts, and budgets.

3. APPRAISAL OF PROPOSAL FOR NORWEGIAN SUPPORT

3.1. THE STRATEGIC DEVELOPMENT PROGRAMME

A NASFAM Strategic Development Programme (SDP) for the period 2006 – 2011 is currently under preparation. This is NASFAM's second SDP, the first programme covered the period 2001 – 2006. The Appraisal Team has been presented with an incomplete working draft of the SDP dated May 2006 by the external facilitator. The assessment of the plan is made with the reservation that it is a preliminary SDP still subject to further analysis and completion and to final approval by the NASFAM management. Whatever the final outcome we do recommend that there is a direct alignment between the SDP and the subsequent NASFAM programme documents.

The SDP states that the development of the strategy has been very consultative involving farmers, management and staff of farmers' associations and of NASFAM, government official, development partners and other stakeholders. The process has been driven by an external facilitator based outside Malawi. During the appraisal, the team was not able to sense a strong ownership of the SDP and its process. No presentation was done to the Appraisal Team of the SDP and hardly any reference was made to it during discussions and interviews of NASFAM management and staff. In case this observation is correct, remedial action should be taken immediately by the management otherwise management and staff may not be committed to the SDA and its implementation.

The SDP covers the following four main areas: (i) The strategic context for 2006 – 2011; (ii) Review of progress of SDP 2001 – 2006; NASFAM 2006 – 2011; and Programme Management and Implementation. This section of the report focus on the issues relating to the new SDP while the previous section is addressing issues relating to the SDP 2001 – 2006.

The Appraisal Team agrees with the SDP that NASFAM and in particular NASFAM Development is playing an important role for smallholder development within the national sector context. In its areas of operation – geographically as well technically -, NASFAM is filling a gap left by a less than perfect performing state. NASFAM is supporting smallholders with a broad spectrum of services including commodity trading, input provisioning, extension services, functional literacy training, HIV/AIDS awareness training, leadership and governance and training. These services are important for smallholder development and will also be need under the new SDP and they are clearly addressing key elements in the government's Malawi Growth Strategy.

The Appraisal Team agrees that the success of NASFAM hinges on the success of its member farmers' association and the SDP is addressing this fact. However, it is with concern that the Team notes that this critical foundation for the NASFAM system's for social, technical and financial sustainability may be weaker than originally assumed. The SDP states on page 19: *“Association Ownership. The sense of ownership by members has slipped, and needs to be reinforced. Member loyalty is clearly linked with service delivery. But it is a bit of a two-way street. If members perceive poor service delivery, they tend to be disloyal. At the same time, loyalty enables service delivery to improve by helping NASCOM get the produce volumes it requires. Sometimes politics also undermines commercial logic (or even common sense). E.g. this year KASFA members demanded MK55 per kg for their paddy rice, against NASFAM's offer of MK39 (which was based on the retail price, costs, etc, and was already MK9 above*

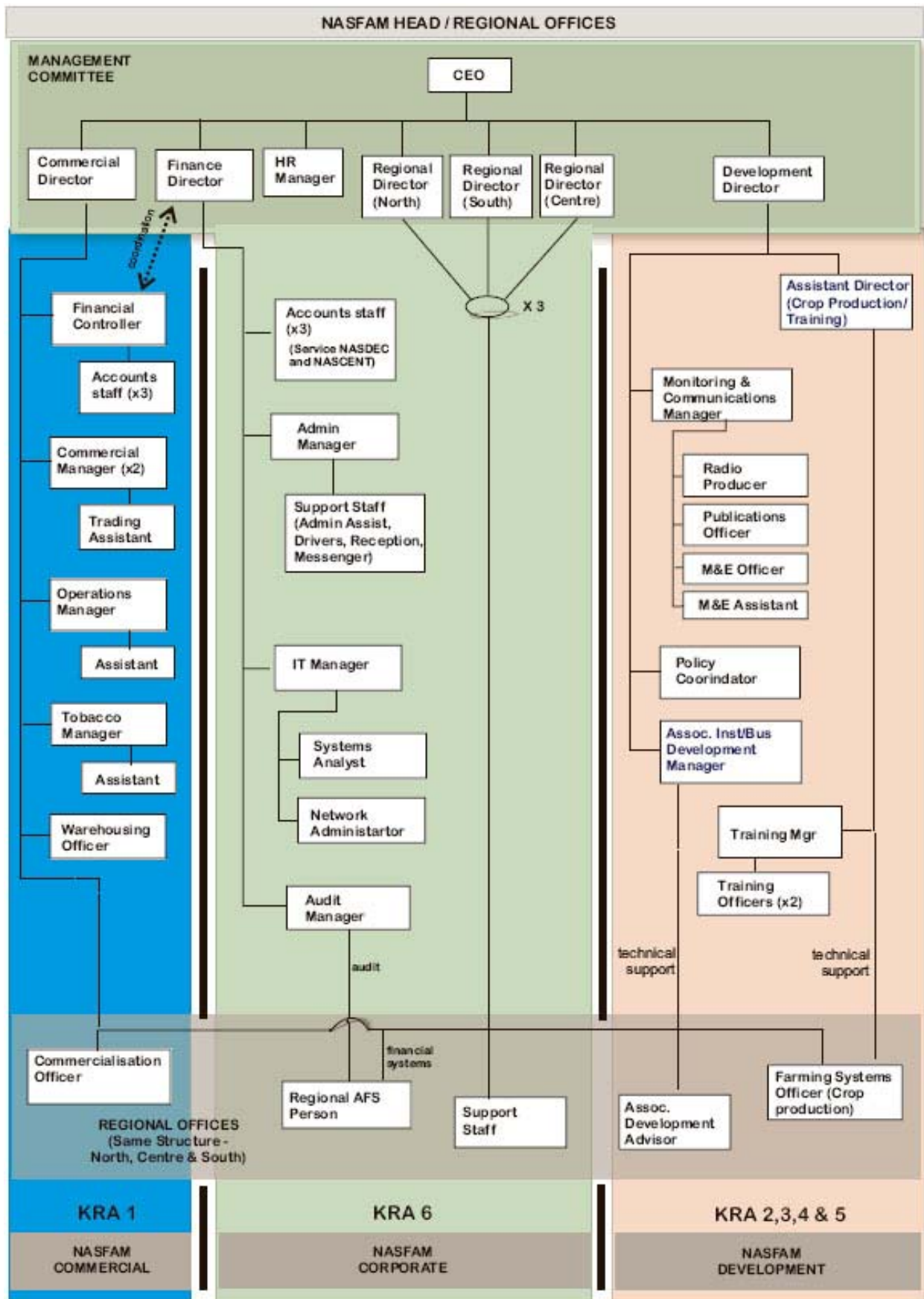
the highest commercial rate available in Lilongwe, and MK19 above the vendor rate in Karonga).”

The Appraisal Team agrees with the SDP that key success factors for the sustainability of the NASFAM are increased membership and members loyalty. Many farmers interviewed stressed that business services were the most important for them – that NASFAM was capable of buying the right quantities, at the right time and to a fair price. Farmers also highlighted the importance of the NASFAM more social and developmental services, but they were considered secondary to the business services, especially by male farmers. This raises the issue of getting the “business-side” of NASFAM right while continuing with capacity building of farmers, leaders and staff of farmers’ associations and NASFAM outreach structures referred to in the SDP as Rural Productivity and Innovation Centres (formerly referred to as Associations Management Companies). The two issues should feature prominently in the SDP and with clear targets and implementation plans for how to address them in a practical and effective way and how to monitor progress and constraints to be addressed by the management.

NASFAM Commercial is making improvements in its commodity trading both in terms of volumes and in better margins as also stated in the SDP (page 15) –“ *When comparing FY05 with FY04, NASCOM managed to trade 34% more goods (cost of sales). However, it was able to sell these at a better average mark-up (amount added to cost to get selling price). The average mark-up, which equates to the gross profit earned, increased from 16% to 21%. This was in part as a result of good groundnut and chilli export sales (giving better margins), and good margins earned on fertiliser imports (had higher margins than the retail market).*” A key constraint for the development of NASFAM Commercial is the financing cost (30 – 40 percent per annum). However, there are apparently signs of improvement in its working capital base, which combined with further donor support may ease the situation in future.

The Appraisal Team concurs with NASFAM’s principles of decentralising head office support and operational functions to the three regional offices as reflected in the SDP and in the NASFAM organogram prepared by the management for the Appraisal Team (see overleaf). However, as also pointed out in the SDP there appears to be two main areas of concern with the decentralisation strategy. Firstly, the NASFAM head office willingness to delegate power and authority to the regional offices in order for them not just being an extra administrative layer in the NASFAM system. Secondly and closely linked to the first concern, the management capacities of the regional offices must be strong and experienced enough to manage in a businesslike manner the power and authority to take effectively charge of the commercial and development responsibilities in the regions and to serve as an effective “business-service-provider” for the farmers’ association.

In order to implement these changes successfully, the NASFAM must have a well-defined and transparent change management programme where all management and key staff of the NASFAM system are engaged. The SDP points out that the approach to change management under phase I did not perform satisfactorily. This lesson learnt must be carefully administered by the management in order to optimise the conditions for a successful turn-around of the way commercial and development services are delivered to the smallholders and their associations with the aim of enhancing the social, technical and financial sustainability of the NASFAM system.



