Aid for Trade Series



Evaluating Aid for Trade on the Ground

Lessons from Malawi

By **Jonathan Said and John McGrath**
(Imani Development)
Catherine Grant and Geoffrey Chapman
(South African Institute of International Affairs)

International Centre for Trade and Sustainable Development

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For more information about ICTSD's work on Aid for Trade, visit our website: www.ictsd.org

ICTSD welcomes feedback on this document. These can be forwarded to Paolo Ghisu, pghisu@ictsd.ch

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The views expressed in this publication are those of the author and do not necessarily reflect the views of her current employer nor of ICTSD or its funding institutions.

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LIST OF ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AfT	Aid for Trade
ASWAP	Agriculture Sector-Wide Approach
BESTAP	Business Environment Strengthening and Technical Assistance Programme
CRS	Creditor Reporting System
DEA	Department of Environmental Affairs
DFID	UK Department for International Development
DTIS	Diagnostic Trade Integration Study
EIA	Environment Impact Assessment
EIF	Enhanced Integrated Framework
ESCOM	Electricity Supply Corporation of Malawi
EU	European Union
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
ICTSD	International Centre for Trade and Sustainable Development
IMF	International Monetary Fund
ITC	International Trade Centre
JITAP	Joint Integrated Technical Assistance Programme
LDC	Least-Developed Country
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MGDS	Malawi Economic Growth and Development Strategy
MoAFS	Ministry of Agriculture and Food Security
MoIT	Ministry of Industry and Trade
MSME	Micro, Small and Medium Enterprise
NASFAM	National Association of Smallholder Farmers of Malawi
NSC	National Steering Committee
NWGTP	National Working Group on Trade Policy
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PIU	Project Implementation Units
PSD	Private Sector Development
SADC	Southern African Development Community
SAWTEE	South Asian Watch on Trade, Economy, and Environment
SME	Small and Medium Enterprise
SWG	Sector Working Group
TRTA	Trade-Related Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USAID	US Agency for International Development
WTO	World Trade Organization

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FOREWORD

Since the launch of the Aid for Trade (AfT) initiative, the monitoring process led by the World Trade Organization (WTO) and the Organisation for Economic Cooperation and Development (OECD) through the Creditor Reporting System has generated critical data and analysis on its implementation. Donors have identified and reported their trade-related aid projects more systematically, and partners have strengthened their ownership in designing and implementing AfT programmes. The 2010 call for “case stories”, which resulted in a unique and incredibly rich body of experiences from individual projects, has shed further light on the impact of AfT.

This paper is part of a series of studies that the International Centre for Trade and Sustainable Development (ICTSD) has undertaken to assess the effectiveness and impact of AfT at the country level. In doing so, ICTSD seeks to complement existing monitoring mechanisms by providing a comprehensive and integrated picture of the unique experiences of individual countries in enhancing their capacity to trade. As highlighted in a 2010 communication from the OECD at the WTO Committee on Trade and Development, “The Task Force defined AfT as whatever a partner country considers trade-related. To capture this, the AfT initiative has to go to the local level”. Indeed, experience so far suggests that the effectiveness of AfT in boosting trade-related performance is likely to depend crucially on a large number of country-specific factors, which can only be captured at the national level. Similarly, the need to engage with and strengthen coordination among national government agencies, local donor representatives and the private sector suggests that monitoring and evaluation needs to take place locally and feed into the processes and deliberations that inform national priorities.

As part of this research project, ICTSD has embarked on assessing the impact and effectiveness of Aid for Trade in five pilot countries – Malawi, Mauritius, Cambodia, Nepal, and Peru. In order to allow for the comparability of country studies, ICTSD and the South Asia Watch on Trade, Economics and Environment have developed a comprehensive methodological framework for conducting independent evaluation of the effectiveness of AfT at the national level. The methodology proposes a series of qualitative and quantitative indicators to measure critical aspects of the initiative, such as the additionality and predictability of funds, AfT mainstreaming, local ownership of the initiative and donors’ alignment and coordination. These objective indicators are complemented by an impact assessment of AfT projects at the macro level and in a particular sector (e.g. rice in Cambodia) or AfT category (e.g. trade policy and regulations in Malawi). While the methodology was developed for the purpose of conducting the five pilot studies, it remains a living document which can be adapted and used by interested organizations as a basis for further studies in other countries or regions.

To conduct each country study, ICTSD followed a bottom-up approach. Local independent researchers used the methodology to conduct the country-specific studies. They worked in close collaboration with policymakers, government agencies, development partners, the private sector and other local actors, collecting information and conducting structured interviews with key national players in the AfT field. Before the completion of the studies, the draft reports were scrutinized through a ‘national consultation’ in each country to share the initial findings with various stakeholders, whose insights were used to finalize the studies. As a last step, the studies underwent a process of peer review by trade and development practitioners and academics at the national as well as international level to verify the findings, while also incorporating their comments and recommendations for the benefit of the studies.

This Aid for Trade assessment about Malawi, one of the least-developed and most agricultural-based nations in the world, highlights both the progress achieved so far in mainstreaming trade but also the challenges associated with a lack of local ownership and the need to tackle the core factors that are required to build Malawi's absorptive and institutional capacities. This paper was prepared by Imani Development in Malawi and the South African Institute of International Affairs, in collaboration with ICTSD. After assessing the effectiveness of the initiative on the basis of the methodological framework, the paper provides some concrete recommendations intended to assist Malawi in implementing AfT programmes more effectively and the donor community at both the local and international levels to better respond to the country's development needs.

This study should be of use to policymakers, negotiators, development agencies and other stakeholders involved in the AfT initiative. I hope you will find it a useful contribution to a sensitive, yet critical, discussion.

Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

EXECUTIVE SUMMARY

The Aid for Trade (AfT) initiative was launched in 2005 in a bid to strengthen the nexus between development assistance and trade. The liberalization of global trade and the reduction in the value of preferential trade agreements highlighted the importance of strengthening developing countries' ability to participate in the multilateral trading system. There is no standard definition of AfT that is applied throughout the world but it is generally understood to include aid that contributes to a range of factors that influence a developing country's ability to trade.

The Organisation for Economic Cooperation and Development (OECD) monitors AfT flows through the Creditor Reporting System (CRS), in cooperation with the World Trade Organization (WTO). While the concept is understood and internalized at the international level, this is much less the case at the country level. The International Centre for Trade and Sustainable Development (ICTSD) is conducting country-level AfT assessments in a number of developing countries. This document presents the application of the ICTSD assessment methodology to Malawi.

This analysis finds that only a few of the desired aspects of AfT are present in Malawi, although there is evidence of positive, though initial, trends in certain key aspects. The results are summarized in Table 1 below.

Table 1: Summary of application of methodology to Malawi

Does Aid for Trade in Malawi exhibit…?	According to data	According to stakeholders
Additionality	No, but Government Counterpart is increasing	N/A
Predictability	Fairly predictable	Yes, but difficult to measure due to whether conditionalities are appropriate or otherwise
Sustainability	Uncertain	No
Ownership	N/A	No, but gradual increasing awareness by stakeholders of the importance of trade
Alignment	No	Limited use of country systems. Donor alignment to country priorities - which are not trade.
Donor coordination	N/A	Yes in broader categories of AFT. No in Trade Policy/Regulation and limited in Trade Development
Coherence - Environment and Climate	N/A	Weak environmental and adaptation policy. Trade takes precedence over environment objectives
Coherence - South-South Donors	N/A	No
Non-debt creating	Directly yes, but grant financing is indirectly creating trade debt	N/A
Demand-supply gap	N/A	In certain respects there is a match, but the gap remains significant
Absorptive capacity	N/A	No
Impact	No	Marginal

Source: Imani Development.

The key limitation of AfT in Malawi is that it has not identified where Malawi stands on its development curve, and therefore has not adequately invested in the development of local human capacity. The current focus of development partners is too heavily oriented towards short-term results, rather than viewing development as a long-term process. AfT is not helping to build the institutional capacity that Malawi's government, civil society and private sector require to play their development role and boost Malawi's ability to export.

Despite international efforts to link aid to trade, a lack of alignment, sustainability, local ownership and absorptive capacity mean that while exports are growing, the impact of AfT, both on development and on Malawi's ability to meet its WTO commitments, is significantly limited. A lack of in-country awareness of what AfT is – even within local donor offices – also plays its part. Any positive impact that there might be on export levels is not large enough to allow Malawi to reduce its expanding trade deficit, particularly while it remains dependent on aid itself and maintains an overvalued exchange rate peg. Malawi's trade deficit in goods increased from seven per cent of GDP in 2002 to 21 per cent of GDP in 2010. Perversely, AfT itself has contributed to this increase because it has served as a windfall gain that has not been invested in local human capacity and institutions. Therefore it has distorted the relationship between imports and exports.

Much more needs to be done through AfT to boost Malawi's enabling environment for private sector development, and thus the country's trade competitiveness. AfT needs to focus on developing the local capacity that is required to enable businesses to access the skills, finance, information, markets and inputs that they require, and to meet tax and regulatory obligations in a cost-effective manner. Although a number of AfT projects have targeted these areas, few permanent gains have been made because of a persistent failure to ensure true local ownership and to tackle the core factors that are required to build Malawi's absorptive and institutional capacity.

One issue is the lack of a comprehensive approach to building Malawi's human capacity based on a long-term rather than short-term approach. Local stakeholders, including local donor offices, do not give enough attention to the relationship between AfT and education, so that an inadequate effort is made to link primary, secondary and tertiary education to increasing the skills base that government, civil society and the private sector require. A second, related issue is the international focus on short-term results and strong disbursement data. To a degree this undermines investment in local human capacity and in the development of local institutions. Excessive focus on results incentivizes achieving an outcome by any means, and not on developing the local capacity to achieve that outcome. Development should be at the local pace and AfT should work less towards results and more towards helping to enable local institutions to allow for those results to occur organically.

A third core issue is a divergence in objectives between the AfT agenda and the Government of Malawi, whose focus over the past six years has been on poverty reduction and growth through food security rather than trade. A further issue is the provision of grant financing that is not tied to an adequate and comprehensive investment in human capacity. Although the vast majority of AfT is provided in grant financing – and hence fits the term 'non-debt creating' in its direct form – such financing could be labelled 'trade deficit creating' because it is not assisting Malawi to acquire the tools necessary to prevent a future major trade adjustment. This can have a significant negative impact on Malawi's development, its poverty alleviation efforts and its ability to use the WTO's multilateral trading system. Although this is also an issue for all official development assistance, it is particularly so for AfT because AfT is concerned with trade.

Progress is being made in certain areas, such as improved donor coordination, an increase in government funding that is allocated to trade-related investments and a gradual increase in the awareness among key stakeholders of the importance of trade to their objectives and livelihoods. These stakeholders include the Ministry of Agriculture and Food Security, smallholder farmers and small and medium enterprises. It is therefore essential to extend these improvements and act on lessons learnt by:

All stakeholders:

- **Viewing trade as a subset of private sector development,** and not the other way round. It is essential for donors and international trade organizations to make the case to government and civil society for setting a favourable enabling environment for private sector development, so that trade can then emerge through a vibrant private sector. AfT should ideally be Aid for Private Sector Development;

- **Developing a nexus at the international and country levels between AfT and the development of local human capacity.** AfT needs to be linked to education and skills development, at the primary, secondary and tertiary education levels;[1]

- **Adopting a long-term, comprehensive approach to developing human capacity** that is required in the public sector, the private sector and in civil society to overcome private sector development and trade constraints at the local level. Adding capacity building components to trade-related projects solely for the purpose of ticking a box will not allow AfT to have a significant impact. Capacity building should be the primary focus of many projects, rather than the current focus on short-term results;

- **Identifying the ultimate causes of development and trade constraints.** For example, if firms are unable to access finance in an economy, it is essential to address the issues that prevent the financial sector from providing that finance, such as asymmetric information and the degree of competition, rather than searching for solutions that exclude the financial sector;

- Significantly increasing the **AfT attention given to line ministries and agencies** – such as the Office of the President and Cabinet, Ministry of Education, Ministry of Justice, Ministry of Transport and Public Works, Ministry of Finance and Ministry of Development Planning and Cooperation – and using the Ministry of Industry and Trade as a coordinating and driving mechanism.

Donors and international trade organizations:

- **Recognizing that the launch of the AfT concept equated to the global trade community entering the field of economic development.** If the trade community recognizes the importance of development for trade, then to be effective it must understand that development is a long-term process, not a short-term objective;

- **Ensuring local ownership of the AfT concept by simplifying the definition,** and:

    - **adapting it to local needs.** As highlighted in the *Aid for Trade in 2008* report by the OECD, “the Task Force defined AfT as whatever a partner country considers trade-related”;

    - **making a much greater effort to make the case with local stakeholders and key decision makers** – including politicians and local donor representatives – about the benefits of private sector development and trade to their organization’s goals and their livelihoods. This is also important to address the private sector’s limited interest in AfT in Malawi.

- Making a greater effort to **adapt global-level AfT objectives to the reality of local absorptive capacity and local efforts to develop that capacity.** AfT conditionalities should be tied to permanent AfT human capacity development;

- Not equating 'non-debt creating' aid to grant financing. **Aid is non-debt creating when it contributes to a country's ability to tackle its core development challenges;**

- Increasing the **capacity of international trade organizations and donors to advocate effectively** so that donor headquarters and in-country offices actively promote and lobby for trade and private sector development across different types of projects and sectors with government, civil society and local stakeholders. This includes mainstreaming economic development across their programmes. This is essential if the government is to allocate the required leadership attention that is essential if efforts such as the Enhanced Integrated Framework are to be effective.

The implementation of these recommendations is paramount if a country like Malawi is to develop the productive capacity and the enabling environment required to translate its comparative advantages into competitive advantages and to significantly increase the contribution of trade to economic development and poverty alleviation.

1. INTRODUCTION

1.1 Background

There is increasing awareness of the contribution that trade can make to the economic development of developing countries and the reduction of poverty. Likewise, there is an increasing awareness of the contribution that poverty reduction can make to strengthening participation in the multilateral trading system and therefore increasing the effectiveness of the World Trade Organization (WTO).

While at the international level the relationship between trade and development is understood and internalized, this is less the case at the country level – both among local donor representation offices and local stakeholders. There has been a disjuncture between the provision of aid and efforts to link that aid to boost the ability of developing countries to trade. This has manifested itself in the failure of a number of developing countries to compete in international marketplaces, despite decades of aid and donor support. The 2005 Highly Indebted Poor Country (HIPC) debt relief session epitomized the extent to which developing countries faced structural difficulties in sustaining desired levels of consumption, despite decades of aid.

In the same year, the concept of Aid for Trade (AfT) was launched in a bid to improve the linkage between the provision of aid and developing countries' ability to export, in line with global processes to liberalize trade. Since then, AfT has been monitored by the Organisation for Economic Cooperation and Development (OECD) in cooperation with the WTO. The two organizations have made progress in monitoring AfT flows and assessing its effectiveness, largely through the Creditor Reporting System (CRS). However some observers question the extent to which the OECD and WTO have been able to completely follow the guidelines of the AfT Task Force and create a monitoring framework that captures all the elements of the Paris Declaration on aid effectiveness.[2]

Further work is needed to identify the most effective way to measure the outcomes and impact of the AfT initiative in the areas of trade capacity, environmental sustainability and poverty reduction. As a complement to the work conducted by the OECD and the WTO, there is a need for an independent assessment of the effectiveness and impact of AfT at the country level. The International Centre for Trade and Sustainable Development (ICTSD) is carrying out a series of impact assessments of AfT in a few selected developing countries. This document presents the assessment for Malawi.

1.2 Objective

The objective of this report is to assess whether AfT in Malawi is effective and whether it meets the principles expected by the AfT Task Force and by local stakeholders. It also aims to analyse the reasons for deviations from expectations and goals. The report complements the AfT monitoring and evaluation role of the OECD and the WTO by providing a country-level assessment. These objectives are met through the application of the South Asian Watch on Trade, Economy, and Environment (SAWTEE) and ICTSD's AfT assessment methodology – developed by Ratnakar Adhikari in 2011 – to Malawi.[3] The findings are presented and analysed in this report.

1.3 Definition of Aid for Trade

The first issue that arises in an assessment of AfT is its definition. There is no standard definition of AfT that is internalized internationally and at the country level. This makes it more difficult to make the case for aid to support the development of the private sector. The definition used in this report is largely consistent with that of the WTO and the Government of Malawi, with some variations. These variations arise from the importance of defining trade-related aid within the context of private sector development (PSD), of which trade is a subset.

The productive capacity of the private sector is a prerequisite for a country to trade and this is dependent on having an enabling environment for PSD. In turn this is determined by factors such as access to skills, access to information, access to markets, macroeconomic stability, property rights, economic governance, fiscal prudence, infrastructure, trade promotion and trade policy. For these reasons all such factors need to be included in the definition of AfT.

The definition presented in Table 2 below recognizes the contribution of the range of factors that influence a developing country's ability to trade, both directly and indirectly. It is composed of five categories, ranging from the more direct areas of trade policy and regulation to the broader institutional framework supporting trade.[4]

Table 2: Definition of AfT, by category

Category	Title	Description
1	Trade policy and regulations	Developing a country's capacity to develop and implement its trade policy, including international trade negotiations and local regulations.
2	Trade development	Improving the business climate and fostering private sector development by promoting investments and exports, e-commerce, BDS encourage Private Public Partnership (PPP) and enhancing access to finance, market analysis and development.
3	Trade infrastructure	Addressing infrastructural barriers to markets such as transport, energy and communication.
4	Building productive capacity	Enhancing the productive capacity of an economy, not necessarily linked to trade but with a significant implication on a country's ability to trade.
5	Institutional Framework	Establishing the broader institutional framework that is required to allow trade to take place - such as a stable macroeconomic environment, prudent fiscal management, the rule of law, governance and government services.

Source: Imani Development based on WTO and Government of Malawi

1.4 Applying Methodology to Malawi: Details and Limitations

As mentioned in the previous section, the first difficulty that arises in applying any AfT assessment methodology at the country level is the absence of a standard definition of AfT. However, based on the definition provided in Section 1.3 above, the eleven aspects of the Adhikari methodology are applied to each category of the definition, where quantitative data are available and relevant. Annex A presents which dataset and qualitative information was applied to each aspect and component of the methodology. The results of the application of this methodology to Malawi, which are presented in Section 3, are broken down by AfT category. This allows the audience to assess the different types of AfT.

A second issue relates to the availability of relevant data. Two main aid datasets are available for Malawi and the methodology has been applied to both, where possible and relevant. These are:

1. The OECD's International Development Statistics (Credit Reporting System).

2. The Government of Malawi's project database (Aid Management Platform).

The key difference between the two datasets is that the former is obtained from submissions made by OECD members (donors), while the latter is populated by the Debt and Aid Division of the Ministry of Finance in Malawi based on local project data. The OECD data are available online from the OECD's Query Wizard for International Development Statistics, but data for 2010 were not available at the time of the analysis. The Government of Malawi project database is not available online. It is made available by the Ministry of Finance and, as of April 2011, it contained details for 889 donor-funded projects. The list is exhaustive for all projects in 2007, 2008, 2009 and 2010, but is not exhaustive for earlier years – although it includes a significant number of projects that were operational prior to 2007. For years prior to 2007, any analysis presented in Section 3 below that is based on this database is purely indicative and not conclusive.[5]

A further issue to acknowledge is the different purposes for which the datasets are collected. The OECD data are collected for two purposes:

1. Assessing whether donors meet the pledges made in Hong Kong; and

2. Additionality: ensuring that AfT is growing and not at the expense of other areas.

This limits the extent to which this dataset may be applied to a country-level analysis. The OECD dataset can only be applied to two of the eleven aspects in Adhikari's methodology.[6] Two positive features of the OECD data are that it is validated by a third party[7] and it is adjusted for inflation, allowing a more appropriate comparison of aid over time. This is particularly important for additionality.

The Government of Malawi project database is collected to assist the government in managing aid. For this reason, this dataset is more comprehensive, allowing it to be applied to six of the aspects of the Adhikari methodology. However, it does not account for inflation over time and is not validated by a third party.

Where both datasets could not be applied to an aspect of the Adhikari methodology, or could only be partially applied, additional datasets or qualitative information collected from existing literature and stakeholder interviews were used.

These differences also lead to variations between AfT aggregates calculated from the two datasets.[8] An additional factor that contributes to these variations is the use of different exchange rates between the two datasets. A further factor is that the OECD database excludes lending from countries that are not OECD members and also from some multilaterals, such as the World Bank, which are not obliged to report to the OECD. On the other hand the Government of Malawi project database excludes aid that the government is not made aware of. Such aid is implemented through a multitude of non-governmental organisations (NGOs) present in Malawi and is likely to be significant in Malawi, given the presence of a large number of NGOs. This aid is not accounted for in this analysis and should be borne in mind when analysing the AfT aggregates.

