IV. NON-PROJECT ASSISTANCE COMPONENTS OF ASAP

A. INTRODUCTION

A major component of USAID's Agricultural Sector Assistance Program (ASAP) in Malawi has been non-project assistance (NPA). This pattern has reflected the recognition, both locally and among the country's international partners, that policy and institutional issues, at least in theory, have been among the most serious constraints to broadly based improvements in productivity and incomes, especially among the country's smallholder farmers. In these circumstances, conventional projects or investments, even if they are well designed and funded, may be far less significant for smallholder incomes and development than in directly addressing these policy issues and instituting the necessary reforms.

The intention of the NPA program has been to provide a mechanism for collaboration between USAID/Malawi and the Government of Malawi to identify and address the above constraints. The idea was to jointly design a series of policy and institutional reforms as "Conditions Precedent" (CPs). The NPA approach is that, once the specified CPs are verifiably implemented by the relevant GOM or parastatal agency, substantial budgetary transfers are made to the country's treasury. In cost benefit terms, if policy and institutional issues are significant constraints to improved efficiency and to the growth of incomes and jobs in the sector, the economy-wide benefits accruing from reforms in these areas are potentially far higher, and far more broadly distributed than the returns from conventional investment projects undertaken without the reforms. It is also thought that conventional projects, such as the development of the institutional and physical infrastructure to sustain and support greater farm productivity, have very much more attractive returns once the reforms are in place.

The procedure for implementing NPA is conceptually straightforward. In each case, a given tranche includes a series of CPs. Once these are met, and the verification is complete, a Project Implementation Letter (PIL) is sent to the GOM by USAID/M, to be signed by the relevant Treasury official on behalf of the GOM. USAID/M then transfers the specified grant into the Treasury account.

The NPA component spanned both ASAP I and II, and as of June 2002, had disbursed six tranches totaling US$ 42.0 million. ($1.0 million remains as an unearmarked balance.) The following table presents the dates and amounts of the six tranches to date. The specific CPs related to each tranche can be found in Annex A, Project Implementation Letter Matrix.

TABLE 12
NPA Tranches by Date and Amount

Tranche	Date	Amount (US$ Millions)
1	3/92	4.0
2	8/93	6.0
3	10/94	10.0
4	3/95	5.0
5	11/95	10.0
6	6/02	7.0
Total		42.0

This part of the Agricultural Sector Assistance Program (ASAP) evaluation focuses on the above NPA components of the program. In essence, the task is to:

- Review the PILs and other documents identifying the policy reforms and other actions agreed upon between USAID/M and the GOM, and to clarify where possible, the (potentially conflicting) motivations and intentions of the USAID/M and GOM officials who formulated and designed them;
- Identify and attempt to make contact with the agencies responsible for implementing the agreed upon actions; and to then follow up on the extent to which this implementation was effective and the extent to which it may have been reversed. If a policy was reversed or not effectively implemented, the analysis attempts to focus on the reasons why this happened;
- Focus on the agencies, businesses, and a selection of individuals affected by, or involved in implementing the various changes and new tasks implied by each of the NPA components -- and inquire as to what actually happened, what problems and opposition may have been encountered, and how they were handled, and
- Assess the final effects of each action or change, in terms of meeting the specified objectives and in benefiting (or otherwise) the intended beneficiaries and, more broadly, the local and national economy.

It should be noted that with twenty-one CPs as a part of ASAP I, and fifty-two as part of ASAP II, there are a total of seventy-three conditions to be met. While some of these CPs are of a purely administrative nature, others are programmatic and often mutually reinforcing or additive in terms of their effects. A set of CPs in the early years of the program aimed, for example, at removing the longstanding restrictions on smallholder participation and trading rights in the tobacco market. These changes, among others, now allow smallholder producers and traders access to whichever markets they deem to be most adequate to their needs.

A further set of conditions addresses the liberalization of prices and the opening up of market participation to private sector traders and operatives, and doing so without discrimination based on gender, religion, ethnicity, or race. Across a range of different commodities, these measures were designed to change the tradition of control by a pervasive series of state or parastatal authorities, and to reduce the extreme dualism, favoritism, and elitism that had earlier characterized Malawi's agricultural production and marketing system. They were also aimed at improving the competitiveness and performance of these markets. The explicit intention was to broaden both the access to existing income sources and markets, and to enhance both the level and the distribution of incomes and welfare among producers. In such cases where the beneficiaries may be from the same population, with the benefits mutually reinforcing, it is difficult to distinguish the separate effects of each reform component. In these circumstances, the effects of interacting reforms have been grouped together for purposes of the evaluation.

ASAP I (September 1991 to September 1994)

The 1993 Mid-Term Evaluation of ASAP I concluded that while much had been accomplished, especially in opening up the tobacco sector to smallholders, a number of serious policy and institutional constraints and distortions remained and were continuing to undermine the efficiency and the distributional equity under which the agricultural sector as a whole was developing. Four "Themes" were recommended in that exercise. These were:

- To remove the restrictions on smallholder rights to grow the cash crops of their choice and to use the marketing intermediaries and channels of their choice;
- To remove the constraints to private involvement in the supply and distribution of agricultural inputs;
- To improve the land rights and security of smallholder tenants and farm laborers; and,
- To facilitate crop choices and farm diversification by removing both administrative and technical restrictions on smallholder producers.