The core of the new SDP is captured in its six key result areas (KRA). For easy reference, the six KRAs are summarised below as presented in the draft SDP document (page 30-33) as the request for Norwegian support has been designed around the six KRAs.

KRA 1: Commercial Revenues Increased

To operate as a sustainable development business and support the ability of member farmers to develop their farming businesses and their communities, NASFAM has to achieve a number of commercial objectives during the plan period. These include the following:

- Expand the volumes of crops marketed
- Diversify the range of crops supported by Centres and by NASFAM Commercial
- Increase value-added processing and branding activities
- Expand penetration of markets, including fair trade
- Improve crop quality and input storage facilities at Centre and Association levels in support of, e.g. set up and operation of grain banks and warehouse receipts activities
- Improve supply and distribution channels for inputs and farm supplies
- Establish and operate commercial seed multiplication activities through regional offices and affiliated Centres
- Set up and operate equipment leasing Centres through regional offices and their Centres
- Enhance members' ability to access credit facilities with targeted support from NASFAM Commercial
- Increase the number of direct contract linkages between Centres and agro-processing firms, for example, by setting up GDAs

While all parts of the NASFAM system will contribute to achievement of these objectives, there are specific responsibilities and accountabilities to be defined. Regional offices through their Rural Productivity and Innovation Centres will have on-the-ground responsibility to plan Centre activities that will lead to these results. Overall responsibility for monitoring and reporting on NASFAM progress against commercial objectives will belong to NASFAM Commercial. This means that NASFAM Commercial will be expected to work closely with regional offices and their centres on the design of appropriate Programme activities, as well as to ensure NASFAM Commercial is ready to provide the types of backup support and services which will be required to ensure that objectives can be achieved. Specific targets for achievement in each of the above categories will be developed and agreed upon as a part of each yearly work planning activity.

KRA 2: Crop Quality and Quantity Improved

Crop quality and quantity lie at the heart of the rural productivity challenge facing Malawi's smallholder farmers, many of whom farm on plots of less than a hectare. This situation calls for new and proactive approaches to dealing with quality and quantity issues. During the strategic plan period, NASFAM undertake the following:

- Promote the production of market-demanded crops through formation of direct linkages with buyers who provide access to technical innovations in support of increased productivity
- Improve member knowledge of market demands through Centre information flows
- Set up and operate Centre seed Programmes to provide members with access to required quality seed and other inputs

- Provide access to technology and promote innovation through strengthened linkages to research institutions
- Increase member technical capacity through training provided by field officers, farmer trainers, training materials, radio broadcasts, etc.
- Establish demonstration plots at each association in concert with private enterprise
- Develop design of appropriate irrigation initiatives and natural resource management practices for each Centre and its affiliated associations

Responsibility for design and management of activities under this KRA belongs to the Regional Managers working in concert with Centre managers and their affiliated associations. Targets for all KRA 2 objectives will be set yearly as part of regional work planning activities, and Regional Managers will report on progress on a quarterly basis.

KRA 3: Association Performance Enhanced

For the five-year period from 2006 – 2011, NASFAM, as indicated previously in the SDP document, will directly address continuing challenges related to association sustainability. It will do this by continuing to provide member farmers with access to technical assistance and training needed to support their ability to run their associations as effective cooperative businesses and to provide members with services that support their ability to operate their individual farming businesses. Moreover, in this plan period, NASFAM will strengthen its individual associations by assisting them to build a network of Rural Productivity and Innovation Centres, through which they can put a larger range of economic development activities into place. Objectives for the plan period include the following:

- Put the association business model into place within each association and provide required technical assistance to support its effective implementation
- Transform Association Management Centres into Rural Productivity and Innovation Centres which operate according to defined Programmes and targets
- Develop and put Rural Productivity and Innovation Programmes into place within each region
- Design and produce regional development portfolios and plans based on projections and performance targets which begin at the association level
- Provide Programme design support to Centres and support ability to attract start-up financing as necessary
- Set up and operate a grant making Programme designed to provide cost-sharing support to association/Centre-driven initiatives
- Provide ongoing training and technical support in the areas of financial management and oversight, business management, leadership and governance

Responsibility for activities and objectives under KRA 3 belongs to NASDEC and the Regional Managers, working with region-based associations. Additionally, NASFAM Development will bear responsibility for monitoring and reporting on KRA 3 results and for coordinating the flow of technical resources needed to support ongoing capacity building efforts within Rural Productivity and Innovation Centres and their affiliated associations. Targets will be set in yearly work-plans and reviewed periodically.

KRA 4: Member Livelihoods Expanded

NASFAM continues to address not only the business side of its members' lives, but their quality of life as well. This means that NASFAM associations must find ways to support the ability of members to develop skills, which improve their livelihoods. Key problem areas to

be addressed by NASFAM during the plan period are food and nutrition security, illiteracy, gender inequalities and the impact of HIV/AIDS, malaria and other diseases. Over the next five years, NASFAM will work to achieve the following:

- Improve member food and nutrition status through initiatives to promote improved access to food such as grain banking, production and use of alternative food crops, and seed multiplication of alternative crops
- Improve member functional literacy by extending NASFAM's adult literacy Programme to and through all associations
- Promote equitable participation of both sexes in association activities and leadership
- Promote sensitivity to gender and market forces in crop selection
- Equip members with prevention, care and mitigation strategies in relation to the impact of HIV/AIDS
- Integrate aspects of all of the above Programmes into design and development of association business models and Rural Productivity and Innovation Centres.

Responsibility for design and implementation of these activities belongs with regional and association managers who must develop Programmes and set targets for their implementation as part of association and regional planning activities. Responsibility for providing appropriate backstopping support belongs to NASFAM Development, which is also charged with monitoring and reporting on overall progress within this KRA.

KRA 5: Influence on Policy Expanded

To date, NASFAM has provided smallholders in Malawi with a voice and the ability to contribute to national development. Smallholder empowerment has placed the smallholder community in position to see itself as an engine for change. In its second strategic plan, NASFAM will further expand its policy and advocacy activities and the ability of smallholder farmers to take the lead in charting Malawi's course forward toward achievement of rural economic transformation. Over the five-year plan period, NASAM will:

- Continue to work in various fora and with development partners to address the four key policy impact areas identified by NASFAM membership (marketing and pricing mechanisms, rural services and infrastructure, access to financial services, and food security challenges, including land policy)
- Embed responses to these impact areas in the design and operation of the Rural Productivity and Innovation Centres
- Monitor and report on the work of NASFAM's Rural Productivity and Innovation Centres as important models for rural economic development
- Update the NASFAM Policy Platform every two to three years

Responsibility for effective implementation of activities and achievement of objectives under this KRA will be the responsibility of NASFAM Development. Specific approaches and targets will be set for this KRA in yearly work plans.

KRA 6: System Performance Enhanced

To support effective operation of the entire system under SDP II, NASFAM will set a number of system-level goals. During the forthcoming five years, NASFAM will:

- Complete yearly work plans and set performance targets
 - NASDEC

- Regional Rural Productivity and Innovation Programme
- Rural Productivity and Innovation Centres
- Association Business Plans
- NASFAM Commercial
- NASFAM Development
- Identify and set sustainability indicators for NASDEC, NASFAM Commercial and NASFAM Development
- Set up Executive Committee to the Board and Advisory Councils
- Upgrade the decision-making process under the NASFAM Management Committee and operate that body under specific terms of reference
- Establish and implement a Systems Coordination function to work within NASDEC
- Ensure that yearly organisation targets are set, approved by the Board and monitored and reported upon on a regular basis

Responsibility for this KRA will be the responsibility of the Systems Coordinator

3.2. THE PROGRAMME

NASFAM has submitted a proposal to the Royal Norwegian Embassy (RNE) for a third phase of financial assistance. The proposal covers a five-year period and has a total budget of USD 19.0 million (about NOK 123.5 million). The proposal has been designed as budget support to the NASFAM system including its three companies and the affiliated farmers' associations. The programme will support the implementation of the new Strategic Development Plan, which is in the final stages of preparation, and its six Key Result Areas (KRA).

The development objective of the programme is to improve the livelihoods of smallholder farmers by developing the commercial capacity of members and delivering programmes that enhance their productivity.

