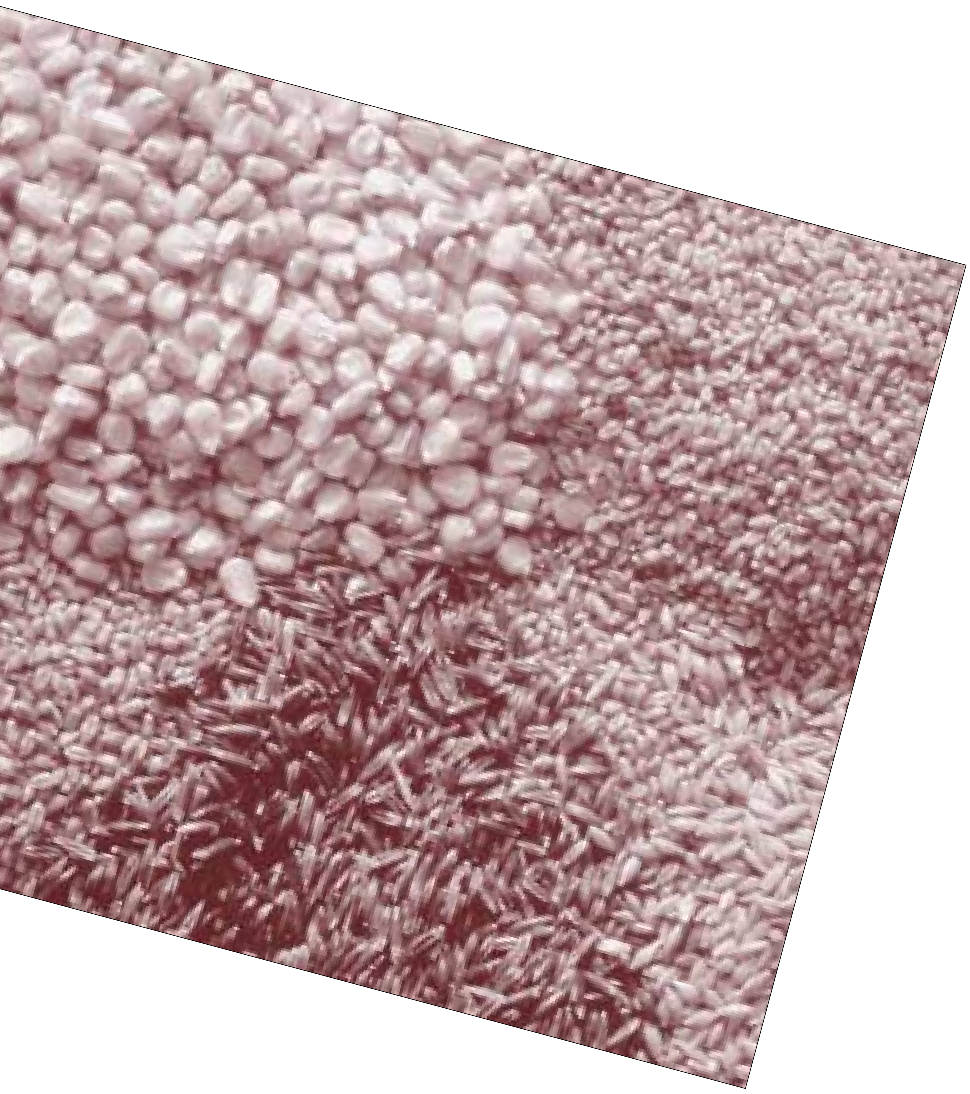
October 2002

Structural damage

The causes and consequences of Malawi's food crisis



WORLD DEVELOPMENT MOVEMENT

By Kwesi Owusu and Francis Ng'ambi
October 2002

This report is part of the World Development Movement's (WDM) ongoing campaign, started in 1985, to end the vicious cycle of debt and poverty, and stop the damaging economic conditions imposed by donors, particularly through the International Monetary Fund and World Bank.

It was written for WDM by Kwesi Owusu, Director of Southern Links, and Francis Ng'ambi, Chair of the Malawi Economic Justice Network.

The authors would like to express their deepest appreciation to all who shared their valuable time with us in Malawi: Ben Batolo, Assistant Chief Economist, Ministry of Finance; Ian Kumwenda, National Coordinator, Malawi Agricultural Sector Investment Programme; Sakou Jobe, Country Director, ActionAid, Trudi Crabbe, DFID, Paul Kwengwere, Development Manager, ActionAid; Anne Conroy, Vice President of Malawi's office; Chatinkha Nkhoma, Director, Global AIDS Alliance, Malawi; Collins Magalasi, Coordinator, Malawi Economic Justice Network; Victor Mhone, CISANET; Rodwell Mzoma, Ministry of Finance; George Zimalirana, Director, Monitoring & Evaluation Division, Ministry of Finance; Stan Nkhata, Principal Debt and Aid Officer, the Salima community; and all present at the World Bank-NGO consultative meeting, including Dunstun Wai, Malawi Country Director, World Bank.

The views expressed in this report are however entirely the authors. We sincerely hope the report will contribute to the understanding of the food crisis and more critically, to the search for lasting solutions to Malawi's economic challenges.

