

# BTI 2008 | Malawi Country Report

<b>Status Index</b>	1-10	<b>5.35</b>	# 74 of 125	
Democracy	1-10	<b>6.60</b>	# 51 of 125	➔
Market Economy	1-10	<b>4.11</b>	# 99 of 125	↗
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	12.9	HDI	0.40	GDP p.c.	\$	593
Pop. growth <sup>1</sup>	% p.a.	2.2	HDI rank of 177	166	Gini Index		39.0
Life expectancy	years	41	UN Education Index	0.64	Poverty <sup>3</sup>	%	62.9
Urban population	%	17.2	Gender equality <sup>2</sup>	-	Aid per capita	\$	44.6

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The positive developments characterizing Malawi's immediate post-transformation period have proved unsustainable as the country has suffered some setbacks in recent years, particularly in terms of democratization. Nonetheless, Malawi has no major problem with stateness, as the state's monopoly on the use of force is in place and citizenship is not a political issue. There have been regularly held democratic general elections since 1994. Generally free, observers have, however, expressed reservations about their fairness, as the irregularities marring the most recent elections demonstrate. Access to the media is not equal and there is a remarkable decline in voter participation. The government also lacks a majority in parliament, and the president is kept busy fending off impeachment proceedings initiated by the opposition. The separation of powers is in place, although the executive branch is clearly dominant. The judiciary operates relatively independently, although its meager resources are overextended. While the government has attempted to fight the abuse of office and corruption during the period under review, results of these policies have yet to materialize. The country's democratic institutions operate fundamentally in accordance with the constitution. However, a lack of efficiency results in losses due to friction. The political party system is highly fragmented as any and all parties can form coalitions. According to the Afrobarometer, the majority of the citizens support democracy.

Malawi is one of the world's least developed countries. The country is dependent upon external development aid and cannot fight poverty on its own. Its level of development is very low, the market and competition are restricted, and stability of prices and the local currency is insufficient. The output performance of the national economy is erratic. The previous government's major problems with fiscal discipline caused the IMF, along with some other donors, to suspend the disbursement of funds. Since the new government took over, budget discipline has improved. The privatization program

was interrupted for a short time in 2001, most likely because of its negative effect on rent-seeking and patronage opportunities. There is no efficient social safety net to compensate for poverty or any other social risks. A rudimentary social safety net is provided for only a small number of people employed in the formal sector of the economy.

The country's strategic reform priorities – which once seemed clear – were abandoned almost completely by the last government, though this situation clearly improved with the new government during the time under review. There is a basic consensus around market economy and democracy. However, the consensus appears not to be very deeply rooted. As soon as private interests and gains are affected, the principle consensus becomes questionable. At the end of the review period, it was evident that the country's overall socioeconomic development has improved slightly after a longer period of decline. Per capita income increased, albeit only moderately. Development is still marked by a high degree of macroeconomic instability, as indicated by highly variable growth rates. International political and financial pressure has prevented the country from entering deeper turmoil and becoming more authoritarian. There is no doubt that this pressure must be continued. The international promotion of reform concerns both the political and the economic agenda.

## History and Characteristics of Transformation

Economic transformation preceded the democratic reform process in Malawi. In both transformation processes, external donor conditionality played a crucial role. After decolonization in 1964, the independent government under Hastings Kamuzu Banda followed a pro-Western foreign policy and a market-based development policy. Despite poor socioeconomic conditions (dominance of the agrarian sector, poor infrastructure), GDP per capita growth was at 5.5% from 1965 to 1979. At the end of the 1970s, due to the second oil price shock and declining terms of trade, Malawi experienced a deep economic crisis. Since then, Malawi's economic policy has been based on IMF and World Bank concepts of reform. After fickle development during the 1980s, the economic crisis returned in 1990, which contributed to the political transition to democracy.

Banda had established, even by African standards, a very repressive one-party rule based on the Malawi Congress Party (MCP). He used his private economic wealth as well as state resources in a neo-patrimonial way to bolster his absolute power. His secret service and the MCP youth militia prosecuted any political opposition that could not be domesticated by patronage and co-optation. Under these circumstances, a civil society could not emerge, as political opposition was not able to articulate itself in public because of state repression. Hence, it was less the activities of an emerging civil

society than the pressure of international donors that forced Banda to agree on a referendum to change the political system. During the transition, the military remained neutral, disarming the threatening MCP youth militia by force.