The immediate objectives of the programme, which are also the Key Result Areas of the Strategic Development Plan (cf. Section 2.1. above), are:

- KRA 1 Commercial Revenues Increased
- KRA 2 Crop Quality and Quality Improved
- KRA 3 Association Performance Enhanced
- KRA 4 Member Livelihood Improved
- KRA 5 Smallholder Influence on Policy
- KRA 6 Systems Performance Enhanced

In appraising the programme proposal, the following key issues have been taken into consideration:

- Around 80 percent of Malawi's population is engaged in agriculture and mainly as smallholders;
- Around 60 percent of GDP is derived from agriculture;
- NASFAM has 35 farmers' associations as members, representing around 108,000 smallholder farmers corresponding to about 10 percent of all smallholders;
- NASFAM can increase its membership to 2 - 300,000 smallholder farmers with only minor adjustments to its current infrastructure;

- NASFAM has operated with reasonable success for more than ten years and has continued to improve its services to members;
- NASFAM is delivering services complementary to the services provided by the State and is often filling a vacuum in public service delivery;
- The Programme is clearly addressing the Millennium Development Goal no. 1 relating to poverty reduction;
- The Programme is addressing the four pillars of Malawi Poverty Reduction Strategy – (i) sustainable pro-poor growth, (ii) human capital development, (iii) improving the quality of life of the vulnerable and (iv) good governance with gender and HIV/AIDS as crosscutting issues; and
- The programme proposal is aligned to the Norwegian “Plan of Action for Fighting Poverty through Agriculture”;

The NASFAM holistic approach to smallholder development is found relevant as a means of poverty reduction. A key issue is the effectiveness and efficiency of the approach as well as the long-term sustainability in terms of social, technical and financial sustainability. The success of the NASFAM system is dependent on the success of the foundation of the system, namely the members’ loyalty to and appreciation of the system and consequently the strength of the farmers’ associations⁵. The strategic consideration of the programme is to strengthen all levels of the NASFAM system. This will be done by providing budget support to the aforementioned six KRAs. This strategy implies that there will not be a need for establishing dedicated Norwegian management structures, systems and procedures within NASFAM in support of this grant. The Norwegian support will be managed and monitored through annual work plans, quarterly progress and financial reports and annual consultations between the RNE, NASFAM, the Ministry of Agriculture and other relevant stakeholders.

In order to simplify the programme structure and to clearly establish the corporate responsibility for the management and implementation of the programme components, the support to the six KRAs has been grouped along the company structure of the NASFAM system:

- Support to NASFAM Commercial (KRA 1)
- Support to NASFAM Development (KRA 2, 3, 4 and 5)
- Support to NASFAM Corporate (KRA 6 + overheads)

The Appraisal Team appreciates the fact that the KRAs are crosscutting in nature. However, it is found more manageable with only three programme components and with clear and well-defined management responsibility for the implementation of the programme.

The budget request for Norwegian support is summarised in the table overleaf.

⁵ We do believe NASFAM should seriously consider a loyalty system. One commercial trader in Malawi operates successfully a banking card system allowing for multi-point cash withdrawals. Considering that most smallholders are risk averse, a crop insurance system or livestock insurance system linked to the introduction of innovations at farm level, could be interesting for smallholders. If forming part of NASFAM membership dues and suitably underwritten by re-insurers, a widespread, low-cost farm insurance system could offer significant incentives and guarantees for smallholders. Such a scheme would expand on the current drought insurance pilot scheme operated by NASFAM and Opportunity International Bank. International donors, including Norway, may be interested in underwriting such a system, which could be operated by commercial insurance companies. Other loyalty schemes could include “Frequent buyer”-cards and promotional material.

NASFAM Request for Norwegian Support
All figures in USD

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Total Request	4,356,737	3,416,719	3,603,441	3,743,073	3,875,037	18,995,007
NASFAM Commercial						
KRA 1 Commercial Revenues Increased	1,163,140	132,552	139,180	144,009	112,313	1,691,194
1.1 Output Marketing	136,290	82,152	86,260	76,404	80,224	461,330
Working Capital	600,000					600,000
1.2 Input Marketing	126,850	50,400	52,920	67,605	32,089	329,864
Working Capital	300,000					300,000
NASFAM Development						
KRA 2 Crop Quality & Quantity Improved	562,500	523,425	594,596	662,576	727,880	3,070,977
2.1 Extension	452,520	447,846	515,238	579,250	640,388	2,635,242
2.2 Communications	109,980	75,579	79,358	83,326	87,492	435,735
KRA 3 Assocation Performance Enhanced	1,221,668	1,287,761	1,319,929	1,332,122	1,329,467	6,490,947
3.1 Business/Financial Development	293,726	274,812	323,833	309,926	349,733	1,552,030
3.2 Management Development	210,940	235,347	247,114	259,470	272,444	1,225,315
3.3 Governance/Leadership	125,002	131,252	137,815	181,749	151,941	727,759
3.4 Infrastructure Improvement	40,000	42,000	44,100	46,305	48,620	221,025
3.5 Grant Support (management & equipment)	552,000	604,350	567,067	534,672	506,729	2,764,818
KRA 4 Member Livelihoods Improved	99,360	104,328	109,544	115,022	120,773	549,027
4.1 Food Security and Nutrition	77,760	81,648	85,730	90,017	94,518	429,673
4.2 Functional Literacy	0	0	0	0	0	0
4.3 HIV/AIDS Programmes	12,000	12,600	13,230	13,892	14,586	66,308
4.4 Gender Mainstreaming	9,600	10,080	10,584	11,113	11,669	53,046
KRA 5 Smallholder Influence on Policy	177,056	176,144	218,026	196,514	203,908	971,648
NASFAM Corporate						
KRA 6 Systems Performance Enhanced	736,946	881,898	894,580	952,551	1,028,420	4,494,395
6.1 Systems Integration	122,940	153,972	128,596	149,495	137,218	692,221
6.2 Financial and Control Systems	203,364	228,652	234,727	214,860	189,138	1,070,741
6.3 Monitoring and Evaluation	210,642	289,274	310,757	356,671	458,963	1,626,307
6.4 Strategic Alliances and Partnerships	200,000	210,000	220,500	231,525	243,101	1,105,126
Overheads	396,067	310,611	327,586	340,279	352,276	1,726,819

3.3. THE INDIVIDUAL COMPONENTS

The Appraisal Team has made an assessment of the three programme components. Recommendations are made in terms of activities that can be funded from the Norwegian programme and activities, which need further clarification in the final proposal. The recommendations made should be incorporated in the final budget proposal within the indicative budget frame given in section 2.6. The RNE and NASFAM should jointly agree on a date for submission of the final proposal and the revised budget.

3.3.1. Support to NASFAM Commercial

The total budget request for NASFAM Commercial is USD 1,691,193.

KRA 1: Commercial Revenues Increased

The budget request is USD 1,691,193 mainly for management and staff costs and for working capital. The request for working capital is USD 600,000 in respect of crop finance and USD 300,000 as working capital for the farm input supply shops.

NASFAM Commercial is a trading and marketing company registered as a limited liability company – the two other NASFAM companies are registered as companies limited by

guarantee. NASFAM Commercial is expected to be financial sustainable by making a profit on its trading and marketing activities. In 2002 it was expected to reach sustainability in 2006, in 2005 it was adjusted to be reached this target in 2007 and the current proposal is requesting for salary and other support up to year 2011. It has not been possible during the appraisal to assess the likelihood of NASFAM Commercial becoming financially sustainable during the five-year period. The Appraisal Team has not been presented with a business plan for the company and the proposal is mainly containing operating costs and no estimates of revenues, costs of sales and other costs associated with distribution and marketing.

A detailed business plan for NASFAM Commercial should be developed and should form part of the proposal for Norwegian support. In case the business plan contains sensitive commercial information, it should be treated as confidential by the Royal Norwegian Embassy (RNE). The plan should cover the first three years of the programme period. Funding from Norway should be financed against the business plan and should also be limited to the three-year period. Funding to NASFAM Commercial in year 4 and 5 should be determined by a Technical Review in close consultations with RNE, NASFAM Corporate and Commercial. The Technical Review should be fielded by RNE after 2½ years from programme start. It is proposed to set aside USD 250,000 as unallocated funds for possible support to NASFAM Commercial or alternatively to other parts of NASFAM during the last two years of the programme period.

The appraisal is not in agreement with providing working capital as grant financing to NASFAM Commercial. It is considered that this may be seen as an overly undue distortion the market position of NASFAM Commercial on terms not easily available to other (commercial) players. It is, however, appreciated that cost of financing is very high in Malawi – ranging between 30 percent and 40 percent – and that NASFAM Commercial has difficulties in accessing crop and trade finances from the commercial banks due to the nature of its capital base. (Other players operating in this commercial field may have alternative and lower-cost access to finance.). It is also appreciated that a key success factor for NASFAM and the associations is the ability to honour the expectations of the farmer members in term of cash payments for produce and fair prices. As mentioned above, it is the view of the appraisal that NASFAM can increase its membership from the current level of 100,000 farmers to 2 – 300,000 farmers with only minor adjustments to the infrastructure and operating systems and procedures. Such an increase would have a significant impact on NASFAM's commercial operations as well as on its developmental activities. A direct key factor in attracting more members is the ability to pay fair prices on delivery of the produce. Members interviewed have also expressed that NASFAM would have a comparative advantage if it could consider releasing a second payment to farmers reflecting unexpected additional profits obtained from the marketing of produce.