Another factor that causes a variation in AfT aggregates calculated from the OECD dataset and the Government of Malawi project database is the classification of different types of loans as aid or as assistance. In Malawi's case this largely concerns the World Bank and the African Development Bank (AfDB). The OECD classifies development loans that have a grant element equal to less than 25 per cent of the total value as 'other financial flows' and not as aid. The grant element of a loan is determined by the interest rate, discount rate, payment structure and the grace period.[9] Therefore loans that have a grant element less than 25 per cent of the total value are not classified as AfT in the OECD International Development Statistics. In contrast, such loans are treated as aid in the Government of Malawi project database.

A related issue is the treatment of lending by South-South development partners that seeks to boost Malawi's ability to trade. The OECD dataset excludes aid or lending by such partners because these data are not reported to the OECD. The Government of Malawi project database includes this data but it does not indicate whether such lending is concessional or not. In this analysis such loans are excluded from AfT figures but are presented as a form of trade-related assistance.

Another limitation of this analysis arises from the application of the definition of AfT to the two datasets. In the case of the OECD data, the application of the AfT categories is by sector, such as health, education, agriculture, mining and government services. While in certain cases it is straightforward to decipher whether aid for each sector classifies as AfT or otherwise and which category of AfT it relates to, this is generally blurred and makes specific interpretation difficult. Aid to certain activities within the tertiary education sector – such as management education, accountancy and trade schooling – could be classified as AfT. However, not all aid allocated to tertiary education qualifies as AfT. For example, aid for medical courses and nursing does not qualify. The OECD dataset does not allow such distinctions to be made because a more detailed breakdown of aid to tertiary education is not available.

The Government of Malawi project database helps to address this issue because it allows the categorization of aid for each project. The limitation of this dataset is that a breakdown of allocations to various project components is not available. In certain instances, different project components could fall into different categories of AfT. To some extent, this diminishes the accuracy of the assessment based on the Government of Malawi project database. Nonetheless, the application of this dataset allows for a more accurate evaluation than using the OECD dataset and is the most accurate cost-effective application of the methodology. Projects have been allocated to an AfT category based on the overall target area of the project.

Addressing these constraints would require a detailed review of documentation for each project in order to identify the appropriate AfT categorization of each project component. There are 339 projects listed in the Government of Malawi database that qualify as AfT projects. Due to the tight timelines of this review, this in-depth analysis has not been carried out.

In addition to project description documentation, Adhikari's methodology also requires a review of project evaluation documentation. An inability to obtain project documentation meant that it was difficult to fully apply certain aspects of the methodology to Malawi – such as the demand-supply gap, donor coordination and coherence with environmental policy and South-South donors. Neither the OECD nor the Government of Malawi's datasets provide information on the required parameters. If these aspects of the methodology are to be evaluated in a comprehensive manner, adequate time would be required to acquire and review project description and project evaluation documentation for at least the majority of AfT projects. Project documentation for a few projects was obtained and this helped strengthen the analysis of the methodology in this review, although this was by no means comprehensive.

A final caveat is that this analysis was not conducted in order to measure the effectiveness of AfT solely since the official launch of the concept in 2005. Rather, the focus is on evaluating the effectiveness of trade-related aid through a comparison of post-2005 aid with aid between 2002 and 2005. This limits a strict discussion of the effectiveness of AfT as an official concept launched in 2005. However, the analysis of trade-related aid is more relevant at the country level, particularly given that AfT in Malawi is not additional, as presented below.

All evaluation methodologies have their limitations. It is difficult to apply a quantitative analysis to the concept of AfT. The main reason is the paucity of data – particularly the degree of availability of data that fit the specifications of an ideal evaluation methodology. The process of evaluating AfT is therefore constantly evolving. To facilitate this process, a number of recommendations on improving the methodology and available data are presented in the concluding section of this report.

2. OVERVIEW OF TRADE AND AID FOR TRADE IN MALAWI

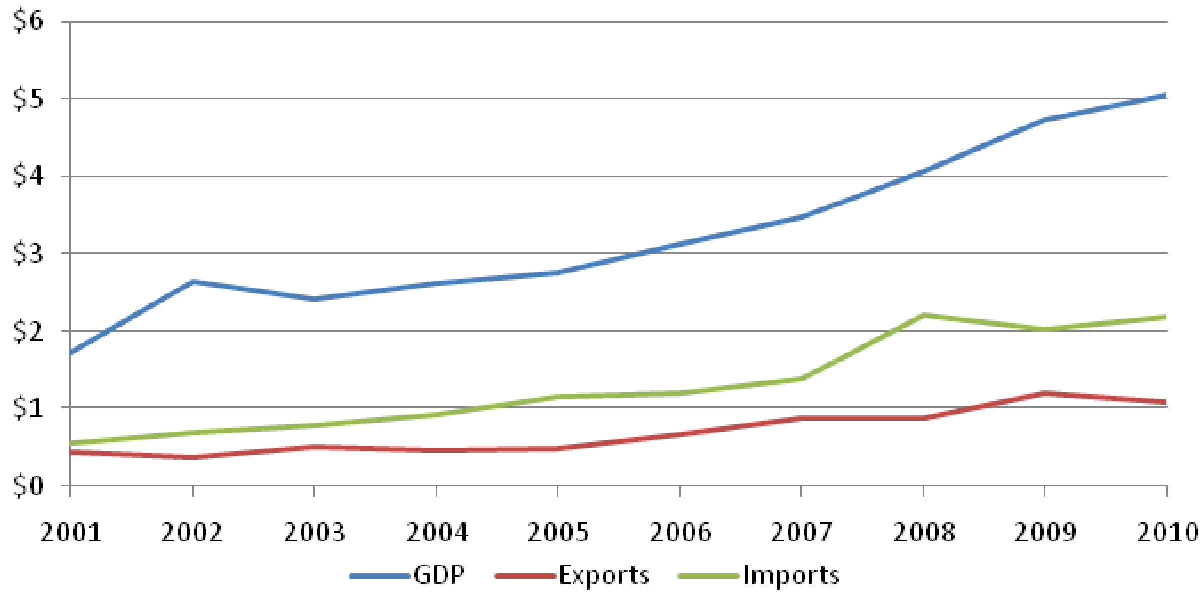
2.1 The Importance of International Trade to Malawi

Malawi is a least-developed country (LDC), ranking 153rd out of 169 countries in the United Nations Development Programme (UNDP) 2010 Human Development Report. It is one of the world's most densely populated, agriculture-based countries with an estimated population of 15.9 million in July 2011.[10] Malawi covers an area of about 118,500 km2, one fifth of which is covered by the water of Lake Malawi, Africa's third largest lake. More than three quarters of the population lives in rural areas and is dependent on agriculture. Almost 75 per cent of Malawians earn less than USD 1.25 per day.[11]

Malawi's Gross Domestic Product (GDP) per capita stood at USD 902 in 2010.[12] This represents only a slight increase from USD 818 in 1980. Malawi has the tenth lowest GDP per capita in Africa, and within Southern and Eastern Africa only Zimbabwe and Burundi had a lower GDP per capita in 2010. A major contributor to Malawi's inability to raise its GDP per capita is the combination of rapid population growth and a very low skills base. This has a large bearing on the economic competitiveness of the economy. In 2009, only 24 per cent of the entire population had completed secondary education. This has limited the ability of the private sector to boost Malawi's ability to trade and to reduce poverty and has limited the ability of the government and civil society to establish a favourable environment for private sector development.

Yet Malawi's economy, and hence its development, is highly dependent on trade. In 2010, Malawi exported USD 1.1 billion worth of goods and services while its imports equalled USD 2.2 billion.[13] This compares to an economy of USD 5.1 billion. Together imports and exports equated to 64.2 per cent of Malawi's GDP in the same year. Figure 1 below shows the growth of Malawi's imports and exports of goods relative to GDP. It shows the growth of Malawi's trade deficit in goods between 2001 and 2010. This structural imbalance is discussed in Section 5, to maintain focus on the effectiveness of AfT relative to Malawi's ability to address this imbalance.

Figure 1: Imports and exports of goods relative to GDP, USD billion, current prices



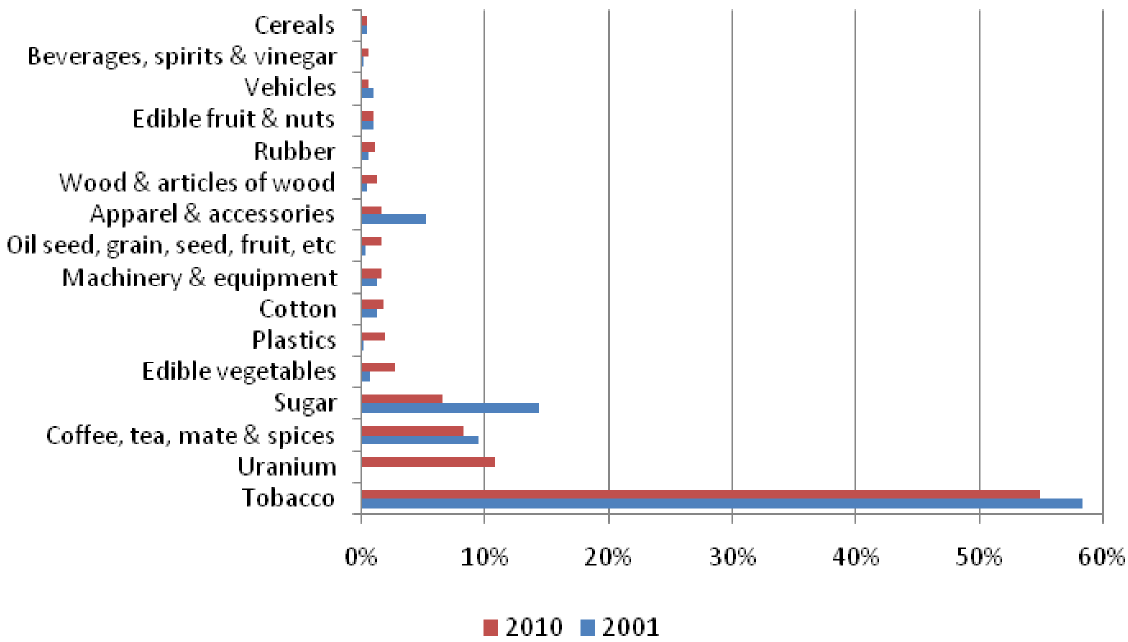
Source: IMF World Economic Outlook and www.trademap.com.

Malawi's economy is dependent on the importation of essential commodities such as fuel, fertilizers, cars, machinery, electronics and pharmaceuticals. Imports are essential for consumers and also as inputs for the private sector. The proportion of consumable imports is higher than intermediate goods imports. The government, donors and NGOs are also reliant on imports for various development programmes related to healthcare and food security. In 2010, fuel imports totalled USD 217 million, while fertilizer imports totalled USD 206 million. A rapid increase in the demand for such commodities meant that these two items alone accounted for 38.5 per cent of the foreign exchange generated through Malawian exports. This has contributed to the rapid deterioration of Malawi's trade deficit for goods, which increased from 6.4 per cent of GDP in 2001 to 21.1 per cent of GDP in 2010.[14]

Malawi's export profile in 2010 is presented in Figure 2 below. In 2010 tobacco accounted for 55 per cent of Malawian exports, declining from 64 per cent in 2009.[15] This decline came about due to the rapid growth of the uranium sector – Malawi's first mine only started operations in September 2009 and in 2010 uranium accounted for 11 per cent of Malawian exports. The impact of the Framework Convention on Tobacco Control leaves little room for the further development of the tobacco sector in Malawi. This further strengthens the importance of export diversification and for AfT to be effective in Malawi. Likewise, in the past ten years Malawi has also had to contend with the rapid decline of the textiles and sugar sectors, although the latter sector is fairly robust at present, accounting for seven per cent of GDP in 2010. The decline in the textile sector came about due to changes in the modalities of the Southern African Development Community (SADC) Free Trade Agreement and the cancellation of the Malawi/South Africa Asymmetrical Bilateral Trade Agreement.

Areas with growth potential, such as biofuels, pulses, edible oils and rice, remain in their infancy. Their contribution to total exports remains negligible.

Figure 2: Malawi's most common exports as a percentage of total exports



Source: www.trademap.org.

Malawi's largest import partner in 2010 was South Africa, accounting for 30.1 per cent of total imports. The European Union (EU) accounted for 12.1 per cent of total imports, while China and India were the next largest sources for Malawi's imports, accounting for 9.1 per cent and 7.6 per cent of total imports respectively.

Due to the importance of tobacco and uranium to Malawi's economy, Malawi's main export partners are not its neighbouring countries. Indeed, the EU accounted for 36.7 per cent of Malawian exports, followed by Canada – where Malawi's uranium is refined – at 11 per cent, Egypt at 9.2 per cent and the United States (US) at 6.0 per cent. However, if tobacco and uranium are excluded, South Africa and Zambia are the most common destinations for Malawian exports.

As a landlocked country, Malawi faces a large disadvantage in exporting commodities that do not have a high value added, such as tobacco and uranium. According to the World Bank, the burden of high transport costs is greater in landlocked African countries than elsewhere in the world.[16] Data on developing countries' international trade flows and transport costs shows that being landlocked has raised the transport costs of a country's foreign trade by around 50 per cent and reduced trade volume by as much as 60 per cent.

This contributed to Malawi ranking only 41st out of 46 sub-Saharan African countries in the Trading Across Borders criterion of the World Bank's Doing Business Index 2011. However, other factors specific to Malawi are also at play, as this ranking is lower than other landlocked countries in the region such as Lesotho (20th), Uganda (25th), Zambia (27th) and Rwanda (33rd).

This all accentuates the importance of identifying the root causes of these factors. If Malawi's dependency on tobacco and uranium is to be significantly reduced, it is essential for AfT to support the development of the institutional framework that is required to enhance Malawi's competitiveness, by investing in local human capacity. This is because institutions set the foundation for economic development and competitiveness, through rule of law and property rights among others. Without institutions and an accompanying institutional framework, the private sector cannot develop in an optimal manner. The government and civil society's role is to set this framework and then account for market failures in a manner that does not undermine it. The ability and willingness of the government and civil society to meet these responsibilities is, in turn, dependent on a country's human capacity.

2.2 Malawi's Economic Development Priorities

The Malawi Economic Growth and Development Strategy (MGDS) 2006-2011 is based on six focus areas. These are:

- Agriculture and Food Security;
- Infrastructure Development;
- Energy Generation and Supply;
- Irrigation and Water Development;
- Integrated Rural Development; and
- Prevention and Management of HIV and Aids.

Economic growth was one of the underlying themes of the MGDS. A sub-theme within this category was export-led growth. The MGDS established a number of trade-related goals through various sections of the document. These were based on tackling the constraints to economic development that were identified at the time. Some of these are:

- Increasing the value added to agricultural products by rural farmers and orienting the smallholder sub-sector to greater commercialization and international competitiveness by strengthening linkages between farmers and markets, including by connecting rural communities, targeting rural roads and developing farmer organizations and market information;

- Improving vocational training by focusing on improving the Technical, Entrepreneurial and Vocational Education and Training system;

- Improving worker productivity and the ability of firms to produce quality products;

- Implementing tax reforms and improving coordination for domestic and international investors and access to information;

- Improving microfinance schemes and programmes and ensuring secure land registration and functioning land markets;

- Reducing lead times on exports, improving the efficiency of customs and harmonizing border crossings with neighbours; and

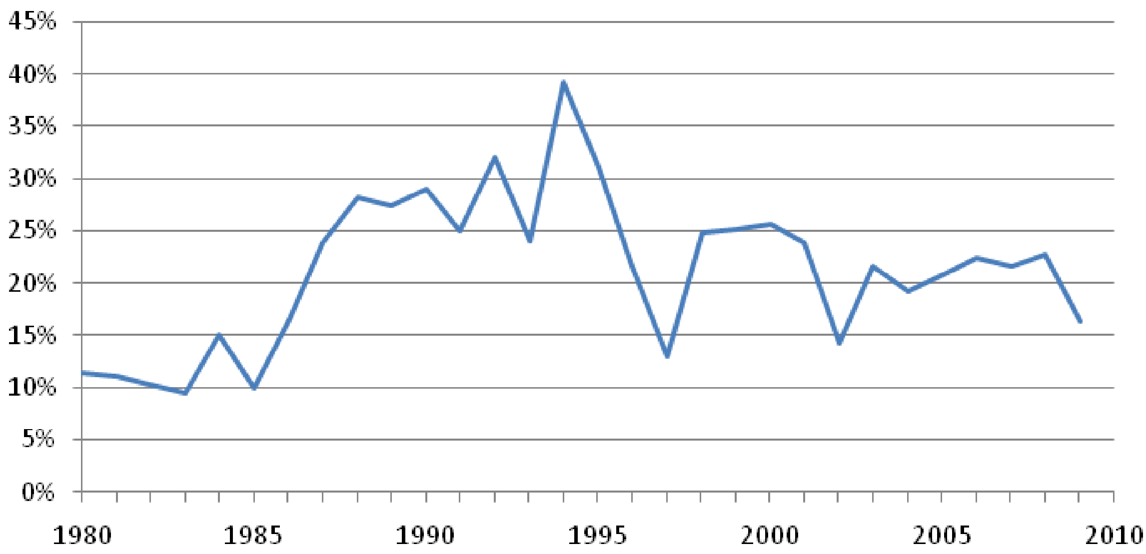
- Improving trade networks and information for firms for export.

Despite setting these formal goals, the MGDS lacked an action plan that had adequate human and financial resources allocated to it. This limited the extent to which resources were allocated for achieving these goals. In substance, the government's top economic priority between 2006 and 2011 was food security, with infrastructure investment being a secondary priority.

2.3 Aid for Trade in Malawi

Malawi has long been a beneficiary of development assistance or aid. In the late 1980s and 1990s, total Official Development Assistance (ODA) rose to 28 per cent of GDP, peaking at 39 per cent of GDP in 1994. Since then the ratio of ODA to GDP stabilized at between 20 and 25 per cent of GDP. In 2008, ODA to Malawi stood at USD 923 million, or 22.3 per cent of GDP. This declined to USD 772 million in 2009, largely due to adjustments in general programmatic assistance, such as budget support, according to the OECD's International Development Statistics.

Figure 3: Malawi's total ODA as a share of GDP



Source: OECD Query Wizard for International Development Statistics.

Note: This data excludes debt relief.

2.3.1 Trade-related aid and the Enhanced Integrated Framework

Although the AfT concept was launched in 2005, Malawi's focus on trade-related aid effectively started with the WTO's Integrated Framework in 2001. A Diagnostic Trade Integration Study (DTIS) was approved by the Government of Malawi in February 2004. The DTIS developed recommendations for programmes and policies for Malawi and its development partners to pursue to enhance Malawi's trade performance. The DTIS contained an action matrix setting out key trade and development challenges and was updated in November 2006.

Policy recommendations from the DTIS were not fully mainstreamed into the MGDS, although the revised MGDS reflected trade objectives for ten key priority areas. In 2006, the Integrated Framework Focal Point at the Ministry of Industry and Trade (MoIT) attempted to initiate a process of mainstreaming trade into sectoral strategies. This work ended in 2008 due to a lack of financial support. The MoIT was awarded grant funding to launch Malawi's Enhanced Integrated Framework (EIF) in September 2009, although the EIF was only due to become operational in July 2011 due to the government's decision to ban parallel project implementation units (PIUs). A parallel secretariat was established but following this decision, the MoIT's Department of Trade is acting as the secretariat.

2.3.2 The value of Aid for Trade in Malawi

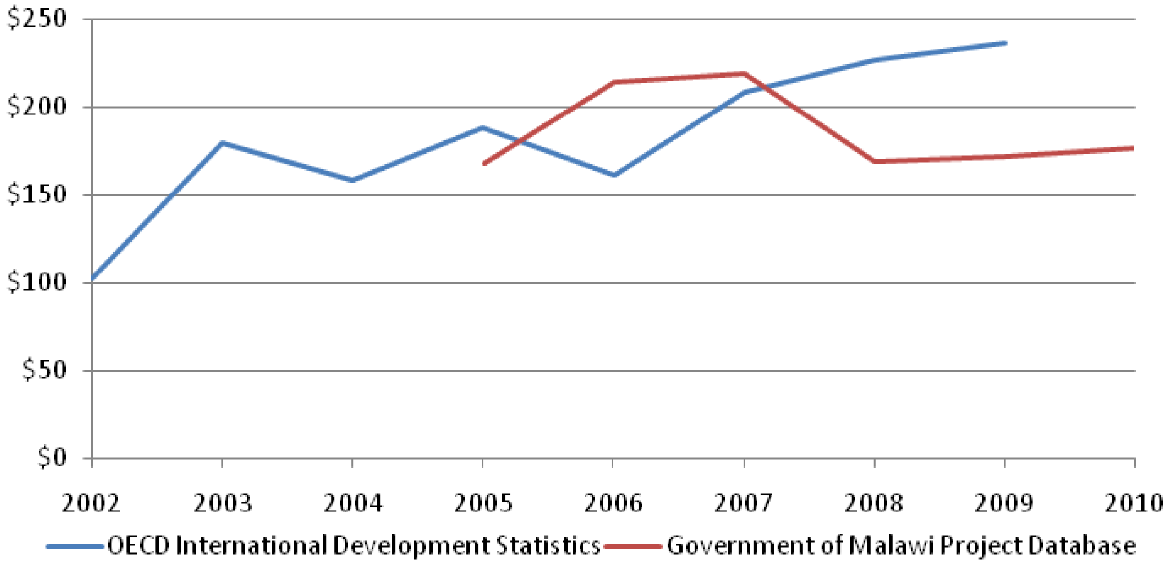
Of the USD 772 million worth of ODA in 2009, USD 236 million, or 5.0 per cent of GDP, can be categorized as AfT in the broadest definition (Categories 1 to 5). This is based on the categorization of economic sectors as provided in the OECD's Creditor Reporting System.