Contrary to Banda's expectations, the majority of citizens voted for change in 1993. One year later, the country's first multiparty elections resulted in a change of government. Bakili Muluzi of the United Democratic Front (UDF) ousted Banda from the presidency. However, none of the three regionally-based parties which gained seats in parliament – MCP, UDF, and Alliance for the Restoration of Democracy (AFORD) – won a parliamentary majority. Opposition boycotts of the assembly and switching of alliances became common. While the first elections were evaluated in very positive terms, the second elections in 1999 were poorly organized, although international observers deemed the elections "free and fair." Muluzi won a second term by only a small margin against a candidate fielded jointly by the MCP and AFORD alliance. The parliamentary election results corroborated the three-party system, but the president's party failed to win an absolute majority. As a result, the UDF had to look to independent ministers to build a parliamentary majority, as the total number of alliance members amounted to a plurality of parliament members. Following the elections, there was a general sense of discontent and outrage. In the country's northern region, supporters of AFORD expressed their anger by attacking and burning some mosques, which can be seen as symbolizing the Muslim minority to which Muluzi belongs. Popular unrest also indicated a change that had started before the elections. The reluctance to implement a number of once-promised democratic reforms, intimidation of opposition politicians, civil society activists and a critical press, as well as an increase in corruption among high-ranking elected officials, pointed to deterioration in transformation. The post-electoral violence, however, was soon brought under control and the new government was formed while the elections case was still in court.

The subsequent years – starting in 2000 – saw many challenges to constitutional governance and democracy as the government initiated a number of controversial amendments to the constitution which included repealing sections governing the Senate and NGOs. Parliament refused to grant President Muluzi permission to change the constitution in order to allow himself a third term. The controversy about Muluzi's "open" and (later termed "third term") bid for the presidency, as well as the controversial elections held thereafter in May 2004, proved to be an explosive issue. It left a highly fragmented party system with nine parties in parliament and a diminished ruling party that came in second behind the former state party, the MCP, which itself was split into two major factions. While there were several contenders for the presidency from the UDF, Muluzi handpicked Bingu Wa Mutharika as his successor. The UDF convention merely rubber stamped this decision. This caused frustration and dejection in the party rank and file, and many senior UDF officials left UDF to join other parties or form their own parties. The period prior to the 2004 elections witnessed the fragmentation of two other major parties, the MCP and AFROD, largely on the

basis of the stand they took on the third term issue. As a result, the party system became highly fragmented. In addition, as many as 371 candidates ran for office as independents. The 2004 parliamentary elections brought in nine parties and forty independents. The presidential votes were divided between the five contenders, while Mutharika won with only 35.2% of the votes cast.

Mutharika started his presidency by declaring a policy of “zero tolerance for corruption,” in the context of strict economic recovery measures coupled with intensive investigations of politicians and public officers of all ranks, who were suspected of corruption, theft, mismanagement and abuse of power. Within eight months, three former ministers and five senior UDF party officials were arrested on corruption charges. There were indications that this process would continue and that many more officials would be prosecuted for corruption. This caused tension between the UDF and Mutharika in general and between Muluzi and Mutharika in particular.

In early 2005, Mutharika resigned from the UDF, taking with him a number of UDF executive members. Following his resignation, he formed a new party, the Democratic People’s Party (DPP). Erstwhile UDF stalwarts Salim Bagus, Uladi Mussa and Paul Maulidi promptly proceeded to convert the structures of UDF into DPP. The caliber of the new DPP recruits indicated a desire to seek amnesty for past misdemeanors, while Mutharika showed readiness to gain support for his party at any cost.

However, Mutharika was faced with two problems. He had no majority in parliament, and so was forced to rely on opposition votes in parliament. The president twice encountered difficulties in getting parliament to approve his budget. At the same time, while the Malawian Constitution forbids members of parliament from floor crossing or running in by-elections, according to section 65, Mutharika had managed to lure about 70 members of parliament from the opposition parties to his side. The application of section 65 has been contentious for some time and has been upheld by the High Court. Now it awaits a Supreme Court ruling, which will decide the fate of these members of parliament and the strength of the Mutharika government. Hence, many of the members of parliament currently in the president’s party might switch back to their old party or face by-elections.

## Transformation Status

### I. Democracy

The political order achieved in Malawi after transformation has regressed in recent years, and as a result democratic standards are in decline. There are weaknesses regarding rule of law and social political integration, particularly regarding good and effective governance. Adequate standards of stateness still exist when compared to other African states, despite the decline in institutional stability. The latter is due to a large degree to the controversy surrounding the “third term,” which destabilized political parties as well as the whole party system, and might even affect future elections and the presidency.

#### 1 | Stateness

There are no major issues regarding stateness in Malawi. The monopoly on the use of force is for the most part institutionalized and rarely challenged, despite sporadic violent outbreaks resulting from criminality and overuse of violence by police officers.

Monopoly on the use of force

All citizens have the same constitutional civil rights and there is no serious challenge to Malawi’s constitution, despite some religious tensions between Christian and Muslim groups. Ethnic identity trumps regional politics.

State identity

There is separation of church and state. Problems have occurred, however, when political frustration turns violent, and this violence was expressed in outbursts and attacks on mosques and Muslims, and in retaliation, Christian churches became the target of militant Muslims. It is worth mentioning that the elites of both major religions are very careful not to escalate any clash between radicals on both sides, trying rather to seek out a peaceful solution to any conflict as soon as possible. It is also important to mention the leading role of Christian churches and their organizations in the anti-third term campaign and in other political and social issues of national politics. An example of this can be seen in the fact that church leaders mediated the formation of the opposition coalition, Mgwirizano.