In order to support NASFAM Commercial in improving services to members and thereby increase the membership basis, the appraisal is proposing that the request for working capital for crop finance (USD 600,000) is advanced to NASFAM in year 1 against programme costs in year 4 and 5. In other words, NASFAM will borrow the working capital (in Malawi Kwacha – possible exchange losses will be borne by the programme funds) for a three-year period during which it is expected to increase revenues and reach some self-financing of its working capital requirements. As the working capital will carry no interests for NASFAM, it is expected that financial cost savings and interest earnings will be used to (i) improve the price to farmers, possibly through a second payment; (ii) improve the commission to associations in order to stimulate a businesslike culture; and (iii) retained in NASFAM

Commercial as a capital reserve for future need for crop finance. This arrangement will not be very dissimilar to a better capitalized commercial player with access to more favourable borrowings than current commercial rates in Malawi, and should therefore not be interpreted as major market distortion. It could equally be argued that it levels the playing field for a farmers' organization without a commercial capital base and associated internationally recognized collaterals.

The farm input supply shops have recently been transferred back to the associations and due to the situation with the government subsidized fertilizer – fertilizer trade is the main income generating activity of the shops - their future is very uncertain and it has been estimated that more than 50 percent of the shops may have to be closed. Against this background, the appraisal cannot support the provision of working capital to the farm input supply shops. NASFAM Commercial, in consultations with the relevant associations, should develop a strategic plan for the farm input supply shops, which should form part of the proposal. Should the strategic plan conclude that farm input supply shops are viable enterprises for the associations and justify the need for working capital then Norwegian support for working capital can be applied along the same principles as for crop finance. We suggest that the expertise of external partners in operating farm input supply shops could be consulted, e.g. from the Norwegian "Felleskjøpet".

NASFAM is a membership organisation and the members should be fully informed about the plans of the organisation and how it is performing and what changes may be made. A member owned organisation should enjoy a high degree of transparency. The communication to members should be extended beyond the annual general meetings. NASFAM is generally good at publicity and its quarterly and annual reports are very informative. However, it has not been possible during the appraisal to see how financial information – budgets and reports – are disseminated to members. These types of data are not included in the aforementioned reports. From interviews made, it became clear that members and other stakeholders have no information about the financial performance of NASFAM causing speculations about how profits from NASFAM Commercial are used and why dividends are not paid out to member farmers. This kind of speculations may cause negative frictions within and outside the NASFAM system and they are – at least for the time being - unnecessary as NASFAM Commercial is not making any profits by itself and it should not use donor money to make a profit. NASFAM should strive to have a very high degree of transparency in support of the aforementioned strategy of increasing the membership basis - also in relation to financial information, however, without disclosing information, which may negatively affect its commercial operations and its competitiveness.

3.3.2. Support to NASFAM Development

The total budget request for NASFAM Development is USD 11,082,599.

KRA 2: Crop Quality and Quantity Improvement

The budget request is USD 3,070,977 mainly for extension services and for communications. The crop production objectives include: (i) market-driven crop production; (ii) sustainable increases in production; and (iii) sustainable land and natural resource management. The NASFAM extension services are aimed at linking crop production to marketing and at the same time enhancing food-security through crop diversification. The extension services are important elements of NASFAM's commercial and development activities and are clearly filling an important gap in public provision of extension services. The appraisal can support NASFAM's proposal for crop quality and quantity improvement, however, as the major part

of the budget is earmarked for programme activities, it would be expected that the final proposal contain more information about the nature and costing of such activities.

KRA 3: Association Performance Enhanced

The budget request is USD 6,490,947 mainly for financing management and staff as well as operations of the three regional offices and the farmers' associations. Funding has also been earmarked for development of infrastructure, offices/warehouses, and the principle of matching-grants, which was also applied in the previous phase, is highly appreciated. Funds are also earmarked for governance and leadership training, which we is critical for developing the associations into democratic and member driven and managed organisations.

The appraisal is raising a main concern in connection with the support to enhancing the performance of the associations. It is important for the success of the NASFAM system that the associations are clearly moving towards social, technical and financial sustainability. Social and technical sustainability are making advancements through the governance and leadership training, the functional literacy training, the HIV/AIDS campaigns, the establishment of extension services and generally through the establishment of robust management, administrative and financial systems. However, there are no indications of advancements towards financial sustainability. The proposal does not contain an exit strategy for the Norwegian support to the regional offices or to the supported farmers' associations. The budget basically remains constant over the five-year period except for a 5 percent reduction annually in the management support to the associations. A clear exit strategy for Norwegian support needs to be reflected in the proposal. This will also be in alignment with the SDP, which mentions on page 11 that: *“Recent financial projections show that if associations were to expand membership to 150,000 during the second strategic plan period and, based on the expanded membership, to increase membership fees by a relatively modest amount, the NASFAM system would be well on its way to financial sustainability by the end of the second strategic plan period.”*

The appraisal can in principal support the proposal for enhancing the performance of the associations, however, the concern raised above should be addressed and the proposal and the budget should clearly reflect an exit strategy for Norwegian support to the regional offices and the associations. Furthermore, it is also recommended that the operational and management subsidies given to associations gradually are transferred to commissions for crop handling in order to install a businesslike culture – with incentives - in the associations rather than a dependency culture. We urge a timetable for this conversion from subsidies to commissions, and suggest that a possible aim should be to have achieved the conversion for many associations (although not necessarily all, as some associations may be very new or have not yet achieved significant sales) by the end of 2009.

KRA 4: Member Livelihood Improved

The budget request is USD 549,027 mainly for food security and nutrition as well as limited support for gender mainstreaming and HIV/AIDS campaigns. The National Aids Commission is expected to finance NASFAM's HIV/AIDS programme in first three years and Norwegian support will be required during the last two years of the programme phase. Functional literacy training has been budgeted to USD 884,000 during the period and will be financed from other sources.

The appraisal can support the proposal made under member livelihood improvement. We believe that NASFAM can achieve other and additional funding for activities related to KRA

4 from other sources, and we urge NASFAM to pursue such opportunities in linking agriculture to nutrition and health. We do believe KRA 4-like activities should play important roles in NASFAM's activities.

KRA 5: Impact on Smallholder Livelihoods Expanded

The budget request is USD 971,648 mainly for policy advocacy work undertaken by NASFAM Development staff and as such a significant proportion of the budget is for staff costs. Improving the enabling environment for smallholders through advocacy and lobby work is import. NASFAM is a key institution in this respect. There are others including Malawi Union of Farmers, which is also engaged in advocacy and lobby work for smallholders mainly represented through producers' associations as well as for the larger commercial farmers including estates. A major achievement of NASFAM has been its contribution to the lifting of the withholding tax on tobacco for smallholders and as a direct result around MK 90 million have been transferred back to the smallholders.

The appraisal supports NASFAM engagement in policy advocacy and lobby work. However, the approach and the budget request are being questioned. Is it the most efficient and effective approach to have the in-house capacity to address all the issues relating to smallholders or is it more optimal to combine in-house management capacity with outsourcing specific tasks to relevant expertise holders e.g. research institutions? A significant part of the budget has been allocated for Programme Activities, it is not clear from the proposal what type and scope of activities that will be funded under this budget line. These issues should be clarified in the proposal.

3.3.3. Support to NASFAM Corporate

The total budget request for NASFAM Corporate is USD 6,221,214.

KRA 6: Systems Performance Enhanced

The budget request is USD 4,494,395 mainly for NASFAM Corporate financial and control systems, systems integration and for the M&E activities including information communication and technology. A significant part of the budget is for staff costs and operations. It is not clear why systems integration is a continuous activity over the five-year period. Another significant budget item is programme activities under finance, administration, systems integration and M&E. It is assumed that M&E programme activities relates to major evaluations, impact assessment studies, baseline studies for new activities etc. However, it is not clear from the proposal what type of programme activities will be undertaken in relation to NASFAM Corporate finance, administration and systems integration. These issues need to be clarified in the final proposal.

Farmers' associations, cooperatives and civil society organisations are generally vulnerable to weak financial management and control systems ranging from inadequate and untimely financial management information to fraud and mismanagement. NASFAM and its member associations have held their ground for many years, partly due to the robust NASFAM financial management and control systems. The appraisal supports the continued operations and development of robust and sound financial management and control systems within NASFAM in order to promote and protect the interests of the smallholder members. The budget allocated to systems integrations, however, would need further justification as well as the support to programme activities.

The budget also includes a facility for strategic alliances and partnerships e.g. for the continued collaboration with ICRISAT on reduction of aflatoxin levels in groundnuts. This facility enables NASFAM to respond quickly and effectively to new challenges and opportunities and is fully supported by the appraisal. A new emerging opportunity for NASFAM is the establishment of the Agricultural Commodity Exchange (ACE). ACE is envisaged as a regional internet-based commodity exchange. Once in operations, ACE will be able to offer NASFAM and others access to advanced market information and trading systems, which may change the ways NASFAM is managing its commercial operations. NASFAM has already supported the establishment of ACE using USAID funds originally earmarked for NASFAM establishing its own commodity exchange. ACE is in the final stages of being established and may require limited financial support for its final establishment and initial operations, such support may be considered financed out of the budget line for strategic alliances. A revised budget may thus include a new and separate 2007 item for this.

Overheads

The proposal includes a budget line for overhead costs for NASFAM managing and administering the programme. The overhead budget has been estimated to USD 1,726,819 corresponding to around 10 percent of the Norwegian support. This is a common practice, which has also been applied in previous programmes. It is, however, expected that the final proposal include a justification of the budget and an indication of how it would be spent as the programme will also fund significant parts of the management, staffing and operations of the NASFAM Corporate and its companies.