If the Government of Malawi project database is used to calculate the value of AfT, then AfT equalled USD 173 million in 2009 and USD 177 million in 2010, or 3.5 per cent of GDP. Malawi's GDP totalled USD 5,053 million in 2010. However, if lending from South-South donors is included within this definition, then these figures rise to USD 205 million in 2009 and USD 274 million in 2010.

Figure 4 below presents the value of AfT in recent years using both databases. It shows a variation in AfT calculated from the two datasets. The main reason for the variation is the classification of AfT at project-level in the Government of Malawi project database, as opposed to the OECD database, where AfT is categorized based on the OECD's sector classification. Another reason is the exclusion of aid from the Government of Malawi project database due to a sizeable portion of aid being implemented by NGOs and not being recorded by the government. Such aid is likely to have been captured in the OECD database.

The decline in AfT recorded through the Government of Malawi project database is due to the phasing out of major projects such as the EU's Income Generating Public Works Programme and Micro-Projects Programme; the World Bank and International Fund for Agricultural Development's Irrigation, Rural Livelihoods and Agriculture Development Programme; Japan International Cooperation Agency's Rehabilitation of the Bwanje Valley Irrigation System and Norwegian support to the National Association of Smallholder Farmers of Malawi (NASFAM). The increase in financing by South-South development partners has also contributed to lower AfT in recent years compared with 2006 and 2007.

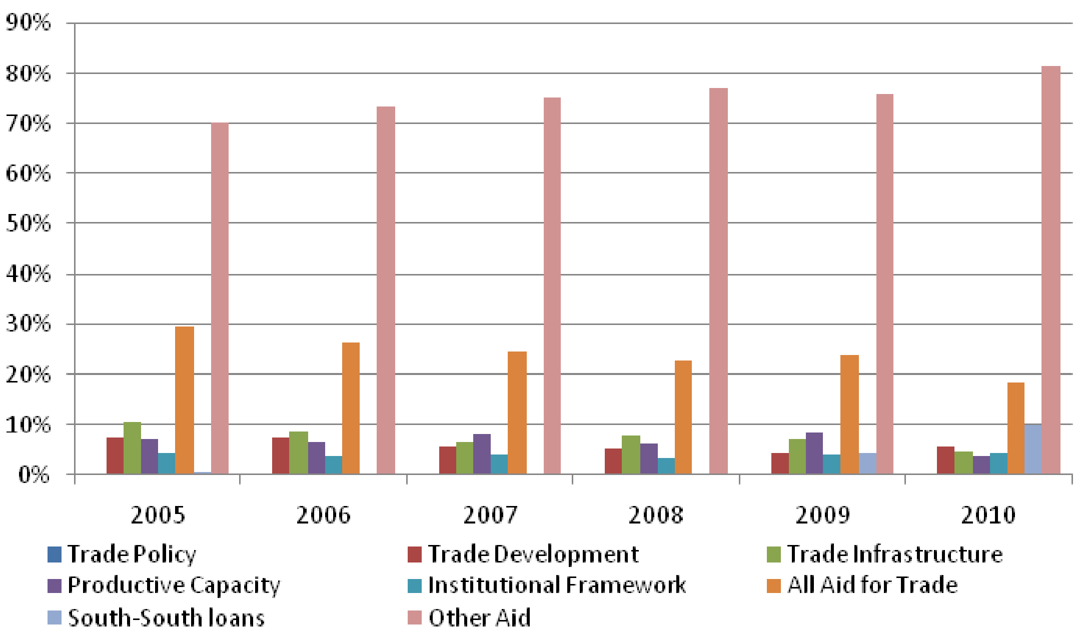
Figure 4: AfT in Malawi over time, USD million



Source: OECD International Development Statistics and Government of Malawi project database.
Note: AfT based on OECD data are at constant prices, while AfT based on the Government of Malawi database is at current prices.

AfT aggregates as a share of total aid based on the Government of Malawi project database are presented in Figure 5 below. This shows that AfT in Malawi equalled 29.6 per cent of non-trade-related aid in 2005, declining to 18.6 per cent in 2010. However, it also shows the growth in South-South loans, from 0.8 per cent in 2005 to 10.2 per cent in 2010. The figure also shows that in 2010 the largest AfT category was support for Trade Development, followed by Trade Infrastructure and Productive Capacity. Aid to support Trade Policy and Regulation was 0.01 per cent in 2010. Most of the loan financing provided by donors in 2009 and 2010 was for Trade Infrastructure.

Figure 5: Malawi's AfT as share of total aid, categorized by project[17]



Source: Government of Malawi Project Database.
Note: These data exclude debt relief.

Of the 889 projects listed in the Government of Malawi project database between 2002 and 2010, 324 qualify as AfT as per the definition that is applied in this review. In addition, 15 are South-South trade-related loans. Table 3 below presents the distribution of these projects by type of AfT. The figures represent the number of active projects in each particular year.

Table 3: Number of active AfT projects in Malawi per year

		2002*	2003*	2004*	2005*	2006*	2007	2008	2009	2010	All projects 2002-2010
Trade Policy and Regulations	1	2	2	2	5	5	3	5	2	2	8
Trade Development	2	3	7	13	22	24	26	27	33	44	72
Trade Infrastructure	3	10	11	17	20	26	30	26	24	26	56
Building Productive Capacity	4	5	8	15	26	34	51	44	43	60	111
Institutional Framework	5	2	9	17	21	28	36	32	33	36	77
Policy and Development	1 and 2	5	9	15	27	29	29	32	35	46	80
Policy, Development and Infrastructure	1, 2 and 3	15	20	32	47	55	59	58	59	72	136
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	20	28	47	73	89	110	102	102	132	247
All aid for trade	1 to 5	22	37	64	94	117	146	134	135	168	324
South-South loans		2	2	4	4	5	5	4	7	7	15

Source: Government of Malawi project database.
Note: Data for 2002 to 2006 from the Government of Malawi database are totals for those projects that are included in the database. These are not necessarily total figures.

There were only two active Trade Policy and Regulation projects in 2010. These were EU support for the formulation for the 10th European Development Fund Regional Integration, Trade and Investment programme and UNDP's project to improve Standard, Metrology, Testing and Quality Infrastructure at the Malawi Bureau of Standards. In the same year there were 44 active Trade Development projects. Of these, 25 were in the agriculture sector and generally either involved the provision of extension services or attempts to promote the development of a sub-sector within agriculture. Another six projects were generic private sector development, such as the World Bank's Business Environment Strengthening and Technical Assistance Programme. This is the only programme that includes a trade facilitation component. Another four projects were focused on improving firms' ability to access finance. Only four projects sought to address the government's capacity to develop Malawi's ability to trade. One project targeted land reform and one targeted civil society's capacity with respect to trade. This distribution of Trade Development projects is symptomatic of the government's focus on food security and its limited efforts to develop trade in a holistic manner.

The value of AfT based on the sector classification applied in the OECD database and the project breakdown provided in the Government of Malawi project database is provided in Table 4 below

The following is a breakdown for each AfT category.

Category 1 (Trade Policy and Regulation) equalled USD 696,000 in 2009, down from USD 1.1 million in 2008. This is based on the OECD sector categorization. Trade Policy and Regulation AfT calculated based on the government's project database totalled USD 95,400 in 2010, down from USD 414,600 in 2009 and USD 581,800 in 2008.

Category 2 (Trade Development) totalled USD 14.7 million in 2009 based on the OECD sector classification and USD 30.7 million based on the government's project database. These figures totalled USD 5.6 million and USD 39.2 million in 2008, respectively. Category 2 totalled USD 52.7 in 2010, according to the Government of Malawi's database. The divergence in Trade Development aid between the two data sources is due to an increased accuracy in categorizing aid by project rather than by sector. According to the Government of Malawi database the increase in 2010 was mostly due to an increase in disbursements on a few projects, such as the World Bank-funded Community Based Rural Land Development and Agricultural Development Support Project.

Category 3 (Trade Infrastructure) totalled USD 26.5 million in 2009 based on the OECD sector classification and USD 51.0 million based on the government's database. This figure declined to USD 44.6 million in 2010 according to the government's database.

Category 4 (Productive Capacity) totalled USD 104.4 million in 2009 based on the OECD sector classification and USD 60.7 million based on the Government of Malawi's project database, falling to USD 36.1 million in 2010. A key factor driving this variation is an inability to distinguish between food security projects and trade-oriented projects within the agriculture sector in the OECD dataset that was available. A factor behind this decline was a USD 22 million differential in disbursements on a Smallholder Agriculture Project funded by the AfDB.

According to the OECD sector classification, Category 5 AfT totalled USD 90.7 million in 2009, while it equalled USD 29.7 million in the same year based on the Government of Malawi's project database, rising to USD 43.0 in 2010. An inability to distinguish between trade and non-trade-related aid in the OECD data in areas such as civil society strengthening and public management is a key cause of this discrepancy.

Table 4: Value of AfT in Malawi

A. Aid for Trade in Malawi based on OECD International Development Statistics, US$ million

Type of Aid for Trade	Category Number	2002	2003	2004	2005	2006	2007	2008	2009
Trade Policy and Regulations	1	0,40	0,01	0,34	0,48	1,04	1,42	1,13	0,70
Trade Development	2	7,40	8,34	6,79	10,83	4,69	7,38	5,61	14,69
Trade Infrastructure	3	28,95	41,03	35,70	36,18	17,03	19,06	35,67	26,55
Building Productive Capacity	4	38,95	88,04	60,89	93,77	70,05	108,27	99,84	104,45
Institutional Framework	5	26,85	42,28	54,30	46,65	68,16	72,15	84,42	90,07
Policy and Development	1 and 2	7,80	8,35	7,13	11,30	5,73	8,80	6,74	15,39
Policy, Development and Infrastructure	1, 2 and 3	36,75	49,37	42,83	47,49	22,76	27,86	42,41	41,93
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	75,70	137,41	103,73	141,26	92,81	136,13	142,24	146,38
All aid for trade	1 to 5	102,55	179,70	158,03	187,91	160,97	208,28	226,66	236,45
All ODA Aid excluding debt relief		298,88	453,80	483,85	555,18	585,14	684,05	898,73	745,34

B. Aid for Trade in Malawi based on government project database, US$ million

Type of Aid for Trade	Category Number	2002*	2003*	2004*	2005*	2006*	2007	2008	2009	2010
Trade Policy and Regulations	1	0,96	0,96	0,55	0,66	1,07	0,59	0,58	0,41	0,10
Trade Development	2	1,49	3,49	18,40	42,01	60,05	50,75	39,19	30,73	52,68
Trade Infrastructure	3	21,27	22,28	37,78	59,55	69,55	59,00	58,44	50,99	44,62
Building Productive Capacity	4	9,49	7,83	21,43	40,76	53,16	72,50	45,45	60,72	36,06
Institutional Framework	5	4,14	11,13	20,12	25,22	30,44	36,52	25,64	29,67	43,04
Policy and Development	1 and 2	2,45	4,45	18,94	42,67	61,12	51,34	39,77	31,15	52,78
Policy, Development and Infrastructure	1, 2 and 3	23,73	26,72	56,72	102,22	130,67	110,34	98,21	82,13	97,40
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	33,22	34,55	78,15	142,98	183,83	182,84	143,66	142,85	133,46
All aid for trade	1 to 5	37,36	45,69	98,27	168,19	214,27	219,36	169,30	172,52	176,50
South-South partner loans		2,10	2,53	3,55	4,70	2,59	1,48	0,62	32,65	97,52

Source: Imani Development Analysis based on OECD CRS and Government of Malawi project database.
Note: Data for 2002 to 2006 from the Government of Malawi database are Imani Development indicative estimates of the projects included in the database. These are not total figures for these years. They are calculated by apportioning pre-2007 funding to earlier years based on effective project start and end dates.

3. EVALUATION OF AFT PROJECTS IN MALAWI

In this section the outcome of applying the Adhikari AfT assessment methodology to Malawi is presented. To be concise a detailed description of the methodology is not provided. If a complete understanding of the rationale for the methodology is sought, Adhikari's (2011) paper that presents the methodology should be reviewed.

3.1 Fundamental Principles

3.1.1 Additionality

According to Adhikari's methodology, it is essential to know whether or not additionality occurred in real terms or otherwise. Additionality not only means that AfT resources are additional to what has been received in the past, but also that these resources are not provided at a cost to other sectors. Therefore Adhikari developed three conditions that need to be simultaneously satisfied to ensure that AfT is additional. These are:

- The growth rate of AfT during the recent period (2006-2009) is greater than the growth of AfT during the base period (2002-2005);
- The growth rate of non-AfT ODA in the recent period is greater than or equal to the growth rate of non-AfT ODA in the base period; and
- The growth rate of non-AfT ODA in the recent period in the country in question is greater than or equal to the growth rate of non-AfT ODA for all developing countries.

The application of these conditions to Malawi using the OECD's dataset is presented in Table 5 below.

Table 5: Additionality - AfT relative to non-AfT ODA

A. Growth rate of AfT during the recent period is greater than the growth of AfT during the base period

Type of Aid for Trade	Category Number	Growth 2002-2005	Growth 2006-2009	Criteria Met
Trade Policy and Regulations	1	19,3%	-33,3%	No
Trade Development	2	46,3%	213,2%	Yes
Trade Infrastructure	3	25,0%	55,9%	Yes
Building Productive Capacity	4	140,8%	49,1%	No
Institutional Framework	5	73,7%	32,1%	No
Policy and Development	1 and 2	45,0%	168,4%	Yes
Policy, Development and Infrastructure	1, 2 and 3	29,2%	84,2%	Yes
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	86,6%	57,7%	No
All aid for trade	1 to 5	83,2%	46,9%	No

B. Growth rate of Non-AfT ODA in the recent period is greater than or equal to the growth rate of Non-AfT ODA on the base period

Type of Aid	Category Number	Growth 2002-2005	Growth 2006-2009	Criteria Met
Non-AfT ODA	6	87,1%	20,0%	No

Table 5: *Continued*

C. Growth rate of Non-AfT ODA in the recent period is greater than or equal to the growth rate of Non-AfT ODA disbursed to developing countries for the entire period of 2002-2009

Type of Aid	Category Number	Malawi Growth 2006-2009	All Developing Countries, Growth 2002-2009	Criteria Met
Non-AfT ODA	6	20,0%	112,9%	No

Source: OECD CRS.
Note (1): Debt relief ODA was excluded from this analysis.
Note (2): Although disbursements prior to 2007 are available in the Government of Malawi project database, these data are not comprehensive, particularly for data prior to 2005. This dataset has therefore been omitted from this aspect of the methodology.

AfT in Malawi does not meet the additionality criteria, as can be seen in Table 5 above.

Two AfT categories – Trade Development and Trade Infrastructure (Categories 2 and 3) – appear to be additional because the rate of growth of AfT resources allocated to these two categories was greater between 2006 and 2009 than between 2002 and 2005. However, if Categories 4 and 5 are excluded from the definition of AfT, the second and third additionality conditions are still not met. The same is true if Categories 3 to 6 are excluded from the definition.

In the design and evaluation of AfT, it would be more appropriate if the focus was on the quality of aid rather than on its additionality. This is because the effectiveness of aid is dependent on its quality, not its quantity. If aid increases but does not develop the local human capacity that is required to enable local institutions and stakeholders to meet their respective roles within economic development, then aid could bear a negative rather than positive impact. This argument is further discussed below.

The Adhikari methodology also calls for an analysis of government counterpart expenditure on donor-funded projects because the additionality of AfT should be in line with the government's commitment to promoting trade. In Table 6 a proxy for this is presented – the share of government spending on investment projects as a share of the total allocation by both donors and the government. This exercise was conducted on the basis of budgetary investment allocations to each ministry, sourced from the Government of Malawi's Public Sector Investment Programme.

Table 6: Additionality - government share of Public Sector Investment Programme Government Contribution to Public Sector Investment Programme as a share of the total donor and governent contribution

Type of Aid for Trade	Category Number	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Trade Policy and Regulations	1	1,1%	14,3%	7,8%	13,7%	36,1%	53,5%
Trade Development	2	13,8%	35,5%	26,9%	29,9%	26,2%	25,8%
Trade Infrastructure	3	17,9%	12,4%	18,8%	21,7%	21,9%	32,0%
Building Productive Capacity	4	6,0%	11,8%	23,1%	34,8%	34,4%	43,1%
Institutional Framework	5	9,0%	13,7%	11,1%	18,0%	15,9%	38,2%

Table 6: *Continued*

Type of Aid for Trade	Category Number	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Policy and Development	1 and 2	11,3%	33,4%	25,6%	28,6%	27,6%	29,5%
Policy, Development and Infrastructure	1, 2 and 3	16,4%	17,6%	20,0%	23,7%	23,0%	31,6%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	13,1%	15,5%	20,7%	26,4%	25,5%	34,0%
All aid for trade	1 to 5	12,1%	15,1%	18,0%	24,6%	23,2%	35,0%

Source: Government of Malawi, Public Sector Investment Programme.

The data in this table are not entirely accurate because it:

- Represents investment allocations, not actual spending;
- Is based on allocations to Ministries rather than specifically to projects; and
- Includes investment programmes funded solely by government.

Nonetheless this data indicates that the government's contribution to AfT projects increased significantly between 2005/06 and 2010/11. Further analysis would be required to verify this trend, taking into account these three limitations of the data collected from the Government of Malawi's Public Sector Investment Programme.

Conclusion: AfT in Malawi is not additional, although the government's contribution to trade-related investment programmes appears to be on a significantly upward trend. It is more important to focus on the quality of aid, rather than on its additionality.

3.1.2 Predictability

Predictability is one of the core elements of the Paris Declaration and a major component of the AfT Task Force's recommendations. The extent to which donors provide reliable, indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules is an important measure to assess the predictability of funding.

Adhikari's methodology assesses the variation between disbursements and commitments. This is presented in Table 7 below. Due to annual variations of disbursements and commitments, the Adhikari methodology suggests the use of three year moving averages to determine disbursement rates. These are presented in sub-table B within Table 7.

This ratio has its limitations, even as a three-year moving average. Commitments on certain projects can be for a period of five to eight years, so the comparison of disbursements to commitments is undermined unless an eight-year period is covered. Generally, at the global level, only if aid is provided as technical assistance are commitments actually disbursed in the same year, while around 90 per cent of commitments are disbursed over time.

Yet what is important is the timeliness of disbursements relative to when they were due to be disbursed. The predictability of aid is evaluated at the operational level by assessing the extent to which projects are completed without external resource constraints or a shift in donor priorities. It is essential to support the quantitative analysis of predictability with stakeholder views about the timeliness of AfT disbursements.