No interference of religious dogmas

The administrative structure of the state extends across the entire country. However, its effectiveness is to some extent lacking. This is due partly to scarce resources, poor training and partially as a result of private “political”

Basic administration

interventions, such as the neo-patrimonial pattern of the bureaucracy. Public order and security is only partly ensured. Especially the local government structures are in a desolate state, and local government elections are not held on schedule.

## 2 | Political Participation

Democratic general elections have been held regularly since 1994. The last election, the third since the transition, was held in May 2004. The elections are open, but there are doubts about their fairness and how consistently they are conducted. Problems have occurred with the electoral rolls as well; these problems can be blamed in part on bureaucratic inefficiencies. These inefficiencies are sometimes maintained in order to create opportunities for corruption. The opposition, however, does try to challenge the electoral results through legal means. The same problems occurred during the 1999 elections. There was a decrease in voter participation from 94% to 54% in the 2004 elections, and this decline is attributed to the poor management of the 2004 elections, visible in the questionable voter rolls and shifting dates given by the Malawi Electoral Commission, which has now lost almost all national and international credibility.

Free and fair  
elections

The elected leaders can govern effectively, and they are only obstructed by an inefficient and neo-patrimonial administration. The military does not have a strong presence in government. Civic organizations can organize freely, but are very weak and lack coordination in comparison to other African countries. In principle, political parties are allowed to register and organize freely. In practice, however, they suffer from structural and ideological weaknesses, a lack of internal democracy and a crisis of leadership. The party primary elections – meant to serve as the vehicle for nominating candidates for parliamentary elections – are often chaotic and violent. Opposition parties are at times forbidden to hold public rallies when the ruling party decides to hold a rally in the same place. The youth organization of the UDF (Young Democrats) has been known to disrupt rallies of other parties by force.

Effective power  
to govern

Freedom of association is generally respected. Civil society organizations and political parties are required to register with the registrar general in the Ministry of Justice. However, as indicated above, in a few instances police have interfered with opposition party political functions and resorted to violence to disperse public assemblies. Apart from some church-based organizations, civil society organizations (interest groups) tend to be weak, with little connection to the grassroots.

Association /  
assembly rights

Freedom of opinion is guaranteed in principle, but dissenting journalists remain intimidated by the violent tendencies of party functionaries, as well as by real

Freedom of  
expression

threats by government officials and short-term detentions. This applies to critical and outspoken academics as well. In May 2006, before and during the visit of President Robert Mugabe of Zimbabwe, the government restricted the freedom of press; journalists were barred from reporting on the visit or were punished with demotion or threats of dismissal for asking “sensitive” questions. During Muluzi’s last term, there was an increase in low-level repression against newspaper editors. The government controls the country’s major broadcasting station, Malawi Broadcasting Corporation (MBC), which is the only radio station available for news in rural regions. A number of private radio stations are licensed, but it is illegal for them to broadcast political content. The press enjoys only a limited circulation and the quality is generally regarded as poor. The country’s major daily papers are owned or co-owned by opposition politicians. Taken together, these factors create an atmosphere of uncertainty and fear, which is not conducive to democratic participation. This atmosphere of fear and anxiety lingering below the surface of public political discourse is a legacy of the Banda regime, and has become a central feature of the political culture of the country, to a larger extent than other African countries which are formally more authoritarian.

### 3 | Rule of Law

The separation of powers between the executive branch and the legislative branch is constitutionally in place; however the executive branch is far more powerful. The independence of the parliament was demonstrated when the members of parliament refused to grant the president permission to make a change in the constitution that would allow a third term.

Separation of powers

The judiciary operates relatively independently, and does make rulings that do not concur with the interests of the government. Its meager resources are overstretched by a high workload. The government occasionally ignores High Court rulings (such as the deportation of alleged al-Qaeda suspects), and courts are under constant pressure from legislators and the executive.

Independent judiciary

Despite pressure from international donors and the IMF, the government refused to improve the Corrupt Practices Act of 2003 and to strengthen the powers and independence of the ineffective Anti-Corruption Bureau (ACB). The government’s lax attitude toward corruption has led to a suspension in lending by the IMF, which in turn reflects the IMF’s increasing concern with corruption and fiscal management under its Poverty Reduction and Growth Facility (PRGF). Under the new Mutharika government, the ACB has become more effective in its fight against political corruption. Since then, more than ten prominent figures of the former government have been charged with corruption. Even Muluzi has faced charges of corruption, though they were dropped quickly. The outcomes of

Prosecution of office abuse



cases which affect politicians are unclear; however, a former principal secretary and a few senior civil servants have already been given jail sentences. Whether this policy represents a serious attempt to fight corruption or a ploy to weaken the opposition remains a matter of contention. The fact that no concrete strategies against corruption are visible would seem to indicate that the latter is the case.