These reforms had highly significant effects on the production of tobacco, and on the distribution of the income generated by its export. Tobacco production and marketing had earlier been restricted to estates, resulting in the virtual exclusion of smallholders from the earnings of the country's pre-eminent cash and export crop. The restrictions had also resulted in a very large expansion in the number of "estates," as substantial numbers of farmers, some of them fairly small, defined themselves into this category. The reforms recognized the inefficiency and the inequity of the restrictions. They not only led to an explosion of smallholder production and a far broader distribution of export earnings, they also started the process of undermining the market power of the Agricultural Development and Marketing Corporation (ADMARC), discussed in detail below, in both the input and product markets of farmers.

ASAP II (October 1994 to Present)

Under ASAP II, while the same efficiency and equity objectives were maintained, the earlier themes were collapsed into two. These are:

- Increasing market competitiveness and efficiency by removing subsidies and by opening up markets to full private sector participation; and,
- A range of institutional and legal changes aimed at removing official market impediments and entrenching reforms; these reforms included:

    1. Eliminating ADMARC's exclusive marketing rights for smallholder crops, especially tobacco;
    2. Removing the remaining restrictions on private trading in smallholder products;
    3. Radically reforming the GOM's parastatal agencies and, in particular, eliminating their exclusive trading rights or monopoly/monopsony powers; and,
    4. Developing information systems, technical and extension services, roads and other infrastructural support measures to facilitate the growth of a commercially based production and trading system in the rural areas.

These reforms recognized the critical link between explicit and implicit subsidies on the one hand, and the official monopolization of input and product markets on the other. Implicit subsidies (or taxes) are not overt budgetary transfers intended to change the prices of producers or consumers, rather, they use the market power of official institutions, trade, exchange restrictions and the like, to control or alter relative price levels in the economy. It should be noted that in a number of these cases, the hidden budgetary problems resurfaced as the accumulated debt of the official institutions. This is typically the case where such official marketing agencies face competition from lower cost private operators. As their deficits mount, the inability of these agencies to cover their costs can have very large implications for the national budget.

This latter set of reforms addressed the above restrictions, and institutional mechanisms for controlling prices and markets. It also addresses (item iv above) a number of ways of improving both small farmer productivity and the performance of the marketing and trading system.

In the above ASAP II areas, the basic questions for evaluation are whether the reforms implied by the CPs have been implemented as agreed, and whether they have had the intended results. The more fundamental task, whether the answer to the above questions is positive or negative, is to discover how it happened (or did not happen), whether and how the reforms have been incorporated into the thinking and practice of Government, and to determine what lessons can be drawn from the experience.

Lastly, as can be seen from the above table, the Non Project Assistance Program (NPA) progressed well for its first four years, and then stagnated with only one tranche having been disbursed in the past seven years. While many of the reasons for this are discussed in detail in the pages that follow, there is a general thread providing an explanation for this situation. It begins with popular pressures building in the early 1990s and especially gathering strength with the advent of multi-party rule in 1994. Democracy was being tested and livelihoods had to improve. Political leaders and donors decided that a 'liberization' of the lucrative, export tobacco sector would be the most efficient way to do this. With insufficient opposition from the 'Estate' tobacco sector, tobacco became a smallholder's crop. In the early NPA tranches, the principal focus of the CPs was almost entirely directed at ways to assist this process, as GOM goals were in direct agreement with those of the donors, and especially USAID. By 1995, however, the tone and targets of the CPs became more general in their scope, in liberalizing the seed, fertilizer, and agricultural trade sectors and in doing away with parastatals involved in agricultural services. While more NPA funding was disbursed in 1995 than in any other year of the program, many of the CPs achieved had been in process for some time. What is clear is that from approximately tranche four onward, the policy agenda of the Mission began to diverge from that of the GOM, or at least from the government's ability to fully implement the accepted CPs. There has also been some 'backsliding' as certain CPs were initially met, funds were disbursed by the Mission, and then the policy(ies) reversed. The following list of factors is an attempt to set forth a partial reasoning as to why "what didn't work, didn't work".

- The vast majority of NPA CPs are oriented towards reforms in the economic sector. As such, they do not take into consideration current or past political realities, nor the socio-cultural ramifications of their implementation.
- While both expatriate and national advisors, planners, and technicians can agree as to what are the necessary economic reforms to be undertaken, it is not until they are implemented and their impact is known by the intended beneficiaries and by their elected representatives, that any reform can be thought to be permanent.
- External shocks, beyond the control of GOM planners and officials, be they climatic (droughts and floods), economic (declines in the world prices of tobacco, coffee, cotton, etc.), and financial (devaluations and inflation) can all separately or individually negate any progress towards the desired reforms.
- With approximately 65 percent of Malawi's population living below the poverty level, defined as US$ 30 per person per year, and essentially representing a segment of the

population outside of the monetary economy, it is unrealistic to expect that this population, or the economy as a whole, will respond to stimuli in ways that economic theory would predict. This is particularly important, given the significant amount of GOM and donor support being provided as humanitarian aid, be it in the form of subsidies or outright grants.