Table 7: Predictability – disbursements as a percentage of commitments

A. Year on year disbursements as a percentage of committed funds, OECD database

Type of Aid for Trade	Category Number	2002	2003	2004	2005	2006	2007	2008	2009
Trade Policy and Regulations	1	266%	14%	137%	36%	36%	67%	166%	126%
Trade Development	2	13652%	62%	176%	1696%	42%	49%	113%	163%
Trade Infrastructure	3	225%	412%	199%	57%	47%	24%	514%	45%
Building Productive Capacity	4	69%	290%	60%	73%	96%	79%	75%	70%
Institutional Framework	5	32%	43%	86%	28%	120%	76%	90%	117%
Policy and Development	1 and 2	3819%	62%	173%	573%	41%	51%	119%	160%
Policy, Development and Infrastructure	1, 2 and 3	281%	210%	195%	73%	46%	29%	337%	61%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	109%	255%	84%	73%	76%	58%	98%	67%
All aid for trade	1 to 5	66%	119%	85%	53%	90%	63%	95%	80%

B. Three year moving average for disbursements as a percentage of committed funds, OECD database

Type of Aid for Trade	Category Number	2002-2004	2003-2005	2004-2006	2005-2007	2006-2008	2007-2009
Trade Policy and Regulations	1	154,7%	49,8%	41,6%	46,4%	63,2%	97,2%
Trade Development	2	129,5%	144,4%	142,8%	85,3%	56,7%	95,1%
Trade Infrastructure	3	259,5%	123,9%	76,0%	40,6%	59,0%	56,1%
Building Productive Capacity	4	99,8%	93,6%	74,4%	80,6%	81,1%	74,4%
Institutional Framework	5	50,4%	44,2%	59,6%	59,2%	91,4%	92,6%
Policy and Development	1 and 2	130,2%	136,3%	120,2%	77,8%	57,7%	95,3%
Policy, Development and Infrastructure	1, 2 and 3	220,0%	126,1%	82,5%	46,5%	58,7%	63,2%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	128,3%	103,3%	76,9%	67,5%	74,0%	71,1%
All aid for trade	1 to 5	89,5%	75,7%	70,1%	64,4%	79,8%	77,7%

Table 7: *Continued*
C. Disbursements as a percentage of committed funds, Government of Malawi database*

Type of Aid for Trade	Category Number	Average for 2007/08 to 2009/10
Trade Policy and Regulations	1	69%
Trade Development	2	67%
Trade Infrastructure	3	55%
Building Productive Capacity	4	86%
Institutional Framework	5	102%
Policy and Development	1 and 2	68%
Policy, Development and Infrastructure	1, 2 and 3	59%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	66%
All aid for trade	1 to 5	70%
Non AFT Aid		62%

Source: OECD CRS and Government of Malawi project database.
Note (1): Debt relief ODA was excluded from this analysis.
Note (2): The 2002 and 2005 figures in sub-table A for Trade Development are correct, due to a low level of commitment, followed by a relatively higher level of disbursement.

Analysing the three-year moving averages presented in sub-table 7.B above, the OECD data show that disbursement rates are generally on the high end but with a gradual downward trend. The average disbursement rate for all AfT for the three years from 2007 to 2009 stood at 77.7 per cent. This downward trend is stronger in the Trade Infrastructure category where the disbursement rate slipped to 56.1 per cent in 2007-09. The disbursement rate for Categories 1 and 2 declined between 2003-05 and 2006-08 but increased to 95.3 per cent in 2007-09. Nonetheless it remains below the averages recorded between 2002-04 and 2004-06. The disbursement rate of Institutional Framework AfT increased to 92.6 per cent in 2007-09 from 50.4 per cent in 2002-2004.

The Government of Malawi's database shows that the disbursement rate of total AfT stood at 68 per cent, with some variation between categories. Category 2 (Trade Infrastructure) registered a 53 per cent disbursement rate, while Category 5 (Institutional Framework) registered 102 per cent - because disbursements exceeded commitments in this category. While this suggests a lower rate of predictability compared to the calculation based on OECD data, it nonetheless points to a fair degree of predictability.

Stepping away from data analysis, the view of donors, non-state actors and the Government of Malawi representatives interviewed as part of this review is that donors have been predictable in the disbursement of their resources. This was particularly the case over the past two years. The delays experienced with donors have generally been in the time taken to process requests. Stakeholders are also of the view that most trade-related assistance programmes and projects are aligned to domestic trade and development priorities and donors do tend to consult with the government on the objective and design of new programmes.

As an example, the Ministry of Transport and Public Works reportedly had no issues of predictability with its main donors – the EU and Japan – although delays do occur with the Arab Bank for Economic Development in Africa and the World Bank, mostly due to excessive claims by construction companies or poor contract management.

However, it is becoming increasingly difficult to determine the predictability of aid because of an increase in the application of aid conditionalities and fiduciary requirements, and in rule of law and governance concerns from donors.[18] For example, in the case of budget support, adherence to a number of fundamental principles is essential and failure to meet these principles has resulted in delays in disbursement. Furthermore, the government occasionally has different objectives and takes a different view of the applicability of conditionalities to donors. One donor official presented an example outside of AfT but nonetheless relevant: a failure by the government to conduct an audit for the Health Sector-Wide Approach led to a conditionality not being met and a halt in the disbursement of funding.

Stakeholders feel that projects – whether trade-related or otherwise – tend to take longer to complete than planned and often require more resources than budgeted. Yet at the operational level, it is difficult to determine the true cause of project disbursement delays. Disbursements may be delayed because of a difference in policy views between donors and the government, or because donor pre-conditions are unrealistic or too ambitious and have not adequately taken into account the absorptive capacity of the project implementation unit or the implementing agency.

The issue appears to be more one of a lack of internal capacity to implement projects, rather than of aid being unpredictable. Donors and the government have the view that while aid is generally fairly predictable, the government is unable to fully utilize AfT funds due to the limited capacity of ministries such as the Ministry of Industry and Trade (MoIT). The government feels that while the blame for delays can go both ways, there is still a need to work towards developing a better understanding among government officials and donors of the human capacity that is required to meet conditionalities and to pay more attention to developing the capacity of implementing agencies in a permanent manner.

An example is the Enhanced Integrated Framework through which funds are awaiting disbursement. However, government delays in establishing a secretariat to implement the EIF have prevented this. The Government of Malawi recently issued a new policy in which the management of aid-related projects must be run through implementation units that are embedded within the establishment of government agencies, and not by parallel PIUs.

The result of divergences on conditionalities is that the government feels that the process to access AfT is often cumbersome. The feeling is that when operational conditionalities are attached – which is not always the case – there are several of them and they tend to be fairly demanding.

The issue of absorptive capacity is further addressed below.

Conclusion: The data and stakeholder views suggest that AfT has generally been fairly predictable. However it is becoming harder to determine this due to a difficulty in assessing whether conditionalities, particularly in terms of Malawi's absorptive capacity, are too ambitious or appropriate. The recent ban on parallel PIUs may further impact Malawi's absorptive capacity.

3.1.3 Sustainability

The Adhikari methodology calls for sustainability to be measured through an analysis of variations in government counterpart expenditure on projects. To apply this methodology in a comprehensive manner an analysis of a sufficient volume of project evaluation documentation would be required – particularly in order to determine whether aid sustainability is formal or substantive. Time constraints prevented such a detailed analysis. Therefore other data, such as the share of the government's contribution to the AfT elements of the Public Sector Investment Programme between 2005/06 and 2010/11, is used as a proxy measure. This data suggest important progress in the sustainability of AfT.

The sustainability of AfT can also be evaluated through the assessment of implementing agencies. If the implementing agency is a permanently local institution, then this would require a higher degree of sustainability compared to aid that is implemented through a non-permanently local organization, such as a foreign donor, NGO or consultancy. In Table 8 below, these data are presented for each AfT Category.

The table shows that between 2007/08 and 2010/11, 84.0 per cent of AfT disbursements were implemented through a government agency or ministry, while little AfT was implemented by other key local stakeholders – the private sector and civil society. This figure falls to 67.8 per cent if this distribution is calculated based on the number of projects, rather than on the value of disbursements. This suggests that the government tends to implement larger projects, relative to local civil society or foreign donors and NGOs.

Table 8: Sustainability – type of implementing agency

A. Distribution of AfT disbursements by type of implementing agency, 2007/08 to 2010/11 (Jul 2010 to Jan 2011 only)

Type of Aid for Trade	Category Number	Govern-ment	Local Private Sector or Civil Society	Donor	Foreign NGO/ Consultancy
Trade Policy and Regulations	1	88,6%	6,1%	5,3%	0,0%
Trade Development	2	77,8%	9,0%	1,0%	12,2%
Trade Infrastructure	3	96,1%	0,0%	3,7%	0,2%
Building Productive Capacity	4	72,6%	5,3%	7,6%	14,5%
Institutional Framework	5	74,2%	0,0%	24,5%	1,3%
Policy and Development	1 and 2	77,9%	9,0%	1,0%	12,1%
Policy, Development and Infrastructure	1, 2 and 3	88,0%	4,0%	2,5%	5,5%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	82,6%	4,5%	4,3%	8,6%
All aid for trade	1 to 5	80,9%	3,6%	8,4%	7,1%
Non-AFT Aid	6	71,6%	11,1%	7,0%	10,4%

B. Distribution of projects by type of implementing agency, 2007/08 to 2010/11 (Jul 2010 to Jan 2011 only)

Type of Aid for Trade	Category Number	Govern-ment	Local Private Sector or Civil Society	Donor	Foreign NGO/ Consultancy
Trade Policy and Regulations	1	75,0%	12,5%	12,5%	0,0%
Trade Development	2	58,3%	9,7%	12,5%	19,4%
Trade Infrastructure	3	85,7%	0,0%	10,7%	3,6%
Building Productive Capacity	4	55,9%	8,1%	22,5%	13,5%
Institutional Framework	5	74,0%	0,0%	20,8%	5,2%
Policy and Development	1 and 2	60,0%	10,0%	12,5%	17,5%
Policy, Development and Infrastructure	1, 2 and 3	70,6%	5,9%	11,8%	11,8%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	64,0%	6,9%	16,6%	12,6%
All aid for trade	1 to 5	66,4%	5,2%	17,6%	10,8%
Non-AFT Aid	6	53,6%	8,4%	17,5%	20,5%

Source: Government of Malawi project database.
Note: The Government of Malawi's fiscal year runs from July to June.

While the data in Table 8 gives a broad indication of the sustainability of project outcomes, this cannot be relied upon to conclude whether aid is sustainable or not. Similarly, as discussed below, stakeholders are of the view that the government remains constrained in its ability to manage public assets and that numerous AfT projects have failed to result in a sustainable outcome. Therefore there is mixed evidence as to whether AfT in Malawi is sustainable.

In order to accurately ascertain this, one would need to evaluate the implementation capacity of local stakeholders – government, private sector and civil society organizations – not merely to implement aid, but to deliver on their mandate as indicated by their local principals following the end of an AfT project. This would need to be compared to the capacity prior to the project, while taking into account organic efforts to build capacity.

The remainder of this section seeks to capture stakeholder views regarding the extent to which local institutions have built their capacity to meet their mandate. This exercise serves as a brief project review. The text is divided into two parts: a discussion of formal sustainability and of whether sustainability is achieved in substance.

In terms of the inclusion of formal sustainability measures in project design, while the government's contribution to AfT investment programmes is increasing, most aid projects implemented by the Government of Malawi do not have explicit sustainability criteria built in – such as through a gradual increase in government funding to replace donor funding – and if government counterpart funding is provided, this tends to be low. For example, the World Bank-funded Business Environment Strengthening and Technical Assistance Programme (BESTAP) does not have sustainability measures built in and the government only funds recurrent expenditure for the implementing agency – the MoIT.

Two large upcoming AfT projects, which are currently in the programming and design phase, are expected to have some form of formal sustainability criteria built in, although the substantive nature of this sustainability is uncertain. These are the UNDP's Private Sector Development Programme and the successor to BESTAP.

With respect to substantial sustainability, the feeling among the government, non-state actors and donors is that there remains a lack of sustainability in Trade Policy AfT. Malawi's persistent foreign exchange shortages and the rapid deterioration of the trade deficit (which is further discussed in Section 5 below) suggest that AfT efforts are not proving to be sustainable. Moreover, the internal capacity of the MoIT remains weak, due in part to budget constraints, and it is not developing at a sufficient pace. This tends to manifest itself in the ministry having to request the same type of inputs from donors numerous times.

An example made by the government was the donation of computers granted by the WTO under the Joint Integrated Technical Assistance Programme (JITAP) in 2007. The computers were for four reference centres that were established. No additional funding was granted for maintaining these computers after the WTO funding ended and, as a result, the reference centres remain nonoperational in 2011. Malawi has therefore submitted a request to the WTO for more computers.

The constrained capacity of ministries is compounded by the multiple requirements of donor agencies and demands from other stakeholders in Malawi, all of which adversely affect the ability of ministries to implement the AfT agenda. For example, the Ministry of Finance's capacity is thinly stretched in meeting fiduciary and other requirements across the multitude of active projects in Malawi. This limits its ability to better understand the role and objectives of other ministries, such as the MoIT. Some stakeholders also feel that while technical knowledge is present, it is over-stretched and the ability to implement is not being sufficiently enhanced beyond core personnel. This impacts the sustainability of donor-related aid.

The extent to which the human capacity of institutions is not being prioritized and comprehensively addressed further contributes to a lack of sustainability. For example, a project to support the development of Malawi's capacity to negotiate EU Economic Partnership Agreements had no appropriate training component built in. This project only included the staging of untargeted workshops that did not result in the permanent development of the institutional capacity of the MoIT. Such aid modalities for human capacity development have resulted in donors believing that while a great deal of technical assistance was provided for Trade Policy and Regulation, this assistance was not used in the right way, reflecting a constrained absorptive capacity.

In too many projects are capacity building projects tagged on in order to tick a box. This results in the 'yes, there is an external consultant funded by a donor working somewhere upstairs, but we have no idea what he does' phenomenon. For sustainability to be achieved, human capacity development and knowledge transfer have to be central features of projects, with results coming as a secondary priority.

Another factor contributing to the lack of sustainability is a divergence in the alignment of objectives between donors and the government on AfT. This is evidenced through the limited funding that the MoIT receives, despite the inclusion of trade in the MGDS. This resulted from Malawi's recent focus on food security, rather than on the competitiveness of the agricultural sector. Stakeholders are of the view that the key to developing Malawi's capacity to trade in a permanent manner is to go beyond trade policy and development so that line ministries and agencies develop the ability to recognize the role that trade can play with respect to their own objectives.

Donors feel that one area where they need to improve is in ensuring that stakeholders and decision makers have access to key information related to trade. Donors at the country level recognize the importance of the improved coordination of regional and international projects such as the EU's Pro-Invest and Tradecom.

With respect to the permanent development of capacity in the private sector, small and medium enterprises (SMEs) have a growing sense of awareness of the market, of standards requirements and of foreign exchange issues. This general awareness is expanding beyond the traditional exporters. However Malawi's ability to exploit this is constrained because, despite AfT projects, core issues that negatively affect investment and the business environment are not being addressed. While projects like BESTAP have developed a wide range of required legislation, there is a lack of government drive to enact it. In addition, AfT has tended to provide direct services to SMEs rather than focus in a comprehensive manner on the constraints preventing Malawian organizations – whether government, NGOs or the private sector – from providing those services. A number of projects, such as the US Agency for International Development (USAID) Market Linkages Initiative and the World Bank's BESTAP, have provided financing and business development services, instead of pooling enough resources into helping Malawi address the core issues affecting the development of the financial and business development services sectors. One main core issue is human capacity, manifested through the development of the pool of skilled labour available to these sectors. Another is the skilled labour required to improve access to information. A further issue is in addressing unfair competition and business practices.

In trade infrastructure the key issue lies in the high cost of maintenance and in the investment in the human capacity required to manage an appropriate maintenance programme. The Government of Malawi sets aside funds towards maintenance, although most of this is financed through donor loans. An example of a positive investment in human capacity is the electronic road management programme used by the Malawi Roads Authority. This uses a Geographic Integrated System to map the status of roads and bridges. The agency has internalized the day-to-day use of this automated programme into its business process. This is because of the successful development of the required human capacity within this body.

Conclusion: The data presents mixed evidence as to whether AfT is sustainable. However, stakeholder views and a brief project review suggest that AfT has not proved to be sustainable, both formally and substantively.

3.2 Aid for Trade Effectiveness

3.2.1 Ownership

The ownership aspect has not been examined through quantitative analysis due to a lack of access to sufficient project documentation. In order to assess factors such as the percentage of AfT resources allocated to projects and programmes that were considered a priority and designed by Malawi, an analysis of all AfT projects is required. An alternative approach would be to review the majority of AfT project documents, while making a judgement call as to whether or not they were Malawian priorities or not. The ownership aspect of the methodology has therefore been analysed through qualitative research.

At the formal level, trade is mainstreamed in the national development plans. The MGDS, which runs from 2006 to 2011, prioritizes trade while the successor strategy is likely to include trade as a key priority area.

On the other hand, trade does not appear to be mainstreamed in a substantive manner. There is a lack of clear understanding among key stakeholders of how trade objectives can be realized through specific activities. The MGDS does not include trade at the programme level. As with the MGDS, the successor to the MGDS is unlikely to provide an operational framework to realize trade objectives. Many donors believe that trade has not been mainstreamed at the programme level and that no link has been made between the AfT agenda and the development agenda.

In addition, the implementation of the WTO's Enhanced Integrated Framework was stalled for eighteen months. The lack of ownership also takes the form of a lack of programme synchronization. For example, the Ministry of Agriculture and Food Security (MoAFS) has no contacts with the MoIT Business Growth Scheme – a matching grant scheme for technical skills required by micro, small and medium enterprises (MSMEs). Similarly, while the MoIT focused on export-led economic growth for MSMEs, the MoAFS prioritized food security.

There is also little evidence that trade is starting to be mainstreamed in line ministries such as the Ministry of Education, Science and Technology; Ministry of Tourism, Wildlife and Culture; Ministry of Energy and Mines; Ministry of Lands and Natural Resources; Ministry of Justice; Ministry of Irrigation and Water Development; Ministry of Youth Development Sports; and the Ministry of Local Government and Rural Development. In others, such as the Ministry of Transport, Public Works and Infrastructure, the MoAFS and the Ministry of Finance, trade is currently only partially mainstreamed. More often than not this is because many of these agencies do not have a full understanding of the importance of trade in economic development and of the contribution that they could make to development through enabling trade.

The bottom line is that many of these ministries – as well as non-state actors – are not aware of the existence of AfT, let alone how it is defined or the contribution that it could make to their objectives.

The divergence of objectives between the international trade community and the government represents an inherent issue with AfT that leads to this lack of in-country awareness. The trade community may feel that international trade objectives suggest Malawi should be asked to alter its food security objectives. Yet to ultimately have an impact, what matters is the situation on the ground. Therefore, for AfT to have an impact in achieving trade community goals relative to Malawi, AfT needs to take the government's food security priority as a starting point and then make the case that private sector development and trade contribute to meeting these objectives. A limited ability of AfT to achieve this has led to a lack of ownership of AfT in Malawi.

In addition, ministries behave territorially and defensively in competing for resources. Different ministry priorities make it difficult for the government to fully own AfT.

For example, one key agency in AfT is the Ministry of Transport, Public Works and Infrastructure. In this ministry, trade is not explicitly mainstreamed in the air and rail sectors. The ministry lacks a thorough understanding of trade requirements and stakeholders were not adequately represented in projects to rehabilitate the Lilongwe Airport Runway and to automate aviation equipment. In the rail sector there has been no form of capital investment in the last five years.

By contrast the road transport sector serves as an example of where trade has been mainstreamed. The main road transport corridors are being developed with the trade objective in mind. The road usage benefits of trade are built into project documents. There is also a government, private sector and donor forum on transport, and a Joint Sector Review for Transport was established in 2009 and includes the Freight Forwarders Association, Bus Operators, the Road Transport Association, Malawi Cargo Centres Limited and the Malawi Confederation of Chambers of Commerce and Industry (MCCCI). This forum meets twice annually. The government’s objective is to pave unpaved roads – largely because of the importance of access to markets.

The energy sector is also increasingly being driven by trade priorities. Since the private sector identified this area as being their largest constraint to doing business, the government and USAID have agreed to invest all Malawi’s Millennium Challenge Account Compact Programme funding in extending the distribution and transmission of electricity. This funding was approved in April 2011. Furthermore, the Electricity Supply Corporation of Malawi (ESCOM) is working with the UK Department for International Development (DFID) to install energy saving bulbs nationwide, in a bid to reduce household demand for electricity by up to eight per cent. In June 2011, the World Bank also allocated USD 85 million to improving ESCOM’s capacity to transmit electricity.

Another important ministry within the AfT agenda is the Ministry of Agriculture and Food Security. For the past five years, the MoAFS has focused on maize production rather than export diversification. The objective was to first develop productive capacity and then to hope to find markets at a later stage. As a result, some agriculture projects that did mainstream trade – such as the EU-funded Farm Income Diversification Programme – had a limited impact. For example, this programme included three scholarships for trade negotiations/policy – one each for the MoIT, the MoAFS and the Ministry of Lands and Natural Resources. However, the impact of skills learnt through scholarships such as these depends on the extent to which they are applied in practice. Other agriculture projects had a trade focus, but the impact was limited due to fragmentation and a lack of coherence between projects. This effectively represented a limited understanding and lack of ownership of the trade objective.

Since 2010, MoAFS has been attempting to mainstream trade through the recently launched Agriculture Sector-Wide Approach (ASWAP). A central objective of the ASWAP is to commercialize the agricultural sector through both increased production and increased value addition to allow access to trade. The budgets of all departments and agencies, from the central level to the district level, that fall under this ministry are now based on the ASWAP. This is a key element in the process of continuing to mainstream trade.