Basic civil rights are still being violated, and because of the deficiencies of the judiciary, it is difficult to get these violations effectively dealt with in court.

Civil rights

#### 4 | Stability of Democratic Institutions

Democratic institutions operate in accordance with the constitution. However, there are tensions due to constant shifts in parliament, a lack of efficiency in the judiciary and the administration more generally. The over 100 constitutional amendments passed since 1994 might indicate a state of uncertainty regarding the interpretation of the constitution, although the majority of these changes may be viewed as merely “technical.” Instability in parliament, which has been turned into an unruly forum, ill-orchestrated attempts to impeach the president, the obscure sacking of the vice-president on charges of corruption and treason that were later dropped, and the dismissal of numerous high ranking civil servants such as the attorney-general and the director of public prosecution, have certainly not contributed to increase public trust in these institutions. Additionally, parliament has rejected numerous presidential nominations to high-ranking government and civil service positions. One example of President Mutharika’s typical dealings with constitutional institutions can be seen in the formation of his own party, the DPP, which included some of his cabinet members from the UDF, with the exception of Vice President Cassim Chilumpha, who remained in the UDF. Chilumpha was sidelined, ignored and ridiculed in the cabinet meetings, which he subsequently stopped attending. On the advice of the attorney general, the president demanded Chilumpha’s resignation on the grounds that he had effectively resigned from the government. This move failed, as it had no legal backing, given that the vice president is directly elected along with the president by the people and therefore has a public mandate and cannot be removed by the president.

Performance of  
democratic  
institutions

In principle, all relevant political actors accept democracy. There are no anti-democratic veto powers. In practice, however, some of the political actors in government do not accept the independent status of the judiciary or the legislature. The unrestrained adherence to democratic principles on all sides cannot be assured in view of the fact that the indirect call to burn mosques came from leaders of the former AFORD, which was in government until the middle of 2004; or, by the same token, the armed UDF delegation of Muluzi supporters that wanted “discussions” with the president in January 2005. There seems to be a

Commitment to  
democratic  
institutions

latent willingness of the main political actors to use some form of political violence, particularly intimidation.

## 5 | Political and Social Integration

Until the third term issue became extremely controversial, a solid three-party system seemed to be in place, largely based on the three administrative regions each with their regional identity. There was no major difference between the three parties. The temporary polarization of the party system, which resulted from transitional conflicts, has clearly lost its relevance in recent years; however, these conflicts were typically attitudinal rather than ideological in nature. In 2004, the system broke down into a highly-fragmented party system, with nine parties in parliament and a high number of independent parliamentarians (40) in 2006. This fragmentation affected not only the ruling party but also the opposition parties. The driving force behind this fragmentation was the strong personalization of party politics, the greed for political office, and the promise of private wealth that accompanies a political career. All parties could form a coalition; almost all have in some way or another formed a coalition or collaborated with another party, at least temporarily. Most recently, the political party system was thrown into turmoil when opposition parties formed a majority, placing the president and his party in the position of running a minority government. Most politicians appear unprincipled and opportunistic, which in turn inspires little support or trust in party politics.

Party system

The number of all different types of civic associations, including interest groups, is very small. Trade unions are weak. Among interest groups, the Christian churches and associated organizations are predominant, all the more so due to the recent campaign against the “third term.” These organizations play an important watch-dog role, though they occasionally come out in support of the government, such as when they criticized opposition parties for blocking the budget (on which the desperately needed inflow of foreign aid hinged), or trying to impeach the president while the population was threatened by a food crisis.

Interest groups

According to the Afrobarometer, the majority of citizens (66% in 2002) are in agreement with democratic principles and support democracy, while 65% say the current regime is “better” or “much better” than the previous one. It must be noted that the figure is an average based on a number of responses that include social as well as political issues; political issues, however, receive much higher scores than social issues. Sixty-two percent of those surveyed considered themselves to live in a democracy (full democracy or with minor flaws), and 57% are satisfied with democracy. Political protests do not call the government or its constitution into question.

Consent to democratic norms

The topography of civic organizations is very shallow, even compared to other African countries. Civic associations are concentrated in the few urban centers, where they serve a crucial monitoring function, though their activities depend to a large degree on foreign funding. Due to organizational weakness, social self-help organizations are unable to create strong social capital.

Associational  
activities

## II. Market Economy

Malawi belongs to the group of Least Developed Countries (LDCs). The country is highly dependent on external development aid, as evidenced by the fact that international donors financed about 44% of the government budget in 2005. The level of development is very low, markets and competition are restricted, and the stability of prices and the local currency is insufficient. The output performance of the national economy is erratic, but over the last two years, moderate growth in constant factor costs was achieved. A major lack of fiscal discipline in government expenditures led the IMF and some donors to suspend the disbursement of funds, while humanitarian projects were still maintained. There are positive developments, however, in the health and education sector.