3.4. ASSUMPTIONS, RISKS AND PRECONDITIONS

The proposal submitted contains no assessment of risks and assumptions associated with the implementation of the programme. During the appraisal, the NASFAM management has suggested the following risks and assumptions to be included in the final proposal.

Member Loyalty

Assumption: members will exhibit loyalty to the system, in selling their crops, in procurement of inputs and services, from Association shops or through other collective arrangements, and in payment of membership fees.

Risk: To the extent that members are not loyal to the system, marketing volumes may be undermined, with resulting losses in revenue streams. Also, service programmes (such as crop transport programmes) which rely on the benefits of an orderly process and efficiencies of scale may break down; economies will be lost and service providers will become redundant.

Working Capital

Assumption: Sufficient working capital will be found and available to (i) procure member produce in the quantities and at the time it is available from members for sale and (ii) procure inputs in economically viable quantities at the time required.

Risk: If insufficient working capital is available, members may sell crops (from necessity) outside the system resulting in (i) required crop volumes will not be achieved, (ii) member loyalty will be undermined (see above), (iii) input supply may breakdown.

Weather

Assumption: Generally weather patterns are not unduly unfavourable to crop production.

Risk: Harsh weather conditions may undermine crop production resulting in low quantities and/or poor quality of crops. This will reduce member income, reduce system income, negatively impact on customer relations, increase the possibility of supply of sub-standard produce, undermine efforts in stringent markets (e.g. European groundnut markets), reduce buying power of members to secure adequate inputs for next season, and increase member food security.

Funding

Assumption: Donor funding flows will be available at projected levels. In particular in the short term, USAID funding will remain in place at currently committed levels till 31 December 2006. NAC funding will be in place in 2006.

Risk: Disbursement of USAID funding has already been slowed down a little during 2006. Should any funds be de-obligated or there be a further slow-down of cash flows from USAID this would reduce technical and financial support to Associations during the critical marketing season of 2006.

Exchange Rate

Assumption: The local exchange rate will move steadily and in a systematic manner, broadly in line with market forces.

Risk: A failure for the currency to depreciate in line with market forces depresses the value of donor funding vis-à-vis increasing local costs.

Human Resources

Assumptions: (i) NASFAM will retain, or replace with equally or better qualified individuals, the services of key management positions. (ii) Staff retention in general will be reasonable good. (iii) Funding (donor or otherwise) is sufficient to maintain competent people in these key management positions. (iv) NASFAM institutionally replaces the technical capacity in terms of commercial strategy which has until recently been offered by the System Adviser.

Risk: The availability and commitment of a highly competent staff and management is a key success factor for NASFAM. Any disruption with the management and key staff may negatively affect the efficient and effective operations of the NASFAM system.

Political Interference

Assumption: That government will reverse recent trends of market interference and building up of state-owned corporations (e.g. ADMARC), and revert to promotion of a liberalised economy.

Risk: Such activities as price setting, buying produce at uneconomic prices, and provision of inputs through state-owned mechanisms, all undermine NASFAM's ability to perform, which is based on commercial, competitive principles.

Political Stability

Assumption: Malawi will maintain relative political stability.

Risk: As well as undermining the general operating environment, political instability may undermine donor confidence and result in political-motivated changes.

The Appraisal Team concurs with the suggested assumptions and risks. In order to mitigate the possible effects of the identified risks, NASFAM should have a strategic focus on some relevant key areas:

- Strive to increase the membership base and members loyalty (see also footnote 4) as this will make the NASFAM system less vulnerable to changes in crop production and marketing;
- Promote drought resistant crops in order to reduce the risks of low crop production and increased food insecurity during years with low rainfall;
- Promote low cost and simple irrigation systems for alternative crops as well as for increased food security;
- Secure working capital support to NASFAM Commercial by developing a sound and viable business plan and a strategy for the farm input supply shops;
- Develop and implement dynamic HRD and career plans for management and staff and maintain the image of being a respected and attractive employer; and
- Continue its efforts in lobbying government and other stakeholders for an enabling business environment conducive for the private sector development in Malawi.

Preconditions

The Norwegian support to NASFAM is basically in form of budget support to staff salaries, operational costs and investment costs. NASFAM is receiving similar support from USAID, NAC and others. NASFAM must ensure RNE that there in no circumstance will be double financing of the costs supported by Norway and that this will be confirmed in the annual audit reports.

Support to NASFAM Commercial is subject to the approval of a sound and viable business plan for a three-year period. Similarly, support to the farm input supply shops is subject to a sound and viable strategic plan.

3.5. CROSSCUTTING ISSUES

HIV/AIDS and gender equality are clearly mainstreamed in all the key elements of the proposal. NASFAM is, in partnership with National AIDS Commission (NAC), undertaking an integrated HIV/AIDS and gender programme. Under the programme all NASFAM field officers have been trained on HIV/AIDS, gender, nutrition and permaculture. The field staff in turn have trained association committees and the gender & HIV/AIDS sub-committees. NASFAM has submitted an application to NAC for an additional three-year funding of the programme and its consolidation.

NASFAM has a gender programme – “Because Gender Integration Makes Good Business Sense” – aiming at enhancing women participation in the NASFAM system. Today more than 30 percent are female representatives of: (i) the membership; (ii) association committees; (iii) associations general assembly; and (iv) NASFAM board including the chairperson.

The governance structure of NASFAM is democratic and consists of general assembly for associations and the NASFAM annual meeting (see also section 1.6). A management committee for associations and a board of directors for NASFAM are elected by the members to oversee the policy development and overall planning and management of the associations

and NASFAM respectively. The NASFAM board of directors employ the chief executive officer who is responsible for the day-to-day management of the organisation.

Environmental issues seem to receive less attention by the NASFAM system. It is important that NASFAM has clear environmental policies and regulations as the organisation is dealing with food crops, food items, pesticides, chemicals, fuel, seeds and fertilizers. There must be clear regulations and guidelines how these items are handled, stored and used⁶. All projects financed under the NASFAM system should as appropriate undertake environmental assessment studies, which as a minimum should comply with national standards and regulations. NASFAM should strive to be a good corporate citizen also in terms of maintenance of environmental standards. NASFAM should also be open to promoting low external input sustainable agriculture, when appropriate, and explore markets for such produce (often sold under “organic” or “ecological” labels in domestic and foreign markets), including the possibilities of certification of such produce.

3.6. THE BUDGET ALLOCATION

The Consultants have – following discussions with relevant Norwegian donor partners – assumed that the budget frame for the Norwegian support to NASFAM may be of the order of NOK 20 million per year for the five-year period, giving a total budget frame of NOK 100 million. This corresponds to approximately USD 15.38 million based on an exchange rate of USD 1.00 - NOK 6.50. The budget included in the final proposal will have to be aligned to this budget frame and incorporating the views and recommendations of the appraisal.

3.7. PROGRAMME IMPLEMENTATION

It is envisaged that the Norwegian support to NASFAM will be embedded in the normal NASFAM management structure and basically be budget support to the implementation of elements of the second strategic development programme.

Programme Management

The NASFAM Board of Directors will be overall responsible for the efficient and effective management of the Norwegian support to the NASFAM system. Annual consultations will take place between the RNE, the Board of Directors, the Ministry of Agriculture and other relevant stakeholders. The Annual Consultations will review progress, assess and respond to new opportunities and make sure that the programme support remains aligned to and responsive to smallholder development in Malawi.

The NASFAM Management Committee will be responsible for the management and coordination of the programme within the organisation. Day to day management of the three different components will be the responsibility of the directors of the three implementing companies – being the directors of NASFAM Commercial, Development and Corporate.

Accounting, Financial Reporting and Auditing

NASFAM has a well-established financial management system. The Norwegian funds will be channelled through this system as done previously under the first phase of support. NASFAM

⁶ The Appraisal Team observed on a field trip that tobacco bales were stored up against a paraffin pump, which is not appropriate.

will submit quarterly financial reports to RNE in accordance with and against approved annual work plans. Annual audits will be undertaken by an external firm of auditors jointly approved by NASFAM and RNE.

A financial adviser has been provided under the USAID programme to NASFAM and has provided valuable support to the NASFAM system including the farmers' association. The USAID programme is coming to end this year and the Appraisal Team finds that there is a continued need to have a financial adviser within NASFAM to continue with systems development and management. It is recommended that funds are earmarked in the final proposal for the recruitment of an international financial adviser for the five-year period.

Monitoring and Evaluation

The Norwegian support to NASFAM will be in the form of budget support to the second Strategic Development Programme. As such there is not a need for developing an M&E system specifically for the Norwegian support. NASFAM has a well-developed M&E system, which includes baseline data when major new activities are initiated, tracer studies, impact assessments etc. The NASFAM M&E system will be able to report effectively on the implementation of the Strategic Development Programme including the support provided by Norway. In addition the RNE has suggested that annual reviews will be fielded in advance of the annual consultations to assess progress and to provide guidance and advice to NASFAM and RNE. The Appraisal Team concurs with this proposal and it has also been welcomed by the management of NASFAM. After 2½ years a technical review will be fielded to specifically assess the implementation of the business plan for NASFAM Commercial and to make recommendations regarding possible support in year 4 and 5. An unallocated amount of USD 250,000 has been set aside for such possible support or alternatively to be used for other development activities within the NASFAM system.

