

## **H. OVERALL SUMMARY AND DIRECTIONS FOR THE FUTURE**

Having spent substantial resources on conventional investment projects, there is now a widespread recognition that even good projects do not do well in a bad policy environment. It is also recognized that successfully addressing policy problems may deliver far higher, more pervasive, and better-distributed benefits to an economy than conventional projects. It can also turn out that critical policy reforms can make conventional projects far more successful. An extension project, for example, is likely to be far better received, if the crop or technology being promoted is profitable to farmers. It is a short and obvious step from concluding that policy changes can deliver real economic benefits, to realizing that assisting with the instigation or implementation of reforms in key areas can be a legitimate investment, and one with high returns to the sector and the economy. That is the rationale for NPA.

It is hard to quantify the effects of policy reform, partly because of the difficulty of the “counterfactual,” or as to what would have happened to the economy in the absence of this particular reform? A further complication is the difficulty of knowing what the policy regime would have been, and what adjustments might have occurred in the absence of a particular CP, and the NPA.

In evaluating the effects of reforms, it must also be recognized that these last years have been turbulent times in Malawi. Some of the macro and trade-related changes have had economy-wide price and other effects that would be naïve to ignore. In some cases these events have clearly swamped or dominated the effects of even the best NPA-related reforms, some to reinforce the changes, others to work in the opposite direction. An obvious example would be the major devaluation of the MKwacha. While this process has provided a price boost to local producers (to the extent that the devaluation was transmitted to them through the price system), it has also resulted in equally large increases in the prices of imported inputs, such as fertilizer. The question as to why Malawi is not better off than it is after all these reforms, should be reformulated to asking whether the country is better off than it would have been had the reforms not happened.

In evaluating NPA, three questions arise:

- ▶ Did the NPA conditions lead to the specified policy reforms? Related questions include whether these reforms were initiated or reinforced by the CPs, and to what extent were they incorporated into the thinking and internal processes of the GOM.
- ▶ Did the policy reforms lead to increased agricultural productivity, increased farm incomes, and increased employment?
- ▶ What lessons arise from the ASAP NPA for future NPA activities by USAID/M?

With regard to the first of these questions, the predictable answer is “it has been mixed.” Some reforms, such as opening up tobacco markets, radically changed the distribution of incomes in favor of smallholder farmers in the sector. As such it appealed to powerful domestic constituencies and groups who defended and proceeded with the reforms, and who pushed for subsequent adjustments and corrections as problems arose.

Other liberalization measures, equally appropriate and correct in their initiation, fell victim to a lack of commitment, understanding or support from key constituencies. Especially in cases

involving the removal of subsidies, there were predictable outcries from those who had grown used to, and felt entitled to the subsidies, and they often created successful political pressures to maintain them. While these subsidies were typically inequitable in their distribution, they also generated severe budgetary problems. It is well known that the Treasury, especially in its efforts to balance the budget, frequently lacked either the political influence or the power it needed.

Regarding the second question, it seems likely that the answer is affirmative. Even though the country's principal exports have been subject to seriously adverse price movements, it is highly likely that the reforms increased efficiency right through the marketing system, providing a better deal to farmers. Measurements of productivity, incomes, and employment in the sector are beyond the capacity of this exercise, but it would be very surprising if the effects were other than positive.

The third question of the lessons arising from the ASAP NPA is the focus for this section of the report. A very significant advantage of establishing open markets for price determination is that it serves to remove prices and markets from the political arena, providing governments with some protection from the pressure to use prices for short-term political ends. This protection, if it is used, offers a major improvement in the political economy of countries such as Malawi

### ***1. Land Rights; a Specific Intervention***

In terms of possible future NPA activities, a critical area in Malawi, as in a number of the countries of the region, is that of land rights. Without clear, agreed and secure boundaries for individual farmers, offering both long-term (including intergenerational) security and the right to engage in the complete range of land transactions, the incentive for farmers to invest in and develop their farms is impaired to the point of non-existence. Without such incentives, even the most basic investment measures required to protect farmland from degradation, are not undertaken, let alone the multiple investments required to generate greater returns from the land. In the absence of very basic and widely implemented reforms in this area, it is unlikely that the necessary productivity increases will occur in Malawi's smallholder agriculture. With such reforms, extensive changes, including the accumulation of on-farm capital, is likely to have profound positive effects on rural investments, income and welfare.

For many years, whatever have been the reforms to the rights of landholders, these have focused on urban areas. The problem of rural land rights has been regarded as too embedded in traditional culture, and too tightly controlled by traditional authorities for the treatment of outsiders, or even by the GOM. The evaluation team believes that this issue is absolutely fundamental for the most basic, and arguably the most consequential of reforms in the sector, and recommends that it become part of any further policy dialogue between the Mission and the GOM.