### 6 | Level of Socioeconomic Development

Crucial development indicators show an extremely low level of development. In the 2004 U.N. HDI, Malawi was ranked 166th out of 177 countries. Social exclusions are quantitatively and qualitatively extensive and structurally deep-rooted. With 65.3% of all Malawians living below the national poverty line, the proportion of the population living in absolute poverty has increased during the period under observation. Malawi ranks 127th out of 144 in the GDI, and the relative deprivation of women implies that not even minimum security for the freedom of choice is guaranteed in practice, though there is a constitutional guarantee in place. According to HDI statistics, the gap in the distribution of income has increased since the late 1990s. A small improvement took place among the indicators for education and health.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	1,935	1,764	1,903	<b>2,072</b>
Growth of GDP	%	2.9	6.1	7.1	<b>2.6</b>
Inflation (CPI)	%	14.7	9.6	11.4	<b>15.4</b>

		2002	2003	2004	2005
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.3	0.2	0.0	<b>0.1</b>
Export growth	%	1.5	-3.8	-3	<b>20.2</b>
Import growth	%	28.9	-11.2	-0.7	<b>11</b>
Current account balance	\$ mn.	-200.7	-	-	-
Public debt	\$ mn.	2,670.6	2,935.0	3,295.8	<b>3,039.9</b>
External debt	\$ mn.	2,887.4	3,098.9	3,416.6	<b>3,154.8</b>
External debt service	% of GNI	1.9	2.4	3.2	<b>4.7</b>
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	14.7	16.3	16.9	<b>16.7</b>
Public expnd. on edu.	% of GDP	-	5.8	-	-
Public expnd. on health	% of GDP	7.3	9.5	9.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.8	0.7	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

Market competition is limited and operates under a weak institutional framework. The size of the informal sector is significant, though difficult to quantify. It is estimated that about 85% of the population operates in subsistence agriculture. Government intervention is high, as suggested by the fact that government spending accounted for some 40% of total GDP in 2004, while government consumption accounted for 16.9% of GDP in the same year. Government parastatals employ 500,000 people. Ownership in the small industrial sector is highly concentrated and controlled by the Press Corporation, a legacy of the Banda era and formerly part of his private fortune. After nationalization, the corporation is controlled by a publicly-registered trust and through that by the state. It also operates a number of joint ventures with foreign investors, and its revenues account for about 10% of GDP. Multinationals such as ILLOVO and Universal Tobacco also hold dominant monopolistic positions in the economy.

Market-based  
competition

The fight against monopolies is not a government priority. The weighted average tariff rate was at 10.2% in 2001, which suggests a high level of protectionism. Import and export licensing is considered fairly liberal with restrictions largely based on health, safety and national security reasons. The fact that imports are liberalized, while exports are not, creates an anomaly in this equation. Export controls on maize exist because of frequent droughts, which have caused several food crises in recent years. However, the formal liberal arrangements are distorted by burdensome regulations, non-transparent customs processes and corruption. Agricultural subsidies for fertilizer and seed, especially for the needy, are a contentious issue within Malawi as well as between the government and international aid community and international finance institutions which are not, in principle, opposed to selective subsidies for poor people.

Anti-monopoly  
policy

The Malawian economy undertook liberalization in the wake of the structural adjustment programs of the 1980s. Another milestone was the liberalization of the exchange rate in May 1999. No further substantial progress was made in the period under review, though the high degree of liberalization has been maintained.

Liberalization of  
foreign trade

The banking system is largely controlled by the government, although the number of foreign and privately-owned local banks increased during the period under review. In general, the banking system is still in its infancy. In 2006, there were ten commercial banks, and a few non-bank financial institutions. The biggest bank, the National Bank of Malawi, is partially state-owned and now listed on the stock exchange. A small presence of foreign banks is allowed. Two banks, National Bank and Commercial of Malawi, dominate the banking sector and control about 80% of the market. While the stock exchange lists only 10 companies, it should be noted that foreign investors are allowed to participate in this tiny stock market.

Banking system

## 8 | Currency and Price Stability

Controlling inflation and instituting an appropriate foreign exchange policy and prices is a recognized goal of government policy, under the direction of the IMF and the international donor community. However, policy implementation was inconsistent and showed slow progress in reducing the once-high inflation rate and a declining value of the kwacha against major foreign currencies, such as the U.S. dollar and the euro. Lack of fiscal discipline was only one factor that has contributed to the weak kwacha; others include increased oil prices and unbalanced, unfavorable international terms of trade for tobacco, which accounts for 60-70% of foreign exchange earnings.