Donor Coordination

Quite a number of donors are actively supporting the development and advancement of the agricultural sector in Malawi and NASFAM is currently receiving support from Norway, USAID and NAC. Donor coordination is important in order to enhance the efficiency and effectiveness of the support to the agricultural sector in general and to NASFAM in particular. A donor matrix containing key data of all donor support to the agricultural sector should be maintained and updated regularly. The RNE currently chairs the agricultural donor group and this offers a unique opportunity to enhance a strong coordination among donors.

4. CONCLUSIONS AND RECOMMENDATIONS

The assessment of NASFAM's performance during the period 2003 – 2006 and the appraisal of the proposal for Norwegian support to NASFAM during the period 2006 – 2011 form the basis of the conclusions and recommendations of the appraisal. The conclusions are that the proposal for support will have a significant impact on poverty reduction through the development and organisation of smallholder farmers in Malawi and NASFAM is well suited as partner for the Norwegian support to achieve the objective of poverty reduction among smallholder farmers. NASFAM has a good potential to increase its current direct outreach of 10 percent of smallholders in Malawi to around 20 – 30 percent of smallholders with only minor adjustments to its infrastructure and systems and procedures. With an average family size of 6, between 1 and 2 million people would thereby benefit from NASFAM activities, which could also have positive spill-over effects on non-NASFAM households. We would in this context urge NASFAM to consider whether 'going deep' (more services in areas with already existing NASFAM Associations) is better than 'going wide' (expanding the geographical presence of NASFAM).

The consultants recommended to Norad and the Royal Norwegian Embassy, Lilongwe, to invite a revised NASFAM proposal for Norwegian support of NOK 100 million over a five-year period, incorporating this budget frame and the views and recommendations of the appraisal mentioned above.

APPENDICES

APPENDIX 1

NASFAM – KEY DOCUMENTS CONSULTED

1. Improving the livelihoods of Malawian Smallholder Farmers – A proposal for continued Norwegian support to NASFAM 2006 – 2011, 24 November 2005
2. Strategic Development Programme II (working draft for discussions), May 2006
3. Plan of Action, Fighting Poverty through Agriculture, Ministry of Foreign Affairs, Oslo
4. Development Cooperation Manual, Norad, May 2005
5. Opportunities for Norwegian Support to Agricultural Development in Malawi, Noragric, June 2005
6. Strategic Development Program 2001 – 2006, NASFAM, October 2001
7. Towards NASFAM Consolidation and Sustainability 2003 - 2006, proposal to USAID, September 2003
8. NASFAM Funding Proposal for the National AIDS Commission, October 2005
9. NASFAM 2nd Quarterly Report January – March 2006
10. NASFAM Annual Report October 2004 – September 2005
11. NASFAM Annual Report October 2003 – September 2004
12. NASFAM Annual Report October 2002 – September 2003
13. NASFAM Consolidated Financial Statement for the year ended 30 September 2005
14. NASFAM Consolidated Financial Statement for the year ended 30 September 2004
15. NASFAM Consolidated Financial Statement for the year ended 30 September 2003
16. NASFAM Consolidated Financial Statement for the year ended 30 September 2002
17. NASCOMEX Consolidated Financial Statement for the year ended 30 September 2005
18. NASCOMEX Management Accounts, August 2005
19. NASFAM Management Accounts, August March 2006
20. NASFAM Management Accounts, September 2005
21. NASFAM Management Accounts, September 2004
22. NASCOMEX Commodity Trading 2006-07, February 2006
23. Agreed minutes from RNE – NASFAM annual consultations, February 2006
24. Agreed minutes from RNE – NASFAM annual consultations, January 2005
25. Agreed minutes from RNE – NASFAM annual consultations, December 2003
26. NASFAM – NORAD “Continuing the Partnership) 2003 2006, February 2003
27. Request to RNE for an extension April to September 2006, February 2006
28. Marketing Agreement Between NASFAM Commercial and Mchinji Farmers’ Association, March 2006
29. Memorandum of Agreement Between NASFAM and Mchinji Farmers’ Association, 2006 Season
30. NASFAM Titukulane, Marketing Special, April – June 2006
31. Walking Tighropes: Supporting Farmer Organisations for Market Access, ODI, November 2005
32. NASFAM Impact Assessment Study Report 2004

APPENDIX 2

KEY PERSONS CONSULTED⁷

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Sylvester Kadzola, Chief Executive, Malawi Union of Savings and Credit Cooperatives, Ltd., Lilongwe. musccogm@eomw.net

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⁷ The consultants also met with many NASFAM club and association officials, and farmers, and post-harvest cleaners and packers. Although some are nameless, they contributed significantly to our thinking.

In addition we met with key staff at NASFAM Headquarters, led by Dyborn Chibonga (ceo@nasfam.org) and the Royal Norwegian Embassy, Lilongwe. In particular we appreciate the efforts of Dr. Augustine Chikuni (augustine.chikuni@mfa.no) and Mr. Øystein Botillen (oybo@mfa.no) in facilitating our work.

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APPENDIX 3 TERMS OF REFERENCE

NATIONAL SMALLHOLDER FARMER'S ASSOCIATION OF MALAWI

TERMS OF REFERENCES

for

Evaluation of Norwegian support to NASFAM's Strategic Development Programme 2001-2006 and appraisal of Programme Document for support to NASFAM's Strategic Development Programme 2006-2011

1.0 Background

1.1 The background and rationale of the evaluation and the appraisal are:

- The Government of Norway has provided support to NASFAM since 2000. The first agreement (NASFAM Phase I) covered the period from 2000 to 2003 and had a total budget frame of NOK 14 million. The second agreement (NASFAM Phase II) ended in March 2006 and had a total frame of NOK 28 million. This means that a total of NOK 42 million has been provided to NASFAM by the Government of Norway over a six-year period;
- NASFAM has requested further a considerable financial support from the Government of Norway, and;
- NASFAM has over the years also received considerable financial support from USAID. The USAID supported NASFAM Consolidation and Sustainability Programme lasting from October 1, 2003 to September 30, 2006 has a budget frame of USD 6,300,000. USAID is currently revising its Malawi strategy and will most likely revise/reduce its technical/financial support to NASFAM considerably in the coming period with significant implications for the NASFAM system and stakeholders.

1.2 The purpose of the exercise is to provide the Norwegian Embassy and its partners with an input to upcoming discussions concerning the preparation of a third phase of support to NASFAM. It is intended to provide the Norwegian Embassy with important information and analyses of the current situation and identify challenges and opportunities for the Norwegian Embassy, in particular within the frame of the implementation of the plan of action for agriculture developed by the Government of Norway.

The study will assess the degree of financial self sustainability in NASFAM's. The study will suggest strategies for the enhancement of financial and organisational sustainability of NASFAM.

2.0 THE NASFAM System

2.1 The National Smallholder Farmers' Association of Malawi (NASFAM) is the service arm of affiliated farmer business organisations. NASFAM works with rural farmer groups, or "clubs", to develop commercially viable group businesses that are linked to farmer association structures through which smallholder farmers realise increasing returns based on economies of scale and collective power of voice. Formed in 1997 by 14 farmer associations that emerged from the USAID supported

Smallholder Agribusiness Development Programme, NASFAM currently has a membership of over 100,000 households organised in 35 associations. Approximately 38 percent of its members are women.

2.2 The vision of NASFAM is to be the leading smallholder owned business and development organisation in Malawi that promotes farming as a business, producing economic and social benefits for its members, their communities and the country. Its mission is to improve the lives of smallholder farmers. Through a comprehensive network of smallholder-owned business organisations, NASFAM develops the commercial capacity of its members and delivers programmes that enhance their productivity. NASFAM focuses on several high-value crops, such as chillies, paprika, cotton, aromatic rice, groundnuts, pigeon peas, soyabeans and beans.

2.3 The immediate objectives of the NASFAM system include:

- To operate a network of smallholder-owned associations capable of providing a wide range of business and development services to smallholders and the rural communities
- To develop an environmentally sustainable smallholder production system that provides consistently higher levels of profitable return for farmers who participate
- To manage a company that provides member associations with access to services needed to support policy initiatives, human resource development requirements and information based activities
- To improve livelihoods, including food security status of Association members and their communities, with emphasis on special needs of female members
- To provide management and financial support to the entire NASFAM system, including the provision of timely and comprehensive information and analysis on the performance and impact of NASFAM activities.

2.4 NASFAM operations are divided into three separate corporate entities: (i) NASFAM Development Corporation (NASDEC); (ii) NASFAM Commercial, and; (iii) NASFAM Development. Each of these companies plays complementary roles in NASFAM's continued growth and in its approaches to sustainability.

- NASFAM Development Corporation (NASDEC): As the corporate head of the NASFAM system, NASDEC co-ordinates member activities and acts as a link between associations and the services of its two subsidiaries. NASFAM and member associations operate as strategic partners to increase business and management capacity at the association level. As a democratic institution, wholly owned by member associations, it facilitates member participation and control within the NASFAM system.
- NASFAM Development: It operates as a development resource provider, co-ordinating information services, policy involvement and advocacy, business capacity development, communications and rural socio-economic development programmes.
- NASFAM Commercial: As a commercial production and marketing entity, NASFAM Commercial supports the ability of NASFAM associations to market their products, develop new and value-added business opportunities and control access both to their own and to external markets. It is a wholly owned subsidiary of NASFAM.