Yet the view in Malawi is that while the MoAFS participates in international trade issues, there is fragmentation on local trade issues – and there is no clear working relationship with the Malawi Export Promotion Council and the Malawi Investment Promotion Agency.

On a positive note, due to the current large maize surplus, the government is now realizing that trade is important and is starting to move beyond simply focusing on food security. Such a change will take time – particularly because of a land conflict between maize and crop diversification. To assist in this, the MoAFS has established a research support department whose objective is to identify a solution to this conflict, largely by focusing on the value added through the diversification of crops to goods such as pigeon peas, biofuels and edible oils.

Private sector stakeholders are to a certain extent involved in the formulation of trade policy in Malawi: there is a National Working Group on Trade Policy (NWGTP) and a Public-Private Dialogue forum that engage government and various stakeholders in questions of trade policy formulation. For instance, there are ongoing consultations on the SADC Free Trade Area. Key stakeholders, such as the NASFAM and the MCCCI, participate in these trade policy forums.

The current private sector view on the MGDS is that while it has a strong trade and private sector development component, it fails to adequately engage the private sector in the review process. This will likely weaken the focus on PSD and trade of the successor strategy to the MGDS. This also means that a large segment of the private sector feels detached from AfT and from efforts to reform the business environment.

This area of AfT ownership needs strengthening – the Trade Sector-Wide Approach is not functioning while the MoAFS feels that, although smallholder farmers and civil society are adequately represented in the agriculture Sector Working Group (SWG), private sector participation is limited. While the previous focus was through the MCCCI, there is an increasing recognition of the importance of reaching out to individual firms in order to secure the ownership of the private sector in AfT.

At the level of smallholder farmers, such stakeholders were not initially exposed to regional and international markets, although new aid projects are starting to address this. Farmers were not aware of how they could participate in marketplaces and, although this is improving, many farmer groups continue to be disorganized. There remains a need for AfT to address these issues in more depth while working through national development strategies. However, there are examples of projects that are delivering effective change. The USAID-funded Market Linkages Initiative is helping to address smallholder farmers' supply side issues. Likewise, the Norwegian Embassy and Irish Aid project for seed multiplication, through the International Crops Research Institute for the Semi-Arid Tropics, is improving access to subsidized and improved seeds, on the one hand, and smallholder farmers' participation in seed marketing on the other.

Conclusion: Malawi does not have adequate ownership or understanding of AfT, although there is evidence of some improvement, particularly related to the trade of agricultural products.

3.2.2 Alignment

The AfT evaluation methodology of Adhikari (2011) requires assessing the extent to which donors use country systems for the implementation of AfT, such as the public financial management and procurement system and project implementation units that are embedded in local institutions.

The outcome of applying this methodology is presented in Table 9 below. The source of the data is the Government of Malawi project database. Four measures are provided. Of these four, three include only aid that utilizes government systems, as opposed to the systems of other local stakeholders, such as local civil society organizations. This represents a limitation of the data.

The first measure relates to the percentage of AfT that is implemented in conjunction with a government ministry or agency. This represents the broadest use of country systems. In 2009/10, 88 per cent of AfT fulfilled this criterion, with Trade Policy and Regulation, and Trade Infrastructure registering a rate of 100 per cent.

The second measure captures the extent to which AfT used government accounting and auditing systems to expend donor funds. Just under three-quarters of AfT – 74 per cent – met this criterion in 2009/10. This measure held fairly stable in preceding years.

The third measure shows that only 53 per cent of AfT in 2009/10 was implemented through the government budget while also using the Reserve Bank of Malawi's bank accounts, suggesting a relatively weak use of country systems. This figure is unlikely to rise in the near future, with donors suggesting that a number of upcoming projects are likely to continue to use external systems. For example, the upcoming Private Sector Development Programme, co-funded by UNDP, the AfDB and the EU, will use the UNDP's procurement system.

The fourth measure captures the extent to which AfT uses PIUs that are embedded within government ministries or agencies. For 63.3 per cent of AfT, either no PIU was used or this information is unknown. Only 7.8 per cent of AfT was implemented through an embedded PIU, while 12.0 per cent was implemented by a parallel PIU and 16.9 per cent by an NGO. In addition, most of the NGOs implementing aid projects in Malawi were and are foreign.

Table 9: Alignment - use of country systems: budget and project implementation units
A. Use of country systems: percentage implemented in conjunction with Government Ministry or Agency

Type of Aid for Trade	Category Number	Pre 2007/08	2007/08	2008/09	2009/10	H2 2010
Trade Policy and Regulations	1	97%	92%	100%	100%	N/A
Trade Development	2	77%	83%	78%	84%	74%
Trade Infrastructure	3	98%	91%	95%	100%	99%
Building Productive Capacity	4	77%	82%	68%	87%	57%
Institutional Framework	5	76%	93%	69%	69%	87%
Policy and Development	1 and 2	78%	84%	79%	84%	74%
Policy, Development and Infrastructure	1, 2 and 3	90%	87%	90%	92%	85%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	86%	85%	85%	90%	76%
All aid for trade	1 to 5	84%	86%	82%	86%	79%
Non AFT Aid		86%	85%	89%	83%	79%

B. Use of country systems: percentage implemented using Government accounting and auditing systems

Type of Aid for Trade	Category Number	Pre 2007/08	2007/08	2008/09	2009/10	H2 2010
Trade Policy and Regulations	1	83%	57%	17%	11%	N/A
Trade Development	2	69%	78%	66%	79%	64%
Trade Infrastructure	3	80%	75%	92%	88%	98%
Building Productive Capacity	4	47%	60%	44%	58%	15%
Institutional Framework	5	63%	84%	51%	47%	71%
Policy and Development	1 and 2	69%	78%	65%	79%	64%
Policy, Development and Infrastructure	1, 2 and 3	76%	77%	84%	83%	78%

Table 9: *Continued*

Type of Aid for Trade	Category Number	Pre 2007/08	2007/08	2008/09	2009/10	H2 2010
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	66%	70%	74%	72%	58%
All aid for trade	1 to 5	66%	72%	71%	67%	62%
Non AFT Aid		70%	64%	67%	72%	65%

C. Use of country systems: percentage implemented on budget and using the Reserve Bank of Malawi Bank Accounts

Type of Aid for Trade	Category Number	Pre 2007/08	2007/08	2008/09	2009/10	H2 2010
Trade Policy and Regulations	1	0%	0%	0%	0%	N/A
Trade Development	2	66%	71%	64%	79%	63%
Trade Infrastructure	3	62%	63%	62%	83%	43%
Building Productive Capacity	4	46%	59%	43%	58%	14%
Institutional Framework	5	59%	79%	50%	46%	70%
Policy and Development	1 and 2	64%	70%	63%	78%	63%
Policy, Development and Infrastructure	1, 2 and 3	63%	66%	62%	81%	54%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	57%	64%	57%	71%	41%
All aid for trade	1 to 5	57%	66%	56%	66%	50%
Non AFT Aid		64%	61%	61%	70%	58%

D. Use of country systems: percentage of disbursements by type of PIU (average 2007/08 to 2009/10)

Type of Aid for Trade	Category Number	Embedded	Parallel	NGO	None/ Unknown
Trade Policy and Regulations	1	0,0%	0,0%	6,1%	93,9%
Trade Development	2	5,3%	40,8%	22,1%	31,7%
Trade Infrastructure	3	14,3%	11,6%	7,0%	67,1%
Building Productive Capacity	4	4,2%	5,8%	28,4%	61,6%
Institutional Framework	5	13,8%	0,0%	25,2%	61,0%
Policy and Development	1 and 2	5,3%	40,4%	21,9%	32,4%
Policy, Development and Infrastructure	1, 2 and 3	10,3%	24,5%	13,7%	51,6%
All aid for trade excluding Institutional Framework	1, 2, 3 and 4	8,2%	18,0%	18,8%	55,1%
All aid for trade	1 to 5	9,3%	14,3%	20,1%	56,3%
Non-AFT Aid		24,0%	7,9%	15,6%	52,4%

Source: Government of Malawi project database.

The definition of embedded PIUs used by the Government of Malawi project database is that of the Ministry of Finance, which is given below. Out of the following four criteria, three need to be met for a PIU to qualify as embedded:

- Criterion 1: The PIUs are accountable to the country's implementing agencies, rather than external funding agencies;
- Criterion 2: The terms of reference for externally appointed staff are determined

by the country implementation agency, not the donor;

- Criterion 3: The most professional staff member is to be appointed by the country implementation agency, not the donor; and

- Criterion 4: The salary structure of national staff (including benefits) must not be higher than that of civil service personnel.

In practice, the PIUs of nearly all donor-funded projects have a higher salary scale than civil service personnel, meaning that for PIUs to be embedded, the first three criteria need to be met.

Parallel PIUs are currently banned by the Government of Malawi because of a lack of sustainability and the distortion of wages. Many donors, such as USAID and DFID, have tended to use parallel PIUs due to a lack of confidence in government structures. With respect to Trade Policy and Development (Categories 1 and 2) the government is planning to have all implementation structures that are currently managed by donors or parallel PIUs moved within the MoIT by the end of 2011.

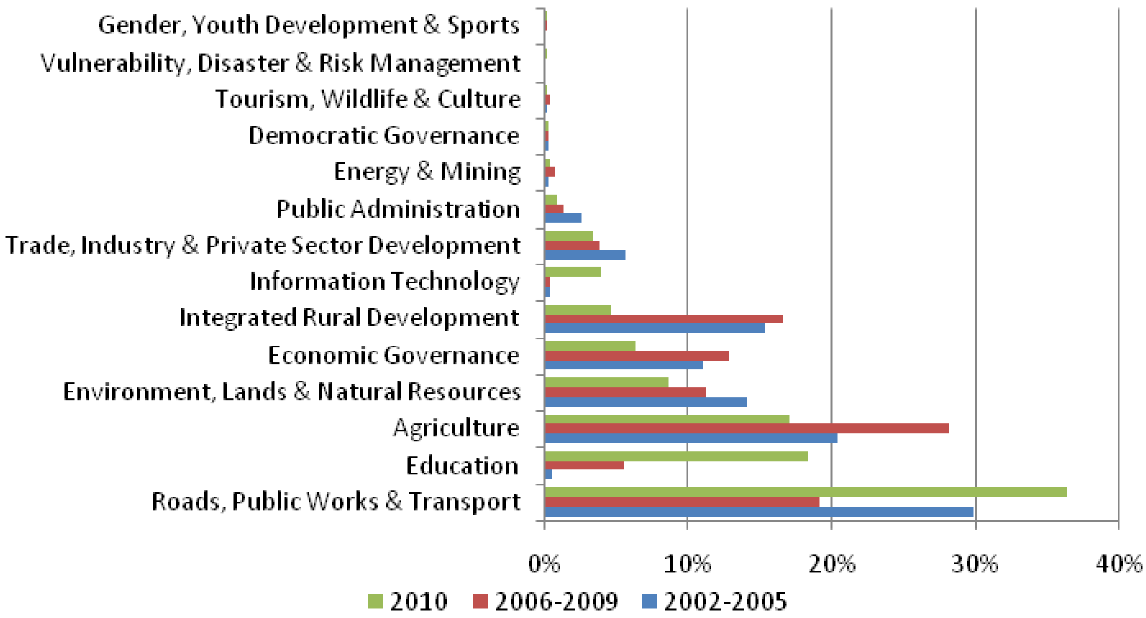
Donors have recognized the extent of this challenge and have expressed a mixed reaction. USAID plans to make greater efforts to build the capacity of local civil society and business associations to implement projects and advocate on trade-related policy, moving towards the use of host country systems and contractors. The EU has expressed concern about the banning of parallel PIUs because it believes that government structures lack a broader knowledge of context which constrains their ability to implement projects.

The challenge in using embedded PIUs is weak institutional capacity. There is a critical need for the development of capacity in permanent local structures across government, civil society and the private sector, so that they can handle large donor projects. Both donors and the government are gradually recognizing the importance of this. As a result, the conducting of capacity assessments will become critical, as will more holistic attempts to permanently build the capacity of government, civil society and private sector associations to implement projects and reforms.

One area where AfT tends to be implemented through embedded PIUs is transport infrastructure. Country systems are used for donor-funded projects through the workforce of the Department of Civil Aviation, the Marine Department and the rail regulator within the Ministry of Transport. Similarly, the National Roads Authority and National Funds Administration are also part of Malawi's institutional framework. All transport projects are embedded.

A different aspect of alignment that the Adhikari methodology aims to assess is the degree to which AfT is aligned to national priorities. Over the past five years the national priority has been food security. A secondary priority has been the development of transport infrastructure. The extent to which AfT is oriented towards the agriculture and transport sectors is significantly influenced by these priorities. The distribution of AfT across sectors – as defined by the Government of Malawi in its project database – is presented in Figure 6 below.

Figure 6: AfT Disbursements by government sector, 2010



Source: Government of Malawi Project Database.

The figure above shows that the government sector receiving most AfT disbursements in 2010 was Roads, Public Works and Transport. Education ranked second, although 2010 appeared to be exceptional when compared with previous years. This was due to the disbursement of USD 29.8 million and USD 14.8 million in 2009 and 2010, respectively, for the University of Science and Technology campus that the Government of China is building in Blantyre. Another factor was the disbursement of USD 14.8 million for the Education Sector-Wide Approach Programme by DFID.[19]

As a sector, Trade, Industry and Private Sector Development accounted for only 3.3 per cent of AfT disbursements in 2010. While the private sector would argue that AfT is not sufficiently aligned to their priorities, these data suggest that AfT is aligned to the government's priorities - food security and infrastructure.

Conclusion: AfT in Malawi has seen a relatively low use of country systems in terms of the management of budgets, use of the Reserve Bank of Malawi's bank accounts and, in particular, the use of embedded PIUs. In terms of the former, the trend is away from the use of the consolidated fund and the Reserve Bank of Malawi's bank accounts, while in terms of the latter the direction is uncertain given the recent ban on parallel PIUs.

3.2.3 Donor coordination

The view of stakeholders is that donor coordination is improving, although aid continues to run the risk of being fragmented, as indicated by the lack of a working relationship between the Business Growth Scheme and the MoAFS, and in the dormant Enhanced Integrated Framework.

The focal point of donor coordination in Malawi is the Ministry of Finance's Division of Labour Matrix. In response to the Paris Declaration and the Accra Agenda for Action to avoid duplication and aid fragmentation, the Government of Malawi conducted a donor division of labour exercise in 2009. One outcome of this exercise was that, given the government's wish for the division of labour process to be neutral on the country's overall aid volume, the government decided not to limit development partner involvement in any given sector.

The division of labour exercise had a number of other outcomes, including the use of

Sector-Wide Approaches and working groups, the development of a division of labour matrix and the recognition of the importance of aid leadership for coordination, aid predictability and the mainstreaming of the annual Division of Labour Aid Atlas, which was first published in 2009/10.

Nine Sector Working Groups (SWGs) have been established across the sixteen sectors of government since 2008. A number of these groups – such as the Transport and Agriculture SWGs – are working well, although the Trade SWG is not operational due to a lack of capacity in the MoIT.

Efforts to establish SWGs together with Sector-Wide Approaches need adequate ongoing attention and leadership to mitigate duplication and fragmentation and to increase synergies and impact. For example, the MoAFS warns that although all projects must be in line with the ASWAP, the risk of fragmentation remains significant due to the independent implementation of programmes by donors and the extent to which the Agriculture Sector Working Group is the true driving force behind the implementation of the ASWAP.

One example of collaboration among the donors in trade-related assistance is UNDP's Private Sector Development programme. The project's design phase included a review of the BESTAP project in order to avoid duplication. It will also be jointly funded by three donors: UNDP, the EU and AfDB. The Financial Inclusion in Malawi project is another example of coordination, in this case emerging from quarterly meetings between large donors. A further approach to ensure coordination is the Common Approach to Budget Support.

In addition to the Agriculture SWG, donors have established an informal group called the Donor Coordination in Agriculture and Food where new ideas are discussed and donor buy-in is sought.

Before this coordination effort, there was a great deal of duplication of trade-related projects being implemented by donor partners. An example is the Business Growth Scheme of the World Bank's BESTAP and DFID's Business Innovation Facility – which both offer matching grants to MSMEs and larger businesses.

Adhikari (2011) points out that donors may be tempted to fund areas of AfT based on the strength of certain constituencies in donor countries. This concept is difficult to apply to Malawi given the degree of focus on agriculture, the extent to which Malawian exports are dependent on tobacco and the relatively low level of Malawian imports compared to global trade totals. Even more relevant is the degree to which Malawi has a wide range of active donors and foreign NGOs and an inability to operationalize its national development strategy (the MGDS), particularly in terms of trade-related areas.

Conclusion: Donor coordination has improved significantly in the past three years, largely due to the Ministry of Finance's Division of Labour Matrix, and the establishment of Sector Working Groups, the Common Approach to Budget Support and informal donor discussion forums. This coordination is not evidenced at the Trade Policy and Development (Categories 1 and 2) levels of AfT, but rather at the levels of Trade Infrastructure and certain areas of Production Capacity.

3.3 Aid for Trade Coherence

3.3.1 South-South partners

There are 23 projects in the Government of Malawi's project database that are funded by South-South partners. Of these, 15 qualify as Category 3 AfT (Trade Infrastructure), while one – the construction of a University of Science and Technology by China – is categorized as Category 4 AfT. Disbursements for this project totalled USD 29.8 million in 2009 and USD 14.4 million in 2010, equating to 33 per cent and 28 per cent of total Category 4 AfT in 2009 and 2010 respectively. The remaining seven projects do not qualify as Aid for Trade.

South-South AfT disbursements in Category 3 totalled USD 94.2 million in 2010, equating to

11 per cent of total Category 3 AfT. Of this, USD 54.7 million was disbursed through a line of credit facility provided by India,[20] which also contributed USD 14.9 million for the Government's Greenbelt Irrigation Initiative in the same year. In addition, China disbursed USD 11.6 million in 2010 for road construction in the Karonga district.

China is also financing a large hotel and conference centre in Lilongwe and a sports stadium, and has financed the construction of a new parliament. These are not included as AfT. The Arab Bank for Economic Development in Africa is also a significant South-South partner, disbursing USD 13.0 million in 2010. Of this, USD 7.9 million funded a Small Farms Irrigation Project.

There appears to be little available evidence to suggest that South-South flows fulfil the requirements of the Paris Declaration principles, such as ownership, accountability, harmonization and alignment. South-South partners do not tend to participate in donor coordination mechanisms, and they apply fewer aid conditionalities than traditional donors. According to stakeholders who were interviewed for this analysis, there does not appear to be a close working relationship between South-South partners and traditional donors.

All of this support is channelled through government accounts but none of it is channelled through the Reserve Bank of Malawi. One South-South funded project was provided in grant form. This was China's road construction project in and around the Karonga district – Malawi's mining district. Most Chinese and Indian aid is provided through concessional loans at 2 per cent interest per annum.

According to the project database, none of the South-South funded projects were implemented through an embedded PIU, while only one was implemented through a parallel PIU.[21]

Local stakeholders feel that South-South donors are willing to fund government projects that western donors do not fund. This is an important feature of South-South partners. One example is the provision of funding by India for one of the Government of Malawi's main infrastructure priorities – the Greenbelt Irrigation Initiative.

Conclusion: The sense is that there is little coherence between traditional donors and South-South partners.

3.3.2 Environmental policy and projects

It is difficult to establish whether AfT in Malawi is coherent with local and international environmental objectives. The government does not have an explicit climate or environment policy, while it believes that neither do donors have a coherent and holistic approach to the environment. Environmental objectives are not prioritized, well-articulated or implemented. As a result, environment projects tend to be supply-driven rather than demand-driven.

The Government of Malawi project database has 31 climate and environment projects. Of these, five are categorized as Trade Infrastructure AfT, 13 as Productive Capacity AfT and 11 as Broad Institutional Framework AfT. The remaining two do not qualify as AfT. There does not appear to be much of a relationship between various environment and climate projects, suggesting a piecemeal approach. Disbursements from such projects totalled USD 7.8 million in 2010. USD 1.5 million was disbursed by the Japan International Cooperation Agency on a Community Vitalization and Afforestation project in a small area of Malawi and USD 1.2 million was disbursed by Norway for a National Framework for Climate Change in Malawi. This latter project started in 2009, when USD 1.0 million was disbursed.

There is limited evidence of active plans to integrate AfT and climate change policies, mostly because of limited local ownership of the two concepts. There is a limited effort to include trade in adaptation policies,[22] largely because although the impact of climate change is a risk that is recognized in Malawi – mostly in terms of drought and flooding –

adaptation efforts appear to be more supply- than demand-driven. A reason for this could be a general lack of awareness of adaptation options and on how these could be integrated into national policies.