Anti-inflation /  
forex policy

Malawi has significant problems with macroeconomic stability. Although there are regular agreements with the IMF regarding budget controls, fiscal indiscipline was frequent due to political interference. The IMF has withheld disbursement of funds several times during the period under review. Since the new government took office in 2004, the relationship with the IMF has clearly improved: the new Minister of Finance, Goodall Gondwe, worked with the World Bank before taking up his political career. In 2005, a three-year Poverty Reduction and Growth Facility (PRGF) came into operation and, according to the IMF, is firmly on track. As a result, in September 2006, the IMF judged Malawi to have reached its completion point under the HIPC initiative, which also entitles the country to debt relief under the Multilateral Debt Relief Initiative (MDRI). Budget discipline, inflation management and the exchange rate of the kwacha have all improved during the time under review, although inflation is still high at 15.4% in 2005 and 14.5% in 2006 and the kwacha is structurally vulnerable, since it is dependent on tobacco export prices and aid inflows.

Macrostability

## 9 | Private Property

Property rights are legally protected, though the country's weak judicial administration and occasional political interference means that it is often difficult to enforce the laws. A new land policy was adopted in 2002, which, among other things, plans to commercialize customary (rural) land by granting titles to occupiers and restricting land ownership to Malawians.

Property rights

A privatization program was started in 1994, with the aim of dismantling the high proportion of state ownership in the economy, a legacy of the Banda era. Since the start of the program, 42 parastatals have been privatized, 13 are currently undergoing privatization, and 15 more privatizations are planned. The privatization program was interrupted for several months in 2001, partly due to its negative effect on rent seeking and patronage opportunities, but also due to the controversial results of the program. The program was restarted later in 2001, but progress has been slow since then. The privatization program has generated much controversy and debate, due to public perceptions of opacity and "insider trading." It is commonly believed that "national assets" are being disposed of at give-away prices to private entrepreneurs (often foreign firms) because of the lack of local financial investment capacity. The loss of jobs was also a crucial issue in the debate.

Private  
enterprise

## 10 | Welfare Regime

There is no efficient social safety net to compensate for poverty or any other social risks. Only the tiny percentage of the population employed in the economic

Social safety nets

sector enjoys the benefits of a rudimentary social safety net set up by the state, which guards against issues associated with old age, illness, disability, and unemployment. The few rudimentary safety mechanisms that were available, which provided the rural population with some subsidized inputs, were dismantled due to privatization and commercialization of parastatals. The country cannot fight poverty on its own, and is dependent on international aid. There were a number of improvements in public spending on education and health, which started during the Banda era under pressure by the World Bank. The democratically elected government made the reduction of poverty a major goal, though with negligible results. A new attempt to combat poverty was initiated with the Poverty Reduction Strategy Paper (PRSP) in 2002, although this was regarded as deficient in terms of implementation for several years. While the new government seems to be more committed to the program than the previous one, a final judgment on the issue is not possible.

The society is highly segmented, and no institutions exist to compensate for gross social differences. NGOs can mitigate social differences to some extent, although their resources are too limited to cope with large-scale poverty. Women have only limited access to education and public office.

Equal opportunity

## 11 | Economic Performance

After the economy recovered from a sharp decline in 2001, recording substantial growth rates of more than 6% in 2003 and 2004, it dropped to an estimated 2% in 2005 due to a severe drought. Real growth is expected to recover to an estimated 7% in 2006. Income per capita is still very low, having measured \$646 in 2004 in terms of PPP, just above the 2000 level of \$615. The continuation of credit disbursement under PRGF by the IMF, debt relief and increased government investment, are all expected to improve economic performance. There is only limited price stability, and the current account balance is structurally negative. The country's economic potential is low, due primarily to the predominance of the agrarian sector, which is highly susceptible to changing weather conditions.

Output strength

## 12 | Sustainability

Ecological awareness is quite low, despite densely populated areas in which the sustainability of the agricultural environment is endangered. The few ecological development projects that do exist are operated and financed by foreign development organizations.

Environmental policy

The illiteracy rate is still very high at 36%, but some improvements were achieved during the last decade as a result of increased government spending on education, especially at the primary school level. Facilities for higher education, training, and research are available, but their capacity and quality is very low.

Education policy / R&D

## Transformation Management

### I. Level of Difficulty

There are a number of structural constraints that have made effective governance extremely difficult, since Malawi's location and geography both pose challenges to growth and development. Measuring 48,000 square miles, it is a relatively small, densely populated and landlocked country without mineral resources. Additional constraints include a very low level of socioeconomic development, a very low educational level (even in comparison to other African countries), a high degree of social inequality, an inefficient state administration prone to political interference due to its neo-patrimonial structure, weak market economy structures, a barely modern infrastructure, dependence on agriculture (which is highly susceptible to drought) and a high infection rate of HIV and AIDS.

Structural  
constraints

The weakness of civic associations is noteworthy, though this can be partly explained by the combination of structural constraints, an uninterrupted history of authoritarianism and a ruthless dictatorship until 1994 that served to inhibit the development of civil society traditions.