3.0 Terms of reference for the Evaluation of NASFAM's Strategic Development Programme 2001-2006

3.1 The evaluation shall limit its focus on the NASFAM Strategic Development Programme 2001-2006. Some further details about the logic and substance of the activities and outputs are therefore highlighted. The programme focussed on strengthening a network of smallholder directed business organisations that would

provide a consistently higher level of returns for farmers who participate by enhancing their capacity through training and advocacy. The **overall development objective** of the programme was to fight poverty through improving the economic and social conditions for the smallholder farmers and to strengthen democracy and civil society by increasing organised participation in Malawi's rural development.

3.2 The **immediate objectives** of the NASFAM Strategic Development Programme 2001-2006 were stated as follows:

- improve business activities and services and establish linkages with public and private sector service providers that benefit the interests of its members
- promote the interests of members nationally, regionally and internationally
- enable smallholders to voice their demands
- improve business, financial marketing and management capacity of smallholder member organisations
- develop alternative crop marketing, agribusiness and off farm income generating initiatives with member organisations
- ensure the participation of women in institutional developments
- improve land use management practices of smallholders

3.3 The **principal results** achieved by the NASFAM Strategic Development Programme 2001-2006:

- In 2004 NASFAM smallholders marketed over USD 18 million worth of cash crops. They have become the largest single traders on Malawi's tobacco auction floor; they are the major exporters of Malawi's Birdseye chillies and the major force for organisation of smallholder diversification efforts in groundnuts, paprika, soyabeans and cotton. NASFAM has recently moved into value-added processing of crops such as rice, thereby securing extra return and access to more stable retail markets.
- NASFAM has also been at the forefront in the set up and delivery of expanded financial services to rural areas. The commercial banking system has begun to on-lend funds to smallholders through NASFAM. Under a strategic alliance with the Malawi Union of Savings and Credit Cooperatives (MUSCCO), NASFAM is working to make savings and lending services available to all smallholders within the NASFAM system. This means that smallholders are now active participants in the economic system and able to use their own savings for their daily livelihoods.
- Through an explicit policy agenda, smallholder farmers have been empowered and are actively participating in rural development activities ranging from improvement of rural infrastructure, pricing systems and marketing mechanisms, community schools and health facilities to the protection of the legal rights of women and children. NASFAM continually lobbies and advocates policy changes that benefit the smallholder farmers. A major achievement and benefit to members, and an example of the power of the collective voice has been the successful campaign aimed at the government through Malawi Revenue Authority and relevant ministries to remove the 7% tobacco withholding tax on tobacco sold through smallholder clubs.

3.4 Challenges to NASFAM include the difficult conditions for farming and business in Malawi, the need for further diversification, and pressure both to reduce its reliance on financial support from donors and to expand the scale and scope of its commercial and development system. Another challenge relates to difficulties in supporting member's access to financial services outside the concentrated marketing system in the tobacco sector, and the range of political, institutional and economic difficulties faced by that sector.

3.5 Scope of work

- a) The purpose of the evaluation is to provide the Norwegian Embassy and its partners with an input to upcoming discussions concerning the preparation of a third phase of support to NASFAM. It is intended to provide the Norwegian Embassy with important information and analyses of the current situation and identify challenges and opportunities for the Norwegian Embassy, in particular within the frames of a possible reduction in financial support from USAID and the decision to pilot the implementation of Norway's plan of action for agriculture development in Malawi.
- b) The evaluation shall limit its focus on the NASFAM Strategic Development Programme 2001-2006. Overall, the evaluation team shall:
 - provide an impartial and independent evaluation of the performance of the programme in relation to the stated goal, objectives and outputs
 - assess the achieved results of the programme, considering the level of support
 - Assess relevance of the programme with regard to expressed needs and priorities of commercially oriented smallholder farmers in Malawi and the current development policy framework of Malawi
 - identify opportunities and challenges for improved performance and sustainability of NASFAM and propose a set of recommendations for continued financial support from the Government of Norway.
- c) The evaluation should pay particular attention to the following components of the programme:
 - i) Association strengthening - NASFAM proposed to strengthen association capacity through infrastructure improvements, regional offices capacity improvements, geographic expansions, natural resource management and crop production operations. Based on the measurable indicators the evaluation shall assess to what extent the outputs and results associated with these activities were achieved
 - ii) Market expansion - A major result of credit facilities for crop financing and farm supply shops was assumed to be market expansion. The assessment team shall, based on the proposed indicators, assess whether this result has been achieved and, furthermore assess the effectiveness and efficiency of the established MUSCCO credit facility
 - iii) Development services - The evaluation shall assess the extent to which the approach, strategies and activities related to human resources development, policy and advocacy, communication, HIV and AIDS and gender contributed to successful achievement of the overall goal of the NASFAM system.

NASFAM recognises the role women plays in rural development. In this connected NASFAM developed a strong gender programme. The study shall therefore in as far as possible assess the extent to which gender issues were mainstreaming into the programme i.e. were differing situations, needs and aspirations of women and men taken into consideration, are there suitable quantitative and qualitative indicators that measure the impact of women and men, is there a clear strategy to build gender capacity, does the programme design incorporate strategies that reflect and promote gender awareness?
- d) The evaluation shall also assess the institutional arrangements put in place for planning, management and implementation of the programme. The evaluation team shall especially focus on the efficiency and capacity of the institution designated to co-ordinate the implementation of the Norwegian contribution especially focusing on.

- effectiveness of the three NASFAM corporate entities in the implementation of the programme and the linkages between the entities.
 - assessment of constraints faced and measures taken to address these constraints during the implementation of the programme.
 - assessment of the extent to which NASFAM collaborated with other institutions in the implementation of non-core activities (such as HIV and AIDS and adult literacy).
 - assessment of the sustainability of the NASFAM corporate system.
- e) NASFAM is built at all levels around the principle of farmer ownership and control. To achieve this NASFAM implements a governance programme where farmers are empowered to participate in the democratic processes. NASFAM Associations therefore provide members with a local organisation which they own and govern through highly transparent and democratic processes. The study will therefore assess the extent to which NASFAM adheres to democratic principles, especially focusing on the participation of members in decision making at all levels of the NASFAM system,
- f) The assessment of the various components of the NASFAM intervention shall be guided by the following evaluation criteria and proposed evaluation questions. However, the evaluation team may also propose additional criteria if deemed relevant and necessary.
- i) Relevance** - Assess the extent to which the intervention conforms to the needs and priorities of the beneficiaries and the development policy framework of Malawiⁱ.
- ii) Effectiveness** - Using the established set of indicators the evaluation team shall assess the extent to which the programme has achieved its goals and objectivesⁱⁱ.
- iii) Efficiency** - The evaluation team shall provide an objective assessment of the efficiency of output delivery, including assessment of expenditures in relation to activities carried out, and distribution of expenditures between central and local levelsⁱⁱⁱ.
- iv) Impact** - The evaluation team shall assess the different types of impact of the development programme, positive and negative, intended and unintended^{iv}.
- v) Sustainability** - The team shall assess the effectiveness of sustainability measures established during the programme implementation, especially measures put in place to reduce donor dependency^v.
- g) By the use of collective bargaining power, NASFAM claims to have increased the prices of agricultural products and decreased the price of production inputs thereby improving economic situation of its members. The study will thus examine whether changes in prices in fact can be explained by NASFAM's bargaining power, or whether it is caused by other external factors such as changes in international commodity prices. In line with NASFAM's goal of fighting poverty through improvement of economic and social conditions of smallholder farmers the study will also in as far as possible assess the extent to which NASFAM has contributed to increased revenues/income of its members.

3.6 Analysis and reporting

The evaluation team will produce a report not exceeding 40 pages. The report will

be submitted to Norad no later than 1. July 2006 and will be prepared using the following tentative structure.

Report Structure:

- i) Executive Summary: Summary of the evaluation (maximum 5 pages), with particular emphasis on main findings, conclusions, lessons learned and recommendations.
- ii) Introduction: Presentation of the evaluation purpose, questions and main findings.
- iii) The evaluated intervention: Description of the evaluated intervention, and its purpose, logic, history, organisations and stakeholders.
- iv) Findings: Factual evidence, data and observations that are relevant to the specific questions asked by the evaluation.
- v) Evaluative conclusions: Assessment of the interventions and its results against given evaluation criteria and proposed questions.
- vi) Lessons learned: General conclusions that are likely to have a potential for wider application and use.
- vii) Recommendations: Actionable proposals to the evaluation users.
- viii) Annexes: ToR, methodology for data gathering and analysis, references, etc.

4.0 Terms of References for the appraisal of NASFAM III

4.1 Following the decision to pilot the implementation of the plan of action for agriculture in Malawi, a framework for agriculture development has been developed. The framework comprises five components as following; agricultural education and enterprise, agricultural research, market led agricultural production and private sector development, irrigation and water development and sustainable agriculture and rural livelihoods. NASFAM has been identified as a major partner in the implementation of the market led agricultural production and private sector development component. It is therefore envisaged that support to NASFAM shall continue.