The Environment Management Act requires all projects to include an Environment Impact Assessment (EIA). However, EIAs are not always conducted, are subject to rent-seeking and are sometimes conducted after project work commences. Nonetheless, according to the Government of Malawi's Department of Environmental Affairs (DEA), a number of trade-related projects were consistent with its objectives, such as:

a) Infrastructure development for five market centres: the DEA is a member of the national committee to ensure these markets are compliant with environmental regulations – such as the buildings and structures that are constructed.

b) Water transport (Nsanje): the DEA is involved in feasibility studies and is a member of the task force to ensure that the project is environmentally sustainable.

c) Railway: the DEA is tasked with evaluating the impact of the railway and stations and how the environmental component is integrated.

d) Debating the regulation of bio-diversity and natural resources at the WTO level: the Convention on Biological Diversity clashes with moves to ease access to resources for trade – for example Malawi's ornamental fish. The DEA is working on a legally binding regime to ensure that trade is regulated in this respect. The WTO has a desk officer based at the DEA.

The difficulty is that trade permits are issued too easily so the cost of trading does not reflect its true value in terms of biodiversity. Regulations have been drafted aiming for sustainable trade unless the trade is of endangered species (in which case trade is banned). The difficulty is a lack of monitoring of these regulations.

The mainstreaming of trade has increased to a degree since the enactment of the Environment Management Act which makes the conduct of EIAs obligatory. This has increased the interaction between the DEA and the private sector.

The DEA recognizes the importance of a balanced approach between its environmental obligations and its role in facilitating trade. The department reviewed the EIA of a fibre optic cable that is being placed from Dar-es-Salaam in Tanzania to Lilongwe and Blantyre in Malawi with a view to facilitating trade. The DEA also evaluates the life cycle of trade, with respect to its demands on the environment. The department believes that it has a fairly good relationship with the Economics Association of Malawi, the Ministry of Transport, Public Works and Infrastructure, the Malawi Bureau of Standards, MCCCI and MoIT. These agencies are members of the Environment Council (whose secretariat is the DEA). This council approves or rejects projects and sometimes the MoIT and DEA carry out joint inspections. Every development project has a cost-benefit analysis carried out to evaluate the benefit to the country relative to the cost. This was also carried out for the uranium mine at Kayelekera. The DEA also has a Memorandum of Understanding with petroleum importers to account for spillages and accidents.

With respect to agriculture projects, the DEA is involved in the design stage of projects through EIAs, but its involvement in the implementation stage declines sharply due to a lack of internal capacity. However, the MoAFS has its own Land Resource Conservation Department, which is responsible for implementation and which in effect replaces the DEA.

The department feels that trade matters tend to supersede environmental protection matters in certain cases – particularly in terms of conserving biodiversity. A current challenge for the DEA is that the demand for the environmental licenses it issues is rising. There are also cases of the MoIT issuing licenses for trade before the DEA has the time to pronounce judgement on the application.

The policies of the department are in line with international regulations on banned substances. The DEA is currently training staff at customs to be able to recognize such substances and it publishes guidelines every year.

The DEA also works with the Malawi Investment Promotion Agency, which brings investors to the department. It aims to take license decisions within 90 days, a decision which is taken by a technical committee.

The DEA only has 50 technical staff, and therefore largely has to rely on other agencies.

Conclusion: Malawi lacks an active environmental policy so it is difficult to measure the coherence of AfT in this regard. Obligatory Environment Impact Assessments go some way to mainstreaming environmental issues in trade, but the difficulty lies in enforcement.

3.4 Other Relevant Issues

3.4.1 Non-debt creating aid

At the Hong Kong WTO Ministerial Conference where the AfT concept was launched, developing countries demanded that AfT resources should be "non-debt creating" in nature.

The OECD's CRS database does not distinguish between grants and loans, although the Government of Malawi database does. Table 10 below presents the distribution of AfT disbursements by type of financing.

Table 10: Non-debt creating aid - grant versus loan financing
A. Type of financing by value of disbursement - Source: Government of Malawi project database

Type of Aid for Trade	Category Number	Grant	Loan	Tech. Assistance	Mixed Grant-Loan
Trade Policy and Regulations	1	91%	0%	9%	0%
Trade Development	2	88%	6%	0%	6%
Trade Infrastructure	3	83%	16%	1%	0%
Building Productive Capacity	4	77%	18%	2%	3%
Institutional Framework	5	81%	11%	5%	3%
Policy and Development	1 and 2	88%	6%	1%	5%
Policy, Development and Infrastructure	1, 2 and 3	85%	12%	1%	2%
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	82%	14%	1%	2%
All aid for trade	1 to 5	82%	13%	2%	3%

B. Grant and technical assistance financing as a percentage of total value of disbursements by year - Source: Government of Malawi project database

Type of Aid for Trade	Category Number	Pre 2007	2007	2008	2009	2010
Trade Policy and Regulations	1	100%	100%	100%	100%	100%
Trade Development	2	92%	96%	96%	87%	84%
Trade Infrastructure	3	78%	78%	78%	78%	78%
Building Productive Capacity	4	80%	89%	83%	47%	93%
Institutional Framework	5	77%	76%	81%	100%	100%
Policy and Development	1 and 2	92%	96%	96%	88%	84%
Policy, Development and Infrastructure	1, 2 and 3	83%	81%	80%	79%	79%

Table 10: *Continued*

Type of Aid for Trade	Category Number	Pre 2007	2007	2008	2009	2010
All aid for trade excluding Instit. Framework	1, 2, 3 and 4	82%	83%	81%	73%	81%
All aid for trade	1 to 5	81%	82%	81%	76%	83%

C. Type of financing by value of disbursements for all ODA - Source: OECD CRS database

Year	Grant	Loan
2003	78,7%	21,3%
2004	82,6%	17,4%
2005	84,3%	15,7%
2006	88,1%	11,9%
2007	97,1%	2,9%
2008	97,1%	2,9%
2009	83,3%	16,7%

Source: Government of Malawi project database and OECD CRS database.
Note (1): the term 'pre-2007' relates to aid that is included in the government project database between 1998 and 2006 - not all data on aid in these years is available.
Note (2): The data in sub-table A is for all years included in the Government of Malawi database.

Sub-tables 10.A and 10.B are sourced from the Government of Malawi project database.

Sub-table 10.A above shows that 66 per cent of AfT was provided in grant form. This rises to 91 per cent for Trade Policy and Development projects. Most of the loan financing (30 per cent) is concessional lending – and is generally provided by China, India and the development banks. Agencies such as USAID, DFID, UNDP and the EU only provide grants (unless aid is provided through the European Investment Fund).

Sub-table 10.B shows the share of grant and technical assistance funding as a percentage of total AfT in recent years. The share of grant financing fell significantly in 2009 relative to 2007 and 2008 across Trade Development and Building Production Capacity projects (Categories 2 and 4), bringing down the totals for all AfT. However, the share of grant and technical assistance financing partially recovered in 2010. The increase in aid by South-South partners is one factor explaining this decline.

Sub-table 10.C presents the OECD's CRS data, which shows the trend for total ODA. This data is not provided by sector, which prevents us from presenting this data for AfT alone. Despite this limitation, the data appears to corroborate the findings from the Government of Malawi project database. Between 2003 and 2009, the grant component of financing fluctuated between 78 per cent and 97 per cent.

A major limitation of this aspect of the Adhikari methodology – and also of the design of AfT – is that it only studies the extent to which AfT is not provided in loan form. Yet the imperative for AfT is that it does not facilitate the deterioration of the trade deficit or create debt by detaching a country's ability to improve its standard of living from its ability to generate the resources required to finance that improvement. Aid can have a significant negative effect if it is not invested in a country's ability to increase productivity and to set a favourable enabling environment for exporters and potential exporters.

For poverty reduction and economic development to be permanent, a country must ensure a strong long-term correlation between imports and exports, just as companies must ensure that their expenditure is bound by their income in the long-term, allowing for a feasible rate of debt financing. Grant financing runs the risk of severing this relationship and, as discussed in Section 5 below, this appears to have been the case in Malawi. In order to be truly non-debt creating, AfT should permanently build the capacity of local institutions to meet their mandate as dictated by their principals. This is one reason why AfT should move at the pace of the developing country and not at the pace of donors or international trade bodies.

The Adhikari AfT evaluation methodology needs to be improved because it does not attempt to analyse the degree to which grant financing supports expansionary fiscal and monetary policies by serving as a windfall gain. Such a windfall gain applies downward pressure on the trade balance and helps engender dependency on external financing. In this sense, if grant financing is not tied to the development of local human capacity across government, civil society and the private sector, then it cannot be labelled as non-debt creating. This aspect of the methodology should be closely tied to the impact section of the methodology.

Conclusion: Most of Malawi's aid financing is in the form of grants and is therefore non-debt creating. However, to be truly 'non-debt creating', AfT must be 'non-trade deficit creating'. To achieve this, AfT must help to permanently build the capacity of local institutions to meet their mandate. It is essential for the methodology to attempt to measure this aspect of AfT.

3.4.2 Demand-supply gap

The government's view is that many trade projects tend to be supply-driven rather than demand-driven. It is essential that AfT projects start from the government (or other local stakeholders) and it believes that much progress is yet to be made in this direction. For example, although the government developed the ASWAP, it feels that many donors remain reluctant to allocate sufficient aid to its implementation, partly because of the constrained implementation capacity within the government.

Demand for AfT projects is also relatively low compared to the supply of resources because, in addition to the focus of the past five years on food security and production, there is a lack of functionality in the Trade Sector-Wide Approach. This is dependent on the constrained capacity of the MoIT. As a result, government requests for aid tend to be ad hoc and unstructured, except when they are directly related to the Millennium Development Goals or the MGDS. However, the private sector has had minimal input into preparations for the successor strategy to the MGDS that is due to be published in 2011. This suggests a limited substantive focus on trade, which in turn constrains the demand for AfT. The MoIT also lacks the ability and mandate to coordinate private sector development and trade efforts across government agencies, and also lacks sufficient ability to drive and implement programmes and reform efforts.

A further reason for this perceived gap is that although the government believes donors to be generally open and willing to meet aid requests, actual disbursement takes time due to conditionalities and difficulties in the government presenting a project counterpart or establishing an implementation mechanism. On the other hand, a lack of patience by donors may drive them to prescribe external solutions which are not fully owned by local stakeholders.

An important factor in narrowing the demand supply gap is donors' willingness to cancel projects or cut funding where a lack of local stakeholder ownership exists. Donors claim to be gradually moving in this direction – for example EUR 436 million out of EUR 451 million allocated to Malawi under the 10th European Development Fund is not guaranteed. If Malawi is unable to absorb this it can lose such funding (following a Mid Term Review). In practice, such cuts do take place – although no example was provided by the EU for previous cuts in Malawi.

A further issue is a better awareness and appreciation of AfT by in-country donor offices. Many departments that do not cover private sector development or trade have not mainstreamed AfT into their programmes.

In contrast to the donors and the government, one private sector stakeholder who was interviewed felt that most AfT projects are in response to demands by the private sector, though largely informally through various forums and associations, such as the MCCCI, the National Working Group on Trade Policy, the Indigenous Business Association and the Road Operators and Transporters Association.

On the other hand, the same stakeholder also acknowledges that there remains a mismatch between AfT demand and supply. This manifests itself in the duplication of similar studies and needs assessments being conducted. An example of this is a crops needs assessment that was initially carried out in 1984, and a request was recently made for such an exercise to be repeated.

The demand-supply gap is also the result of an inability by Malawi's institutional framework to implement aid projects. This is often due to greater social needs. A further result is the government's inability to create employment due to limited investment in the economy.

It is important to distinguish between demand and need. Many times, donors may be justified in suggesting aid that may not be demanded, but which makes sense nonetheless. One example of this was commodity insurance – through which the government learnt a new concept.

Conclusion: The demand-supply gap remains substantially large and this is the result of a failure to develop in a permanent manner the required absorptive capacity and the capacity to drive the implementation of local strategies and visions. In addition, a highly limited in-country awareness of the AfT concept constrains demand.

3.4.3 Absorptive capacity

The Adhikari (2011) methodology calls for an analysis of project fund utilization rates. The disbursement rate could serve as a weak proxy for this, given that the rate of disbursement is tied to the ability of the implementation agency to absorb committed funds. However, this proxy has its limitations because of donors' strong incentive to promote the disbursement of funds. Failure to disburse can result in budget cuts in following years. In a number of cases, disbursements take place despite the implementing agency lacking the absorptive capacity to implement aid projects.

This helps to reconcile the dichotomy between Malawi's high disbursement rate and the lack of sustainability of AfT. Table 7 above shows a disbursement rate of 93 per cent for the broadest definition of AfT (Category 5) between 2007 and 2009.

The view of stakeholders is that project implementation tends to be slow due to capacity constraints in the government and other local stakeholders, such as civil society and the private sector. This helps explain why a regional AfT project such as Pro-Invest only recorded a disbursement rate of 20 per cent. Similarly Malawi faces a delay in accessing EIF funding because a secretariat has not been established in the MoIT. Similar delays exist with respect to the EU's Standardisation, Quality Assurance and Metrology project, which will support the Malawi Bureau of Standards and National Statistics Office. According to UNDP, Malawi has only used 50 per cent of AfT resources allocated to it,[23] largely because of capacity constraints.

Stakeholders also mentioned the inability to develop proper budgeting and costing with respect to trade-related strategies. This was the main problem with the MGDS and there is the risk of this being true of the successor strategy.

Furthermore, stakeholders feel that while the technical know-how of agencies is improving and certain ministries are becoming easier to work with, existing technical, organizational and implementing skills exist but are overstretched. This makes it difficult for agencies to drive the implementation of projects and reforms.

The government is planning to develop a Country Systems Agenda to facilitate its interaction with donors and address institutional capacity problems.

However, the key issue that arises when developing the absorptive capacity of implementing institutions is the lack of an actively pursued, comprehensive, long-term approach by donors to developing local capacity. Many attempts to strengthen institutions fail because three- or five-year results horizons do not allow for a more gradual approach that seeks to tackle core issues affecting human capacity development.

An example of a donor-funded capacity building programme is the World Bank and Norway's funding of training programmes as part of the ASWAP Support Project. Long-term training is being provided for crosscutting issues across the functions of the MOAFS in a bid to drive the change in focus from food security to diversification and export growth. Yet doubts remain as to whether newly trained personnel will be provided adequate incentives and allowed a supportive environment to apply their new skills and knowledge. Likewise, doubts remain as to the relevance of training courses to the daily tasks and duties of staff. The government also feels that it is becoming more difficult to access training programmes. It cites the WTO requiring each participant to attend e-learning courses in order to participate in core courses.

The government feels that donor-funded external advisors in trade-related areas have generally failed to provide sufficient knowledge transfer, with only a handful of success stories and true knowledge transfer. Advisors generally only stay for one year or less, which is not long enough.

The government believes that to build capacity in a permanent manner, it is important that:

- Advisors must be good teachers and mentors, so that they can pass on their knowledge; and
- Local staff should be attached to external agencies, in positions that are relevant to the government so that their skills can be used once they return.

One core issue is the extent to which donors and the government place enough attention, drive and effort – as opposed to funding – to ensure a holistic approach to staff development and capacity building.

Doubts among stakeholders about the relatively low amount of attention placed by donors on capacity building components of projects stem from the constant need for institutions to retrain the same personnel in the same tasks, or to retrain new personnel because the previous staff member leaves the job, possibly for a higher-earning position at a donor organization or abroad. Many times, there is no knowledge transfer when such personnel leave the local institution. This is a problem of the lack of investment in institutional structures by the government and, equally, of a lack of a concerted effort by donors to focus their attention on addressing the issues that contribute to this lack of investment in institutional structures. A key factor going forward is the importance of not excessively focusing on the capacity to absorb aid, at the cost of undermining an investment in the capacity of institutions to meet the mandate set by their local principals.

With respect to the private sector's capacity, some progress has been made through projects such as USAID's Input to Agro-Dealers project and the International Fertilizer Development Company. The latter and the Agro Input Suppliers Association of Malawi are still functioning two years after being established. USAID's Financial Inclusion project was also successful in establishing Opportunity International Bank Malawi, which is one of the most successful microfinance institutions in the country.

Yet difficulties remain, as evidenced by the low disbursement rate of demand-driven projects such as the EU's Pro-Invest and the World Bank-funded Business Growth Scheme. The main difficulty is in accessing the required labour. This has contributed to limited investment by the sector – and therefore to limitations in its ability to access AfT funding. Labour with the right skill set is scarce. The government runs a Technical Entrepreneurial Vocational Educational Training Assistance that has provided some access to training. Unfortunately, the contribution of this programme and other tertiary-level interventions has been limited, relative to the scope of AfT and, more importantly, relative to Malawi's population growth and the growth in its trade deficit.

The focus of many agencies that shape the trade and business environment currently remains on regulation and production rather than on competitiveness and trade facilitation.

Conclusion: The absorptive capacity of local stakeholders remains weak despite AfT efforts in recent years, but there is evidence of improvement in a few areas.

4. CASE STUDY: JITAP PHASE II MALAWI

4.1 Project Description

The Joint Integrated Technical Assistance Programme was developed as a response to requests made in the late 1990s by Trade Ministers of the African Union for assistance from the international community to help strengthen their capacity to participate meaningfully in trade negotiations and integrate into the Multilateral Trading System (MTS). JITAP is a capacity building programme with three objectives:

- Developing the national capacity to understand and address the implications of the new MTS;
- Building capacity to implement legislation and implement the needed measures to conform to the MTS in the most beneficial way; and
- Enhancing the readiness of national exporters to take advantage of trading opportunities.

The first phase of the programme was launched in 1998 in eight countries and, following a positive evaluation, a second phase was launched in 2003, extending the programme to eight new countries. JITAP II ran from 2003 to 2007. In Malawi, as in the other participating countries, it aimed to build a greater level of national self-implementation with support from the Geneva-based organizations and the use of networking among beneficiaries in all partner countries, in order to ensure permanent benefits. The MoIT served as the focal point of the project in Malawi, and a National Steering Committee (NSC) was created in July 2004.

In the initial design of JITAP II, USD 600,000 was committed to the project in Malawi. However, a total of USD 929,714 was spent on the project from the Common Trust Fund, which included funding from UNDP – as the prime donor – the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD) and the WTO.

Subsequent to the 2006 management review and mid-term evaluation, the NSC developed a strategy for JITAP's exit from the MTS activities in Malawi. The NSC intended to encourage the government to:

a) Mandate the Inter-Institutional Trade Committee to play an advisory role in trade promotion under WTO rules;

b) Provide equipment and documentary support to allow National Enquiry Points and Reference Centres to carry out their mandates; and

c) Encourage networking among MTS stake-holders.

There was also the intent to encourage greater allocation of financial and human resources for trade coordination from the national budget or through involvement in other trade-related technical assistance (TRTA).

4.2 Project Review

The JITAP was successful in achieving a number of planned outcomes. It:

- Built MTS capacities to the extent that it has positively influenced trade policy;
- Provided notification interpretation training on Technical Barriers to Trade and Sanitary and Phytosanitary Standards;
- Built awareness and responses to most trade policy requirements; and
- Increased the involvement of women in international trade and in understanding the MTS.

A total of 29 men and nine women participated in the MTS-related training provided jointly by the ITC, UNCTAD and the WTO. Some of these were core trainers, ready to provide capacity building services. During the formal project evaluation at the end of 2007,[24] the National Steering Committee was comprised of 21 institutions distributed across government, academia, NGOs/civil society and the donor community. Since Phase II began, the level of institutional and financial support for JITAP activities has been increasing.

According to stakeholders, the JITAP played a 'very significant' role towards Malawi's efforts to mobilize resources for MTS activities – complementing or strengthening other TRTA programmes. Resources, such as information points, MTS training activities and export strategy formulation, were made available to support the National Working Group on Trade Policy – which served as the major dialogue forum supporting the JITAP. Malawi took advantage of these resources, at least to a moderate extent, in nearly all programming areas of the JITAP.

The NWGTP remains functional as of 2011, but is yet to be legally constituted. It has representation from government, academia, donors and civil society. Its members were exposed to the full range of JITAP toolkits, though in an ad hoc manner. Through the NWGTP, the private sector, civil society and NGOs were actively taking part in trade negotiations at all levels in 2007. It assisted in developing the Malawi position paper for the sixth WTO Ministerial Conference in Hong Kong, and Malawi represented the LDC group on services where Malawi's position was greatly reflected in both the African and LDC group's approaches to the negotiations. According to the 2007 JITAP final report, the NWGTP is a vital MTS actor in Malawi; it 'frequently or always' provided inputs on issues related to the compatibility of national laws and regulations with WTO agreements and bound commitments, and it 'frequently' contributes to changes in trade policy formulation.