Civil society  
traditions

Ethnic, religious and social cleavages are present, and tensions linked to political issues occasionally arise between the two major religious groups, Christians and Muslims. Muslims were marginalized under Banda, an avid anglophile and an elder in the Church of Scotland. After democratization, the situation changed, since Muluzi, the country's first president, is a practicing Muslim. This created some tension with the Christian community which represents the majority of the population.

Conflict intensity



## II. Management Performance

### 14 | Steering Capability

At the beginning of the transformation, there was a clear and strategic determination to implement far-reaching reforms whose priorities, since then, have been almost completely lost – at least for the second term of the Muluzi government, which lasted until May 2004. To a large degree, the government was kept on the reform track (or what was left of it) by its dependency on foreign aid and the pressure of the international donor community. Since 2000, and even more so during 2003, the government was preoccupied with the “third term” issue and the requisite efforts to amend the constitution. Muluzi’s second term ended in disaster with the breakdown of the unity of the ruling party as well as that of the party system itself, which had seemed to some degree to be on a path toward consolidation, though this is highly debatable. Violence between members of various party factions, as well as between members of different parties, has intensified.

Prioritization

At the same time, the management of the economy was adversely affected. The government’s lack of fiscal discipline increased, most likely in parallel with the increasing necessity of funds to buy support for Muluzi’s third term and later in an attempt to win elections. Due to the poor performance of the government, the IMF and the donor community stopped the disbursement of PRGF funds for some time, but resumed the disbursement after the general elections in 2004, not so much due to improved performance, but rather to avert serious economic disaster. Because of this mismanagement, the Poverty Reduction Strategy could not be implemented, and the qualification for a substantial debt relief was postponed to 2006.

Implementation

The government in power since June 2004 has made significant and successful efforts to return to its original priorities, despite its lack of support in parliament. Fiscal management improved and the fight against corruption in the administration and government seems to have produced some positive results, although it is still questionable whether the anti-corruption policy is only driven by the desire to silence members of the former government, which are currently in opposition. Despite some shortcomings, the food crisis following the drought of 2005 was better managed than analogous events were handled by the previous government. The IMF and bilateral donors rewarded the government with a

Policy learning

three-year renewal of PRGF funds, beginning in June 2005. As a result of meeting all IMF targets, the country reached the completion point under the HIPC debt-relief initiative in September 2006.

## 15 | Resource Efficiency

Due to pressure put on the government by the IMF and international donors, government expenditure has been based on the medium-term expenditure framework (MTEF) since 1998 and gives each ministry a three-year allocation to be spent according to medium-term strategies. Ministers are responsible for spending and allocation in the intended areas, and all budgets have introduced expenditure controls (Public Finance & Administration Acts were passed in 2004). This, however, had no major effect on fiscal discipline. Expenditure regularly exceeded agreed-upon targets. The former government was not able to reconcile its interest in securing its re-election with the declared aim of macroeconomic stability and poverty reduction.

Efficient use of assets

Malawi still faces severe issues in implementing its reform programs. The main reasons for this include a lack of expertise, weak capacity, a lack of funds and ambivalence in terms of political will. The Poverty Reduction Strategy, agreed upon in 2003, only began to be implemented in 2006.

Policy coordination

Mutharika's new government started with a 12-month staff-monitoring program (SMP), which was implemented in concert with the IMF to improve the implementation of PRGF. In line with this policy, the government seems to have achieved some progress in fighting corruption. In addition to these measures, several prominent members of the former government, even the former president Muluzi himself, were temporarily arrested, taken to court and charged with corruption. A few senior civil service officials were even sentenced to jail. These events are not reflected in the Corruption Perception Index, which declined slightly between 2004 and 2006, from 2.8 to 2.7. These rankings might not have incorporated the more recent developments in 2006. At the same time, it might take into account the fact that Mutharika has had to fight for parliamentary support, which makes him prone to be more lenient with regard to the clientelist and patronage politics of his political allies and supporters. In fact, it is hardly possible to be conclusive about the development of corruption in countries in which access to political office is a major route to wealth.

Anti-corruption policy

## 16 | Consensus-Building

There is a basic consensus around adherence to the principles of democracy and market economy. However, the consensus appears to be superficial. As soon as private interests and gains come into play, the consensus is drawn into question.

Consensus on goals

Almost all major political actors, at least on the part of political parties, tend to forget about public interests and the principles of political and economic freedom as soon as their own personal interests come into play. This does not suggest a return to an authoritarian regime; indeed, recent events suggest that there is a definite trend toward reversal. If not challenged and checked by other forces, including above all the influence of the international donor community, a return to undemocratic and non-market behavior seems possible. In this respect, there is no difference between the political and economic elite of the country.