The purpose of NASFAM III continues to be "to improve the lives of smallholder farmers by promoting farming as a business and by delivering programmes that produce economic and social benefits for members, their communities and the country." The programmes have been designed specifically to:

- a) improve commercial revenues or household's income by providing members with access to competitive output and input markets,
- b) facilitate the production of good quality and yields of crop varieties demanded by local and international markets.
- c) provide members, and when practical non-members, with the best possible technical help with regard to running their farms as businesses.
- d) provide members with livelihoods skills and options that promote improved access to foods, equitable participation of both sexes in Association activities and leadership; and HIV/AIDS interventions.
- e) provide smallholder farmers with a voice and enhance their ability to contribute to national development
- f) provide management and financial support to the entire NASFAM system, including the provision of timely and comprehensive information and analysis on the performance and impact of NASFAM activities.

4.2 Purpose

The purpose of the appraisal is to provide an objective assessment of the programme document, its implementation arrangements in relation to the

programme goal, objectives and expected outputs. The study will also assess coherency of programme objectives in relation to the goal, objective and the development agenda of both Norway and Malawi. The study will measure whether financial self sustainability can be achieved by NASFAM, and suggest relevant strategies in this regard.

4.3 Scope of work

a) Assessment of programme design

- i) Programme vision is to set up and operate a sustainable smallholder owned corporate system that contributes to development of Malawi and implementation of initiatives that produce economic and social benefits of its members. In order to implement this vision, outputs were placed into six key result areas (KRAs). Based on description of each KRA, proposed activities and expected outputs, the study shall review, assess and determine the extent to which the KRAs adequately address NASFAM's goal and immediate objectives. In reviewing the KRA's the study shall also study the activities linked to each KRA and assess the relevance and adequacy of proposed methodologies and approaches.
- ii) Credit facilities have been proposed to support crop procurement, farm supply shops and Income Generating Activities. Keeping in mind recommendations from NASFAM II evaluation regarding operational procedures of credit facilities and based on lessons learned from the MUSCCO NASFAM credit facility the study shall assess credit facilities being proposed and recommend appropriate operation procedures.
- iii) NASFAM is in the process of developing a strategic plan for 2006-2011. Based on the preliminary draft of the strategic plan the study shall assess the extent to which the NASFAM III is aligned to the proposed strategy.
- iv) To make a clear distinction between overall NASFAM objectives to be reached within the five year period a logical framework has been provided. The study shall review the logical framework and assess its adequacy as a tool for objective-oriented project planning and management.
- v) The study shall provide an independent assessment of the programme focusing on the quality of the design elements, (goal, purpose, outputs, inputs), the quality of the Indicators and Means of Verification (data sets). The study shall determine whether the indicators are sufficient to give valid and reliable information on outcome and impact. The study shall focus further on the quality, simplicity and user friendliness of the recipient's monitoring system for the programme, relevance and reliability of the available baseline data; and the relevance of risk factors and whether mitigating actions are integrated in the programme design.

b) Assessment of the Partners' planning process

The appraisal shall assess the quality of the underlying analysis and planning process of the programme, including participation of relevant stakeholders in the process; the relevance of the programme with regards to the problems that the programme should solve and the interests of the involved stakeholders. The study shall also determine the extent to which lessons learned from previous supports and/or from the best available knowledge were used during the planning process. Other planned or on-going programmes that may influence the implementation or the effects of the planned programme shall also be assessed.

c) Assessment of sustainability and risks

Effective implementation shall depend on how well NASFAM manages risks and how well programme sustainability is integrated into the design. In this regard, the study shall revise the proposed sustainability and risk elements especially those associated with the following; Policy and framework conditions (incl. corruption), Socio-cultural and gender (incl. HIV/AIDS), Economic and financial, Institutional and organisational, and the Environment.

The study will measure the cost-effectiveness of activities performed by NASFAM, and in this regard make an assessment of whether financial self sustainability can be achieved through the strategies suggested in the project document. The study shall make an assessment of whether NASFAMs different organisational entities can become financial self sustainable and whether financial self sustainability can be achieved at association level.

The appraisal will suggest strategies for enhancement of organisational and financial self sustainability.

d) Programme implementation and administration

For effective implementation the programme would require close collaboration of various organisations and stakeholders. The study shall therefore review roles, functions and responsibilities of NASFAM's collaborating partners paying particular attention to relevance, efficiency and effectiveness of their collaborative work. The study shall also assess programme implementation structures and assess its capacity to adequately implement the proposed programme. In connection with this the study shall also assess the comparative advantage of subcontracting none core activities e.g. HIV/AIDS activities to other organisations.

e) Donor coordination

NASFAM has received funding from other donors such as the USAID, NAC etc but this has not been adequately co-ordinated. To ensure donor coordination the study will assess the extent to which the programme is aligned to other partner's systems and procedures and propose an effective framework for cooperation.

4.4 Analysis and Reporting

The study team will compile the findings and produce draft documents of the Appraisal Report of NASFAM Phase III. The preliminary reports will be presented to Norway and NASFAM for their input and initial comment. The study team will, based on the comments, produce and submit a final report to Norad not later than July 1, 2006. The outputs of the appraisal will be a final report prepared based on the following tentative report structure:

- a) Executive Summary
- b) Introduction and purpose of the appraisal.
- c) Appraisal approach and methodology
- d) Findings (emphasising on results of the assessment of programme effectiveness, impact, institutional arrangements, programme efficiency and programme sustainability)
- e) Conclusions including lesson learned.
- f) Recommendations
- g) Annexes

5.0 Specific tasks to be performed

5.1 Compile and analyse relevant documents

Both identifying and acquiring relevant documents will be one of the tasks of the evaluation team. A review of NASFAM strategy and programme documents will be a significant part of the evaluation.

5.2 Meeting with stakeholders and relevant institutions in Malawi

Implementation of NASFAM activities has been in collaboration with other stakeholders and as such the team will be required to consult a cross section of stakeholders ranging from the donor community (USAID, National Aids Commission, Norad), NGOs (e.g. MUSCCO); Government departments (Ministry of Agriculture and Food Security), training institutions (such as Bunda College of Agriculture, and Norwegian Agricultural University), and farmers' organisations e.g. Farmers Union of Malawi

5.3 Field Visits

A visit to selected programme sites will give the team the opportunity to observe the current situation and to discuss issues to be covered by the evaluation with target groups and other stakeholders

5.4 Stakeholder assessment

The evaluation team will present preliminary findings and recommendations to groups of stakeholders in Malawi. The purpose is to assist the study team to take stock of the findings and recommendations, as well as to facilitate a process in which stakeholders have the opportunity to comment on the results before the evaluation mission is completed.

6.0 Schedule

The study will be undertaken between June and July 2006. The review shall be conducted within a period of 27 days (approximately three days planning, 14 days fieldwork, and two days for travel and eight days report writing). During this period field visits to Malawi will be undertaken for consultations with key stakeholders.

7.0 The study team

In order to perform the task, the team members need one or more of the following qualifications: Agricultural economics, Farmer Organisations/Co-operatives and Considerable knowledge about rural development and the specific situation in Malawi.

ⁱ It could be relevant to focus on the following

Is the intervention consistent with the livelihood strategies and the economic, social and cultural living conditions of its target group?
Is the intervention well in tune with the development policies and administrative systems at the national and regional/local level?
Is the intervention a technically adequate solution to the development problem at hand?
Do the proposed innovations of the NASFAM intervention have potential for replication?

ⁱⁱ It could be relevant to focus on the following:

Assess to what extent the agreed objectives have been achieved
To what extent are the identified outcomes the result of the programme rather than external factors?
What are the reasons for the achievement or non-achievement of outputs or outcomes?
Was the established monitoring and evaluation system effective in directing implementation of the programme components?
What could be done to make the programme more effective?

ⁱⁱⁱ It could be relevant to focus on the following

Has the programme been managed with reasonable regard for efficiency? What measures have been taken during the planning and implementation phase to ensure that resources are efficiently used?
To what extent have the development components been delivered as agreed
Were the various components of the programme economically worthwhile, given possible alternative uses of the available resources? Should the resources allocated to the programme have been used for another, more worthwhile, purpose?
Is the intervention consistent and complementary with activities supported by USAID?

^{iv} It could be relevant to focus on the following

How has the programme affected the wellbeing of the different groups of stakeholders?

What are the intended and unintended, positive and negative, effects of the programme on people and institutions

Do the positive effects outweigh the negative ones?

What do the beneficiaries and other stakeholders perceive to be the effects of the programme on themselves?

To what extent does the programme contribute to capacity development and the strengthening of institutions

^v It could be relevant to focus on the following

To what extent has measures been taken to address the sustainability of the NASFAM system been effective?

Is the programme consistent with commercially oriented smallholders priorities and effective demand? Is it supported by local institutions and well integrated with local social and cultural conditions?

Is there local ownership?

Is the approach and technology utilised in the programme appropriate to the economic, social and cultural conditions in Malawi?