JITAP also provided support to the development of three export strategies for cotton, textiles and garments and to the development of a National Export Strategy.

However, the JITAP faced a number of significant constraints that limited its **effectiveness and the sustainability of impact.** These included:

- **Predictability:** The use of funds was constrained by a lengthy disbursement process (through UNDP), by the application of overly stringent procedures and by overly demanding reporting requirements.

- **Private sector ownership:** The private sector was not represented on the National Steering Committee.

- **Government ownership:** At the outset of JITAP II, the Government of Malawi provided USD 20,000 and six full-time equivalent staff positions for MTS activities. However, on an annual basis from 2003, there was no financial or human resource support provided by the government. While the government has remained active in the NWGTP, this is often through lower-level personnel rather than key officials. With regard to information on the MTS, the four National Enquiry Points and four Reference Centres that were established at the end of the project all faced considerable operational constraints, mostly due to a lack of budgetary resources. All these information points lacked the capacity to promote their services, both in terms of communications infrastructure and of knowledge of the available materials. Three information points lacked the requisite management skills. As of 2011, none of the Reference Centres were functioning. No government budget was allocated to the maintenance of computers – and therefore none of the computers are currently useable.

- **Wider stakeholder ownership:** The NWGTP continues to meet in 2011. However, it serves more as a communication mechanism between stakeholders and government officials, rather than a mechanism to allow stakeholder input into trade negotiations and policy – as it did in 2007. This suggests a lack of sustainability in making the impact of JITAP long lasting.

- **Absorptive capacity:** According to the JITAP final report, the JITAP "created heavy workloads and competing priorities in the government. A lack of expertise/experience in managing MTS-related activities placed a constraint on the focal point – the MoIT". It also suffered from the lack of a secretariat and resources to keep it in touch with key stakeholders. In addition, the NWGTP suffers from a lack of legal status, constrained technical competencies and a lack of financial means for research and analysis. Of the professionals who were trained in the MTS, only two MTS professional networks remained at the end of 2007, with only a few resources and little or no actual activity. The JITAP final report concluded:

  > MTS trained professionals have not provided training to the various MTS stakeholder groups but occasionally provide technical advice or prepare technical papers on MTS-related issues. On the whole, there remains a lack of proper expertise in international trade/WTO matters and a paucity of financial resources with which to provide the scale of training required. For the most part, JITAP participants have not participated in follow up activities, either by choice or because of a lack of opportunity.

  With respect to the national export strategies, only the cotton strategy was implemented[25] while the National Export Strategy Programme was not implemented. The most significant constraint to strategy formulation was – and remains - the level and/or variability of knowledge and skills among working group members. This was further constrained by the lack of implementing capacity in the government, in particular the MoIT.

- **Donor coordination:** A further constraint to the operations of the National Steering Committee and focal point was a lack of coherence across the activities of different TRTA initiatives.

In conclusion, while the JITAP did provide some important benefits to Malawi, particularly in boosting Malawi's capacity to understand the MTS, its impact was severely constrained by limited absorptive capacity and local ownership. As a result, in 2011 Malawi continues to face similar constraints in its capacity to address the implications of the MTS, in implementing legislation and in creating the enabling environment required to meet the original objectives of JITAP.

The critical failure of the JITAP was an inability to assume a holistic approach to capacity development that could persist beyond the lifetime of the project. Indeed, JITAP failed to ensure the permanency of knowledge transfer and of stakeholder ownership – because of a failure to take a longer term perspective by linking trade policy capacity development to human capacity skills development at the broader level, and to the local staff's incentive to develop their careers and strengthen their livelihoods. In this lack of holistic and long-term approach, the JITAP proved typical.

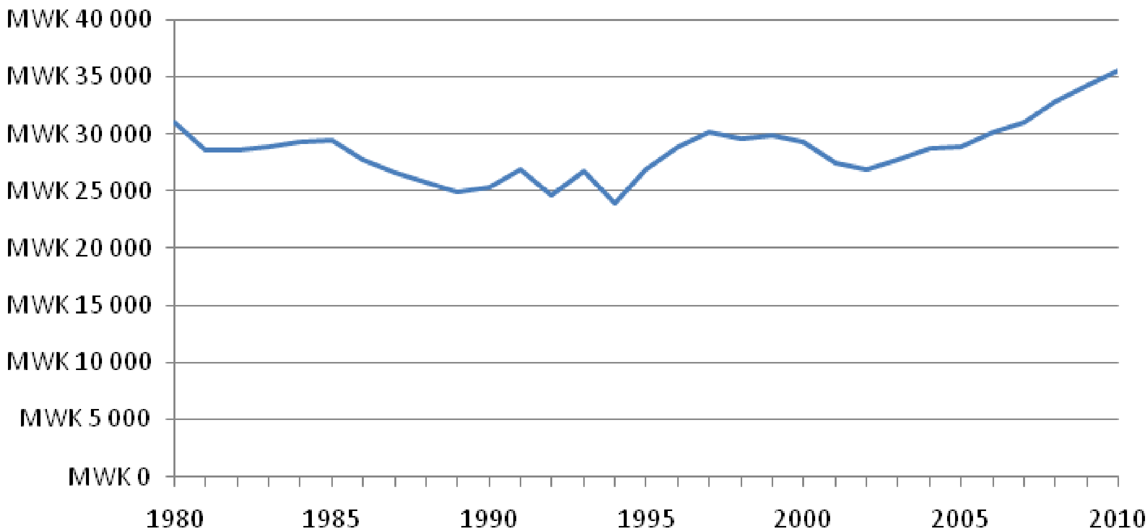
5. THE IMPACT OF AID FOR TRADE IN MALAWI

As with all economic impact assessments, it is difficult at both the macro and micro levels to decipher the impact of AfT on Malawi's economic development without a comprehensive econometric analysis of the macroeconomy. It is also difficult to identify the impact of AfT at the project level because this would require a detailed before and after analysis of the 324 projects that are classified as AfT in Malawi. With an inability to conduct such analyses for this review, in this section a mixture of quantitative data and qualitative information is presented to build a contextual picture of the impact of AfT in Malawi in recent years. This analysis is conducted from an overall development perspective, in order to corroborate the analysis of the impact of JITAP II above, which serves as a typical case study.

The Government of Malawi has estimated that, given its high rate of population growth and entrenched levels of poverty, Malawi requires an average annual GDP growth rate of six per cent in real terms in order to alleviate poverty – as set out in the MGDS.

As presented in Figure 7 below, Malawi's GDP per capita in constant prices only rose above the 1980 level for the first time in 2007.

Figure 7: Malawi's GDP per capita, constant prices, Malawian Kwacha



Source: IMF World Economic Outlook.
Note: In 2010, MWK 35,577 equated to USD 237.

The recent increase in Malawi's GDP per capita came on the back of nine years of uninterrupted positive economic growth. As presented in Figure 8 below, with the exception of 2002, which was a transition year following the 2001 recession, and 2005, when Malawi experienced an extensive drought, Malawi has registered average annual growth above 5.5 per cent in real terms since 2002. Between 2008 and 2010, Malawi succeeded in registering economic growth above the government's six per cent poverty alleviation threshold.

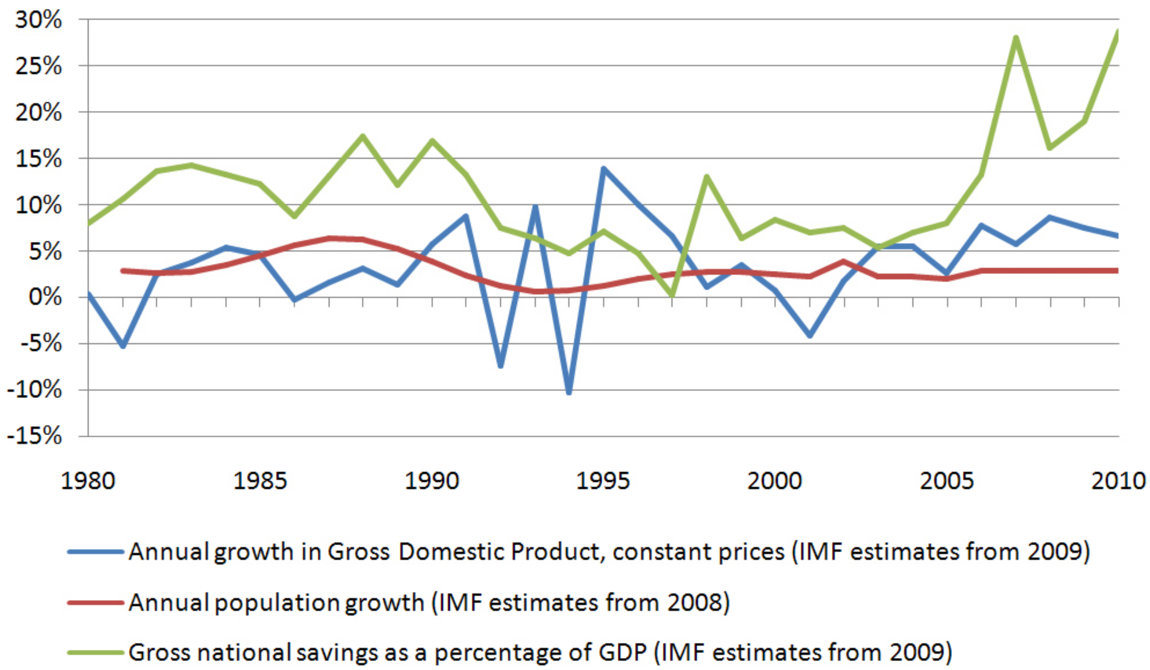
A number of factors contributed to this period of strong and rapid growth, such as increasing macroeconomic stability and a reduction in inflation. Expansionary fiscal and monetary policies – which were made possible through the 2005 HIPC debt relief initiative – also played a key part in driving growth. The debt relief also supported a sharp increase in the gross national savings rate.

Another factor that played a major part was the pegging of the exchange rate above the market equilibrium. This resulted in a sharp increase in consumption – mostly of imported goods – as evidenced by the rapid increase in Malawi's trade deficit. The trade deficit for goods as a percentage of GDP rose from seven per cent in 2001 to 21 per cent in 2010. ODA accounted for 40 per cent of government revenue in the 2010/11 fiscal year and 15 per cent of GDP in 2009.

In recent years, the Malawian economy has been buoyed by several bumper harvests for tobacco – the principal export – and maize, stemming from good rainfall and the distribution of subsidized fertilizer across the country. Successive plentiful harvests also contributed to improved food security and a moderation in inflation. From 1990 to 2007, child malnutrition rates fell from over 24 per cent – at that time among the highest in sub-Saharan Africa – to about 18 per cent, and child mortality rates were almost halved, from 221 per 1,000 children under five to 120 per 1,000.

Malawi's financial sector weathered the global economic recession of 2008, remaining well capitalized and profitable on the back of donor aid and loose monetary and fiscal policies.

Figure 8: Malawi's GDP growth, population growth and gross national savings rate



Source: IMF World Economic Outlook.

Despite some economic gains, poverty remains entrenched and there are strong signs that not enough is being done to sustain the required rapid rate of growth. Malawi remains vulnerable to weather and aid-related shocks owing to the undiversified nature of the economy and heavy donor dependence. The economy has made only limited progress towards economic diversification and agricultural reform.

Malawi's trade deficit for goods increased from 6.5 per cent of GDP (USD 112 million) in 2001 to 21 per cent of GDP (USD 1.723 billion) in 2010. This suggests an increasing structural gap. Malawi is importing much more than its exports allow it to afford.

Although Malawi's net debt as a percentage of GDP fell from 137 per cent in 2005 to 31 per cent in 2006 and 29 per cent in 2007 as a result of debt relief, an increase in government expenditure led to an increase in this ratio to 45 per cent in 2009 and 38 per cent in 2010. An increase in aid, largely through budget support, helped minimize a recent increase in the government debt-to-GDP ratio.

This large trade deficit, coupled with an expansionary monetary policy, has resulted in a depletion of international reserves. International Monetary Fund government repayment and international reserve targets were missed by wide margins in 2009 and 2010. The weak balance of payments threatens medium-term growth as well as exchange rate and price stability. The *de facto* pegging of the Malawi Kwacha to the US dollar from 2006 helped to moderate inflation. Yet persistent inflation differentials with trade partners and the peg led to an appreciation of Malawi's real effective exchange rate. The pegging of the exchange rate to the dollar at a rate above the equilibrium rate has further compounded Malawi's trade deficit, as it incentivizes imports while disincentivizing exports. The fixed exchange rate has led to a shortage of foreign exchange in the country that is forcing the private sector to scale down production due to a lack of intermediate goods such as fuel.

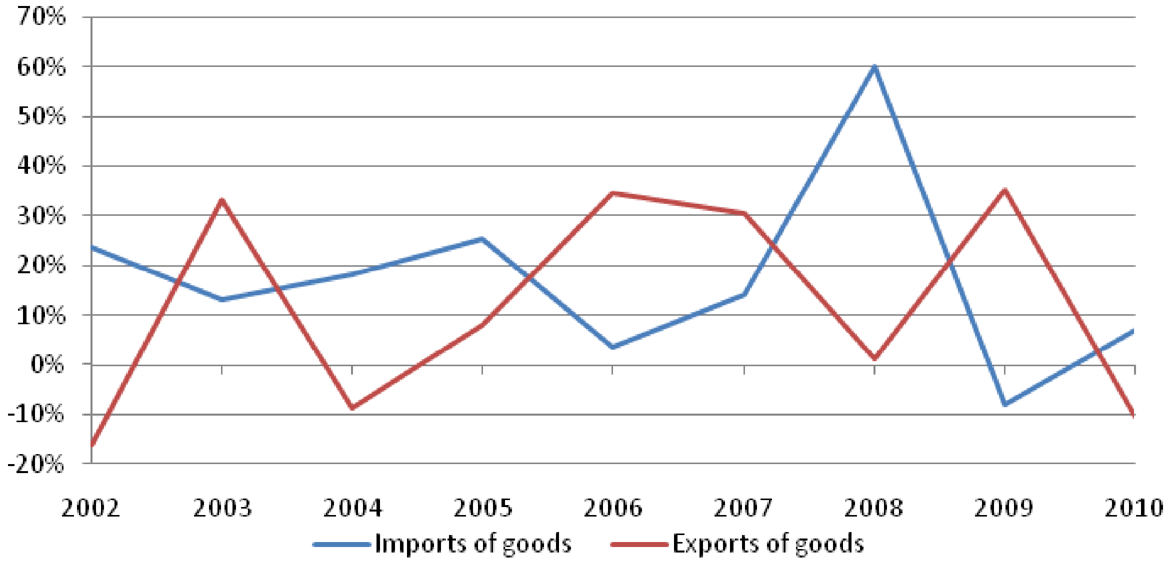
Although the government has recently adopted a number of measures to address the external imbalance – including initial steps at market liberalization, gradual depreciation of the exchange rate and strengthened budgetary spending controls – indications are of strengthening structural imbalances and a continued macroeconomic dependence on imports and aid.

This macroeconomic background provides context for the centrality of AfT in Malawi. While numerous factors have served to dampen any positive impact of AfT – such as Malawi's exchange rate peg and, ironically, the aid dependence itself, by propping imports up 'unnaturally' – the true impact of AfT should be to ensure that Malawi's increased aid disbursements are securely tied to developing the human capacity required to increase the competitiveness of the economy. Hence, through AfT, Malawi should become increasingly able to balance imports and exports while allowing for economic growth, thereby preventing a major economic adjustment in the future that would negatively impact efforts to alleviate poverty.

In Malawi's case it is essential to evaluate the impact of AfT relative to its ability not merely to raise export growth, but to ensure that exports grow faster than imports so that a sustainable reduction in the trade deficit can be ensured.

Figure 9 presents the annual rate of growth in the value of exports and imports for goods. Since AfT was launched in 2005, the long-term rate of export growth has failed to exceed the long-term rate of import growth. In 2006, 2007 and 2009, exports grew faster than imports, but the lower rate of growth in 2008 and 2010 undid any gains made in other years. The failure to support export growth at high enough levels for a sustained period of time has led to an increase in the trade deficit to 21 per cent of GDP. This has come about despite the launch of Malawi's uranium sector – a factor that came about independently of any AfT efforts. All the uranium mined in Malawi is exported.

Figure 9: Malawi's rate of growth in value of goods exports and imports



Source: www.trademap.org.

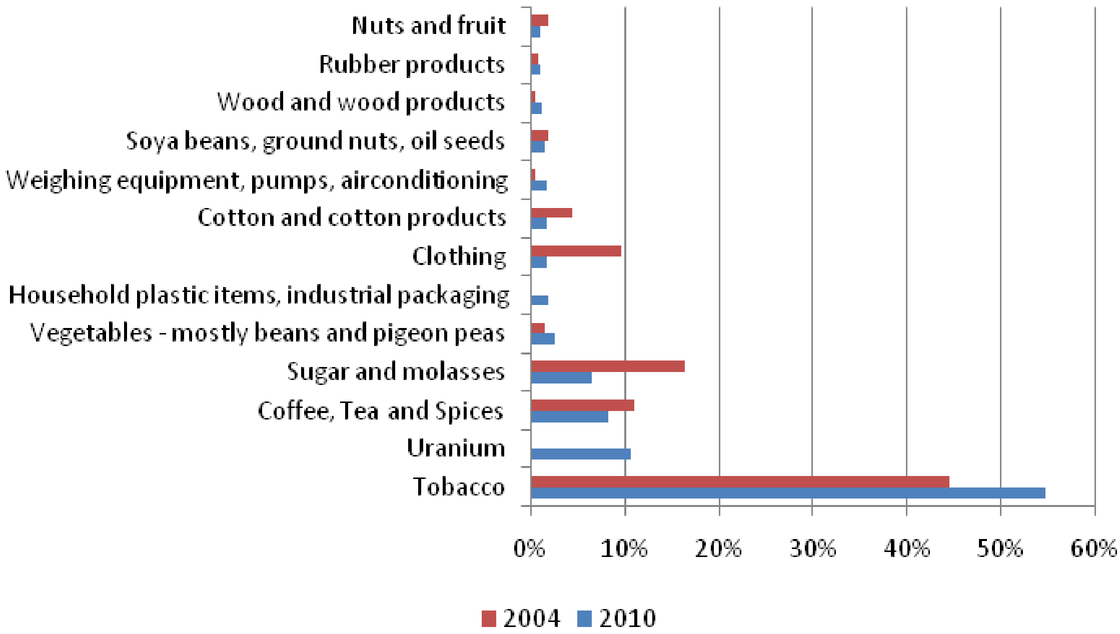
The sense among stakeholders who were interviewed as part of this review is that, despite international efforts to link aid to trade, a lack of alignment, sustainability, local ownership and absorptive capacity means that while exports are growing, the relationship with AfT remains weak. More importantly, any impact that there might be on export levels is not large enough to allow Malawi to reduce its trade deficit, particularly while it remains dependent on aid itself and while it maintains the exchange rate peg. Stakeholders believe that much more needs to be done to boost Malawi's competitiveness in the areas of tax reform, energy, export facilitation and access to skills.

Malawi continues to remain dependant on tobacco, as presented in Figure 10 below. The opening of a new uranium mine in December 2009 reduced this dependency to 55 per cent in 2010 from 64 per cent in 2009, with uranium accounting for 10.7 per cent of exports in 2010, up from zero in 2008. As mentioned above, the creation of a new sector was independent of AfT efforts in the country.

A number of large AfT projects, such as UNDP's Growing Sustainable Business and the EU's Farm Income Diversification Programme, have increasingly focused on export diversification. The focus has been on developing the production base for a few new potential commodities, such as rice, groundnuts, pigeon peas, chillies, dairy, biofuels and edible oils, which have been identified through numerous value chain analyses.

There is some investment and interest by the private sector in these commodities. However, as can be seen in Figure 10 below, these sectors remain in their infancy and their contribution to total exports is negligible when compared with tobacco exports – which are under increasing pressure from international industry bans. Therefore, the impact of AfT cannot be assessed through quantitative data. In addition, it is difficult to identify the impact of AfT in these sectors because it is difficult to judge the extent to which current growth is organic and sustainable or is only supported by AfT.

Figure 10: Malawi's exports by commodity



Source: www.trademap.org.

Private sector investment in these sectors remains constrained, largely because of an inability to access:

- The required skills through the entire value chain and in the institutional framework;
- Adequate market information;
- Finance at annual interest rates below 20 per cent;
- Adequate business development services; and
- Markets through fair competition, trade facilitation and meeting international and regional standard requirements.

Potential investors in Malawi's infant sectors also feel that the business environment remains unfavourable to investment in these new sectors because of the local system of property rights, local governance structures and weak institutional capacity. Together these constrain the private sector's ability to start a business, enforce contracts and fulfil taxation and regulatory obligations. A continued inability of the private sector to lobby effectively has also played its part in constraining investment in diversification sectors. This strengthens the argument that AfT has been largely ineffective in Malawi.