Anti-democratic veto actors

As observed in the conflict surrounding the third term, the former government performs its role in escalating conflicts. Now in opposition, the same group of politicians has placed the power-struggle for the reins of government as their major concern, by blocking budget approval in parliament for some time and starting impeachment proceedings against the president, all while vast parts of the population were facing a hunger crisis.

Cleavage / conflict management

The political leadership of the country is mainly concerned with power and personal enrichment, and does little to promote social capital or civic engagement and solidarity. The latter is supported to a large degree by non-political organizations such as religious institutions and civic associations linked to them. While lip service is paid to the crucial role of civil society activities, in reality these activities are viewed with amusement and are not taken seriously. In the case that a civic association is consulted, this is mostly due to pressure from international organizations or as required by the World Bank for the formulation of the Poverty Reduction Strategy Paper. Left to its own devices, the government frequently ignores civil society actors.

Civil society participation

The government recognized the necessity of dealing with the victims of the Banda regime, but the reconciliation effort is regarded as a failure. Only 600 out of an estimated 22,500 eligible applications for compensation by victims of the Banda dictatorship have been finalized. While 7,000 had received an advance payment, as of 2003, the available funds will not be sufficient to compensate all applicants. As a result, the national compensation tribunal was discontinued in 2004, meaning that the lion's share of compensation went to political heavyweights.

Reconciliation

## 17 | International Cooperation

The government works closely with bi- and multilateral donors in support of democratic institutions and a free market economy. It tries to make use of international development assistance, but if this assistance conflicts with the prescribed policies, the government leadership has been known to accept an occasional punitive suspension of aid. However, because of the dependency on

Effective use of support

international assistance (per capita ODA in 2004 amounted to \$127), the government has little alternative other than to comply with international donor pressure.

The international donor community was very skeptical of the Muluzi government, which was no longer regarded as a reliable partner. The Mutharika government has successfully regained some of the trust of international donors which Malawi had received during the first years after the transformation. The international community has partly become a political ally of the president vis-à-vis a strong opposition in parliament.

Credibility

Regarding international collaboration, the government has tried to rebuild international relations after the period of isolation during the Banda era. The former president acted as a co-mediator in several conflicts on the continent (such as in Sudan and Zimbabwe), and the country deployed a small consignment of soldiers to the Republic of Congo as part of the African Union peacekeeping initiative. Muluzi also drew Malawi closer to the Islamic states.

Regional cooperation

## Strategic Outlook

Reform-minded political forces have lost influence in Malawi. Because the party system has fallen apart and is highly fragmented (due to personality-driven parties, lack of intra-party democracy, and lack of adherence to party constitutions), a new reform drive cannot be expected to come from the country's political parties. Their leaders are mainly concerned with power struggles in order to gain a cabinet post, access to personal wealth and patronage, or to hold their parties together while they are in opposition. None of the political parties has a clear vision for the future. Civil society is structurally too weak to substitute in any way for political parties' deficiencies.

The country's situation continues to be one of unprecedented difficulty. The elected president has no reliable support in parliament, and his support base outside parliament is very weak. His newly-founded party has no substantial structure as yet, although the president himself enjoys some popularity. Even the small power base the president has in parliament is threatened because most of the members of parliament who joined his party might be forced to give up their seats and stand for re-election, in accordance with a constitutional provision. It is unclear whether these members of parliament will try to win these by-elections or return to their former party. All this may well amount to a severe constitutional crisis.

Increasing Mutharika's power base within and outside parliament and building his own party will be, most likely, costly for public finances (due to the continued usage of state resources for political party purposes). The major actors to be included in the new political party or party coalition need to be rewarded, meaning that they expect to be given the opportunity to enrich themselves and get access to patronage. This, of course, will be hard to reconcile with Mutharika's declared policy of fighting corruption, which in turn is strongly demanded by international donors. International support hinges on good governance and positive performance. From this point of view, future prospects appear gloomy. Most likely, the regime will continue with its hybrid character, observing some formal democratic rules but violating others from time to time without changing the system as a whole in either a democratic or an authoritarian direction. Finally, the weak presidency and the absence of a clear-cut majority in parliament could open up opportunities for political unrest.

The prospects for socioeconomic development have improved slightly. However, the high growth rate of about 7%, estimated for 2006, is not sustainable, and the forecasted growth for the following two years is around 3%.

This is clearly insufficient to reduce the level of poverty to any degree, since a growth rate of at least 6% would be required to achieve a reduction in poverty, according to the World Bank. The economic welfare of the majority of the population is dependent on agriculture, which is highly volatile due to changing weather conditions year to year.

As in the past, it is international political and financial pressure that has, most likely, prevented the government from turning fully authoritarian. No doubt this pressure has to be continued. The international promotion of reform affects and envelops both the political and economic agendas. Most importantly, the basics need to be supported: a public sphere without repression, a more active civil society, government accountability, and efficient and effective governance and administration. Altogether, these features pave the way for a more effective fight against increasing poverty. This implies that the task is still the same, but more attention should be given to political issues.