A major reason for the failure of AfT to help address these issues is the lack of a holistic and focused approach to developing the local human capacity that is required to allow local institutions to tackle these various constraints. This has also limited Malawi's ability to meet it WTO commitments. In Malawi, AfT does not currently address critical constraints, such as the inability to access skills in both the private and public sector. Aid investment in technical skills, trade schools, the university, entrepreneurial skills, business management skills and organizational skills is limited and fragmented. In addition, talented Malawians are attracted to in-country offices of foreign donors and NGOs because of better salary scales and career development opportunities - rather than being incentivized to work in local institutions. This has also limited the extent to which AfT has facilitated the diversification of Malawi's exports away from tobacco.

A key contributor to this outcome is the limited success of AfT in developing Malawi's ability and drive to build the human capacity that is required to allow the private sector, government and civil society to meet their developmental responsibilities. There is no nexus between education and Malawi's ability to improve the enabling environment for private sector development. Therefore, core issues that stand at the basis of economic development are only being tackled in a short-sighted manner, and sometimes through solutions that crowd out the ability of local organizations to find a sustainable solution. An example is the provision of grant financing by donors to businesses. The aid distortion effect at the market level also limits the emergence of market forces.

According to the National Association of Smallholder Farmers of Malawi, there has been a positive impact of AfT and this has largely been through:

- Promoting the debate and activities to revamp the Malawi Bureau of Standards so that it can become internationally accredited, which it currently is not;
- Promoting the debate and activities to improve the quality of products for both regional and international markets – for example through the Rural Livelihoods Economic Enhancement Programme; and
- Various "Farming is Business" initiatives.

One stakeholder said that the impact of AfT has been felt mostly through a growing awareness of the importance of trade – particularly at the smallholder level.

A difficulty with AfT is that it has not resulted in a significant investment in non-road infrastructure, as is required by the rapid population growth and increased economic activity – particularly in areas such as rail and water transportation, energy generation and, to a lesser degree, communications.

Conclusion: The impact of AfT is close to negligible with respect to Malawi's trade deficit and export growth, largely because of a fragmented approach to aid that does not tackle Malawi's export constraints in a comprehensive manner. AfT has had a positive effect in contributing to a gradually increasing awareness among public and private stakeholders of the importance of trade in Malawi's efforts to develop and alleviate poverty.

The impact of AfT should not merely measure project-level impacts and export growth. It should also attempt to measure improvements in the contribution of AfT to a country's ability to establish a favourable environment for private sector development. In doing so, AfT should also ensure that it does not apply upward pressure on the trade deficit. This requires the development of the human capacity of a country's private sector, government and civil society. Therefore, the impact of AfT should also be measured through the development a country's human capacity.

6. CONCLUSION AND RECOMMENDATIONS

6.1 Summary and Analysis of Findings

There is an increasing recognition of the economic contribution that trade can make to economic development and poverty alleviation. The ability of countries to expand their value added is central to alleviating poverty – particularly if this expansion is participatory rather than exclusive. In turn, trade – whether local, national or international – is a central component of an economy's capacity to add value. For smaller countries, regional and international trade becomes essential. However, in order to compete in such markets, countries must translate their comparative advantages into competitive advantages.

Achieving this is dependent on a range of factors, including:

- Trade policy and regulation;
- Trade development, facilitation and the business climate;
- Trade infrastructure;
- The productive capacity of an economy; and
- The broader institutional framework that affects a country's ability to develop the first four factors.

With an increased appreciation of the importance of trade to development and a corresponding decline in global tariffs, the WTO and other international organizations launched the AfT concept in a bid to create a closer nexus between aid to developing countries and developing countries' ability to trade.

This document reports on the application of an independent AfT evaluation methodology to Malawi. The findings are summarized in Table 11 below.

The analysis for Malawi suggests that AfT in recent years has met only a few of the eleven criteria of the evaluation methodology. AfT has not proven to be additional, although there is important evidence to show that the government's contribution to investment in ministries central to Malawi's ability to trade has increased between 2005/06 and 2010/11. In addition, AfT has proven to be predictable. However, it is becoming more and more difficult to measure the predictability of AfT, largely because aid conditionalities are increasingly being applied and an uncertainty exists as to whether those conditionalities are 'owned' locally and appropriate, given the absorptive capacity of local implementing institutions. There is a need for local stakeholders and donors to better understand the human capacity that is required to meet conditionalities and implement aid projects – and likewise to better understand how that capacity could be achieved.

Table 11: Summary of application of methodology to Malawi

Does Aid for Trade in Malawi exhibit…?	According to data	According to stakeholders
Additionality	No, but Government Counterpart is increasing	N/A
Predictability	Fairly predictable	Yes, but difficult to measure due to whether conditionalities are appropriate or otherwise
Sustainability	Uncertain	No
Ownership	N/A	No, but gradual increasing awareness by stakeholders of the importance of trade
Alignment	No	Limited use of country systems. Donor alignment to country priorities - which are not trade.
Donor coordination	N/A	Yes in broader categories of AFT. No in Trade Policy/Regulation and limited in Trade Development
Coherence - Environment and Climate	N/A	Weak environmental and adaptation policy. Trade takes precedence over environment objectives
Coherence - South-South Donors	N/A	No
Non-debt creating	Directly yes, but grant financing is indirectly creating trade debt	N/A
Demand-supply gap	N/A	In certain respects there is a match, but the gap remains significant
Absorptive capacity	N/A	No
Impact	No	Marginal

Source: Imani Development.

The increase in the government's contribution to investment in trade-related areas could suggest a degree of sustainability of AfT. According to stakeholders and project-level information, AfT in Malawi has generally failed to meet its objectives in a sustainable manner – both formally and substantially. The capacity for implementing agencies to absorb aid has not improved in a substantial manner, although it has improved in certain ministries and agencies. Nonetheless, Malawi's absorptive capacity for AfT, particularly Categories 1 and 2 (Trade Policy/Regulation and Trade Development), remains weak.

Crucially, AfT has not succeeded in positively impacting Malawi's ability to control the rapid increase in its trade deficit. The trade deficit in goods rose from seven per cent of GDP in 2001 to 21 per cent of GDP in 2010. This suggests an increasing structural gap: imports are outpacing Malawi's ability to afford them. A related issue is Malawi's expansionary fiscal and monetary policy – which in turn is effectively financed by grant aid and debt relief. These policies have been implemented through the fertilizer subsidy programme and the pegging of the exchange rate to the US dollar at a price significantly above market equilibrium.

Although export growth has generally strengthened in the past five years, imports have accelerated at a faster pace. The pegged exchange rate also incentivizes imports beyond the value added that exports are able to generate. In addition, the impact of AfT has been limited because Malawi also lacks the local capacity that is required to achieve the trade goals set out in the Malawi Growth and Development Strategy, presented in Section 2 above. Many of these goals remain equally pertinent at the end of the lifetime of the MGDS. It is ultimately up to local civil society, government and the private sector to ensure that the trade goals as set in the MGDS – and in the successor document to the MGDS that is being written in 2011 – are backed by an action plan that includes the human and financial resources that are required to implement it.

The need for AfT to address Malawi's trade deficit is essential not merely for development purposes, but for meeting the objectives of the WTO and the trade community. This is because such factors reallocate Malawi's limited resources away from developing its ability to export, towards its need to fight fires. The fertilizer subsidy programme and pegging of the exchange rate are examples of fire fighting.

While aid has supported an increase in economic growth via increased consumption, the impact of AfT has not been sufficient to allow Malawi to develop the competitiveness required to sustain that increased level of consumption. Only limited progress has been made towards export diversification away from tobacco, with the greatest impact coming from the birth of the uranium mining sector, which came about independently of AfT. This failure is due to limited progress being made in permanently building the capacity that Malawi's institutions require to allow its private sector to invest in value added and therefore to translate Malawi's comparative advantages into competitive advantages. The limited value of aid and government funds that are allocated to the MoIT and the lengthy delays in launching Malawi's EIF are testimony to this.

Three additional factors that limited the effectiveness of AfT are a general lack of the local ownership required to stimulate trade, limited use of country systems by AfT and limited donor coordination in the area of Trade Policy and Development. Going forward, more must be done to ensure that AfT is effectively owned and understood in Malawi so that substantive and permanent gains can be made. AfT cannot remain merely an internationally-driven abstraction. This is essential to narrow the demand-supply gap, which remains fairly sizeable in Malawi, despite a fair degree of donor response to private sector needs.

This requires devising innovative approaches to gain local stakeholder ownership and aid modalities for the development of local capacity, such as mentoring programmes that ensure knowledge transfer. The ODI Fellowship Scheme is one example of this. Another is the work of the African Governance Initiative in Sierra Leone, Liberia and Rwanda. This also requires improved efforts to secure in-country donor and local stakeholder ownership of the AfT concept. The key underlying principle is the need for facilitating agencies to fully believe in and understand the principle that the enabling environment for private sector development is the key for economic development. Trade is a subset of PSD and not the other way round. AfT should be broader than just trade – it should be 'Aid for PSD'.

With respect to AfT being non-debt creating, the majority of Malawi's aid is in the form of grant financing or technical assistance. However, it is vital to view the debt creation aspect of aid holistically – in terms of the extent to which grants serve as an external inflow of funding that tends to drive an increase in government and household consumption. To the extent that such grant financing does not contribute to the permanent development of the institutional capacity of the country to allow the economy to be competitive in regional and international export markets, such financing can also be considered to be debt creating. In Malawi's case, the rapid increase in the trade deficit in goods from seven per cent of GDP in 2001 to 21 per cent in 2010 equates to a creation of 'import debt' – which will need to be refinanced in the future through either the generation of local value added and exports or via continued aid – which in turn would constrain the ability for that aid to be effective and to bear a sustainable impact.

The application of the Adhikari methodology to Malawi has rendered visible a key failure of the AfT concept at the international level, particularly in terms of LDCs. This is the lack of a strong nexus between AfT and a long-term approach to the development of local human capacity. The latter is essential to allow for the permanent development of the institutional framework that sets the agenda for trade policy, trade development, trade infrastructure and the productive capacity. This failure was demonstrated by the detailed analysis of the JITAP and by the Ministry of Trade and Industry being only allocated one per cent of total Aid for Trade in 2010/11.

6.2 Recommendations

The central recommendation that emerges from this analysis is that AfT efforts should focus on developing in a lasting manner the local human capacity that is required to allow for the permanent development of the institutional framework that can then set the local agenda for:

- Trade policy;
- Trade development;
- Trade infrastructure; and
- Developing local productive capacity.

In order to achieve this, a number of recommendations are made. These apply both at the international and local levels. These are:

1. Recognize that **the launch of the AfT concept equated to the global trade community entering the field of economic development.** If the trade community recognizes the importance of development for trade, then to be effective the trade community must understand that development is a long-term process, not a short-term objective;

2. Recognize **trade as a subset of private sector development** and not the other way around. It is critical for international trade organizations and proponents of AfT to internalize this;

3. Develop a **strong nexus between AfT and primary, secondary and tertiary education.** Making this link more explicit in the AfT agenda may contribute to improving its effectiveness. This could help to increase donor and government attention, drive and effort – as opposed to making mere funding allocations – to ensure a holistic approach to staff development and capacity building. Such an approach should be based on strengthening the current weak link between labour demand and labour supply;

4. Significantly increase the **attention given to line ministries and agencies by AfT**. Such ministries include:

   - The Office of the President and Cabinet, Ministry of Finance, Ministry of Education, Ministry of Agriculture and Food Security, Ministry of Irrigation, Ministry of Gender and Youth Development, Ministry of Home Affairs, Ministry of Justice, Ministry of Transport and Public Works, Malawi Revenue Authority, Malawi Bureau of Standards, Malawi National Statistics Office, the Technical, Entrepreneurial and Vocational Education and Training Authority, the Competition Commission, etc.;

   - Increase the capacity and ability of the Ministry of Industry and Trade to coordinate AfT interventions across other ministries and agencies.

5. Strengthen the **capacity of international trade organizations and donors to advocate effectively** so that donor headquarters and in-country offices actively promote and lobby for trade and private sector development across different types of projects and sectors with government, civil society and local stakeholders. This includes mainstreaming economic development across their programmes. This is essential if the government is to allocate the required leadership attention that is needed to allow efforts such as the EIF to mainstream trade into the national development agenda;

6. Ensure **local ownership of the AfT concept** by simplifying its definition, and by making a much greater effort to win the argument with local stakeholders and key decision makers – including politicians and local donor representatives – about the benefits of trade to their organization's goals and to their livelihoods. A country-level AfT Communications Plan is central to this;

7. Assume a **longer-term, comprehensive approach** to developing the human capacity required in the public sector, the private sector and in civil society to overcome trade constraints at the local level. Adding capacity building components to trade projects solely for the purpose of ticking a box will not allow for a significant AfT impact. Capacity development should be the primary objective of many AfT projects in Malawi. In this regard it is essential to move at the pace of developing countries and not at the pace of international trade agencies and multilateral and bilateral donors. Expectations should be set accordingly;

8. **Identify the ultimate causes of development and trade constraints.** For example, if firms are unable to access finance in an economy, it is essential to address the issues that prevent the financial sector from providing that finance, such as asymmetric information and the degree of competition, rather than searching for solutions that exclude the financial sector;

9. Make a greater effort to **adapt international AfT objectives to the reality of local absorptive capacity** and to the reality of local absorptive capacity development efforts. AfT conditionalities should be tied to a permanent development of human capacity.

These are essential if a country like Malawi is to develop the productive capacity and the enabling environment required to translate its comparative advantages into competitive advantages and to significantly increase the contribution of trade to economic development and poverty alleviation.

Three conceptual recommendations that emerge from this analysis and that are essential to take on board in driving AfT forward are:

1. When considering the effectiveness of AfT, the primary measure should be its ability to develop the local country's capacity to build the human capacity that will allow the private sector, government and civil society to meet their development responsibilities. This is a necessary precursor to developing a country's ability to trade;

2. It is essential for AfT efforts not to confuse absorptive capacity with local capacity. What matters is the ability for local stakeholders to meet their development and trade roles, and not their ability to absorb AfT;

3. An emphasis of the literature in AfT is that it should be non-debt creating. But 'real' non-debt creation is essential, not merely the provision of AfT in grant form. For AfT to be truly non-debt creating, it must facilitate the development of local human capacity. This human capacity is required to support an institutional framework and productive capacity that can then ensure that improvements to standards of living arise from the permanent generation of local resources, and not through aid dependence or through the unsustainable build-up of international debt.

ENDNOTES

1 Health is also a key contributor to human capacity, but the key emphasis going forward relative to Malawi's current capacity and recent development efforts needs to be on education.

2 Adhikari (2011).

3 This report applied a draft ICTSD/SAWTEE methodology. The methodology has been revised on the basis of the finding of the Malawi study and the other country studies conducted by ICTSD.

4 This definition entails a different classification of AfT relative to the standard sectors provided on the OECD website (see OCED, 2011). A number of sectors that are excluded from the OECD classification of AfT are captured in the definition used in this report.

5 For certain aspects of the methodology, such as additionality, allocation of pre-2007 disbursements by year is made in a linear fashion based on the effective start and end of project dates. These are provided in the database. This allows for an indication of AfT in years prior to 2007, as opposed to actual figures.

6 These aspects are presented in Section 3 below.

7 The OECD validates all donor information, particularly whether lending is concessional or not. Sometimes donors consider lending to be concessional but it turns out not to be, and therefore would not be aid.

8 For a detailed discussion of these variations, please refer to Petras (2009).

9 For further reading on this subject, refer to OECD, "Calculation of the Grant Element".

10 This is according to estimates made for the CIA World Fact Book. The Malawi National Statistics Office estimated the population to be 13.1 million in 2008.

11 Human Development Index, UN (2010). However, such measures cannot fully account for hidden economic activity, such as subsistence smallholders growing and consuming their own produce.

12 Human Development Index, UN (2010). Data is in purchasing power parity at 2008 USD prices.

13 Data from the International Trade Centre. The data for imports in 2010 is an estimate based on 2010 import data from five out of Malawi's six largest import partners.

14 This is based on data from www.trademap.org.

15 Ibid.

16 Limão and Venables (2001).

17 The allocation of AfT by government sector is provided in Figure 6 below. This is presented under the section on alignment to inform the discussion as to whether AfT in Malawi is aligned to local priority areas.

18 There is also the view among stakeholders that the recent global recession has contributed to making AfT more unpredictable.

19 It could be argued that the Education Sector Wide Approach should not be a part of AfT. However we believe that it is essential to include it as part of the wider institutional framework that is required to allow Malawi to export. Malawi's greatest constraint to trade is the limited access to skills by the private sector, government and civil society.

20 The OECD dataset does not capture Chinese or Indian aid because of a lack of willingness to report. The OECD's access to AfT data from such countries is normally through the AfT questionnaire. South-South donors tend to use different definitions of AfT; India does not consider infrastructure to be AfT. The OECD has no ability to assess whether Chinese or Indian lending is concessional or otherwise. For example, it is difficult to ascertain whether lines of credit are ODA.

21 Most projects indicate that there was no PIU. In practice this means that a parallel PIU was used in which South-South donors manage their projects themselves, particularly in infrastructure.

22 As suggested by ICTSD (2010).

23 This is based on UNDP's definition of AFT, which has not been reconciled with the definition used in this report.

24 JITAP (2007).

25 Over 500 cotton farmers have received technical training on production, field maintenance and fertilizer application for cotton growers.

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ANNEX A: DATA AND INFORMATION SOURCES

Table 12: Application of Adhikari methodology to Malawi – datasets used

Aspect	Component	Quantitative	Qualitative
Additionality	Whether or not the AFT received by the country is higher in 2006-2009, as compared to the base period (2002-2005), and there is no reduction in other types of aid.	OECD and Government of Malawi Project Database	None
	Whether or not additionality is in line with the commitment of the government to promote trade.	Government of Malawi: Public Sector Investment Programme	None
Predictability	Extent to which, in the spirit of Paris Declaration, donors provide reliable, indicative commitments of aid over a multi-year framework, and disburse aid in a timely and predictable fashion according to agreed schedules (OECD 2008).	OECD and Government of Malawi Project Database	Interviews with donors, government and non-state actors
Sustainability	To what extent sustainability criteria has been built into the project.	Government of Malawi: Project Database and Malawi Public SectorInvestment Programme	Interviews with donors, government and non-state actors
	To what extent domestic capacity has been built to sustain the positive contribution of the project even after donor cease to support the AFT programme/project	None	Interviews with donors, government and non-state actors
Ownership	Trade mainstreaming in national development strategies	None	Interviews with donors, government and non-state actors
	Relevance of programme/ project to domestic trade and development priorities	None	Interviews with donors, government and non-state actors
	Involvement of stakeholders in the process of formulation of trade policies	None	Interviews with donors, government and non-state actors
Alignment	Use of country systems	Government of Malawi Project Database	Interviews with donors, government and non-state actors
	Avoiding parallel implementation structure	Government of Malawi Project Database	Interviews with donors, government and non-state actors

Table 12: Application of Adhikari methodology to Malawi – datasets used

Aspect	Component	Quantitative	Qualitative
Donor coordination	To what extent donors coordinate their efforts to avoid duplication and create synergy from the AFT funding.	None	Interviews with donors, government and non-state actors
Impact	Controlling for other things such as political climate, variation in international market dynamics, and taking into account the time lag, what has been the impact of the project/programme on export growth?	Comtrade Trade Map, IMF World Economic Outlook and Article 4 Consultation	Interviews with donors, government and non-state actors
Coherence	To what extent AFT financing (particularly from Development Assistant Committee members) have maintained coherence with: Climate-related financing; and South South Flow of AFT	Government of Malawi Project Database	Interviews with donors, government and non-state actors
Non-debt creating aid	To what extent is aid delivered in non-loan form	Government of Malawi Project Database	Interviews with donors, government and non-state actors
Demand-supply gap	The gap between AFT resources demanded by the partner countries and resources actually delivered by the donors	None	Interviews with donors, government and non-state actors
Absorptive capacity	To what extent partner country has been able to utilize the AFT resources during the period in which it was intended to be utilized.	None	Interviews with donors, government and non-state actors

Malawian stakeholders interviewed or liaised with:

Government

- Ministry of Industry and Trade
- Ministry of Agriculture and Food Security
- Ministry of Finance
- Ministry of Lands and Natural Resources (Department of Environmental Affairs)
- Ministry of Transport, Public Works and Investment

Donors

- European Union
- United Nations Development Programme
- UK Department for International Development
- US Agency for International Development

Private Sector and NGOs

- National Association of Smallholder Farmers of Malawi
- National Working Group on Trade Policy (secretariat)

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