Edited by Mark Ellis-Jones
Sub-edited by Tim Jones and Claire Milne

WDM campaigns to tackle the root causes of poverty. With our partners around the world, we win positive change for the world's poorest people. We believe that charity is not enough. We lobby governments and companies to change the policies that keep people poor.

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"The state shall take all necessary measures for the realisation of the right to development. Such measures shall include, amongst other things, equality of opportunity for all in their access to basic resources, education, health services, food, shelter, employment and infrastructure."

Source: The Constitution of the Republic of Malawi.

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Abbreviations and acronyms

ADMARC – Agricultural Development and Marketing Corporation
AIDS- Acquired Immune Deficiency Syndrome
CISANET – Civil Society Agricultural Network
DFID – Department for International Development
FEWSNET – Famine Early Warning System Network
IMF – International Monetary Fund
IDA – International Development Association (part of the World Bank)
IFI – International Financial Institution
GDP – Gross Domestic Product
HIPC – Highly Indebted Poor Country
MT – Metric Tonnes
MRFC – Malawi Rural Finance Corporation
MPRS – Malawi Poverty Reduction Strategy
NFRA – National Food Reserve Agency
NGO – Non-Governmental Organisation
PRSP – Poverty Reduction Strategy Paper
SAP – Structural Adjustment Programme
SADC – Southern Africa Development Community
SAL – Structural Adjustment Loans
SACA – Smallholder Agricultural Credit Association
SP – Starter Pack
PRSP – Poverty Reduction Strategy Paper
TIP – Targeted Inputs Programme
UNDP – United Nations Development Programme

Foreword

Malawi is in the grip of a severe food shortage, not only because of the floods that caused one failed harvest, but also due to serious policy blunders. In the months before the famine was officially acknowledged, the country's grain reserves were sold off. Hundreds, perhaps thousands of people have died as a result of food shortages. This report asks why.

The reasons are not confined to events that occurred in the preceding months, but result from years of policy mismanagement in Malawi. Crucially, this has resulted not only from corrupt government in Malawi, but ideologically driven policies imposed by the donor community. In particular, the International Monetary Fund (IMF), World Bank and bilateral donors (including the UK) have mandated policies to remove subsidies that have supported livelihoods and food for the poor, while requiring privatisation and/or cost recovery of key functions within the public sector.

In doing so, they have elevated a theoretical notion of economic efficiency above other aims, and failed to understand the inherent limitations of the private sector. In the food sector, the results have included the hoarding of maize, profiteering by traders, inability to supply rural areas, unavailability of credit to the poor, particularly women, and the unaffordability of food prices for the poor. Donors also failed to understand that the market was unable to undertake the public sector's social aims of food security and support for agricultural production.

The advice given to Malawi by the IMF and World Bank is strikingly similar to that given to more than ninety countries that have been required to follow structural adjustment policies mandated by the IMF and World Bank as a condition for aid, loans and debt cancellation. Yet research studies have repeatedly revealed that such policies are both failing economically and loading most of the cost onto the poor. The United Nations has revealed that incomes of the poorest 20 per cent of people in sub-Saharan Africa had fallen by 2 per cent per year during 1980-2000, a period in which structural adjustment programmes were the dominant policy instrument.[1]

Most of the lessons for policy-makers contained in this paper are not new – drop the debt, break the IMF and World Bank conditionality over economic policies, strengthen civil society so they can hold government to account. The tragic thing is that more people will starve, more will die needlessly from preventable disease, and more children will grow up in poverty because the richest nations of the world are unwilling to act. Our role is to persuade them to do so.

The international debt campaign has achieved much in terms of public awareness raising, but research in countries such as Malawi demonstrates how much more needs to be done. WDM is calling for:

- Priority to poverty reduction in decision-making on debt. A substantial body of research now reveals that full debt cancellation for the poorest countries will be required if they are to have any chance of achieving the internationally-agreed Millennium Development Goals.
- An end to the economic conditionality that has failed in economic terms and contributed to widespread suffering, particularly for the most marginalised people in sub-Saharan Africa.
- A fair and transparent system for arbitration of sovereign debt, recognising the shared responsibility of debtors and creditors.

WDM is working with campaigners in the UK, through the Jubilee Debt Campaign, and with civil society in the developing world to press governments for the achievement of these aims.

Barry Coates

Director, World Development Movement (WDM)

Executive summary

There is a common perception that the food crisis in Malawi has been caused by the floods that ruined the planting season in 2001, or by widespread government corruption and mismanagement. These undoubtedly have contributed to the crisis. But there is another cause, which has been even more significant – inappropriate policies of donor agencies, led by the International Monetary Fund (IMF).

Hunger and food shortage has always been a problem in Malawi, hence the poor nutrition levels of 32 per cent of the population. In the past, food shortages have been addressed through food aid from donors and government subsidies for basic food channelled through the grain board, the Agricultural Development and Marketing Corporation (ADMARC). This system has allowed the people of Malawi to survive the seasons of adverse weather, and the government corruption and mismanagement which has persisted through years of good harvest and bad.

However, over the past twenty years the agriculture sector has been restructured by the IMF and World Bank, under their structural adjustment policies. In agriculture, these policies are supposedly aimed at improving efficiency and productivity. But, as in other countries such as Zambia and Mozambique, the donors have ignored the reality of farming systems in Malawi and have assumed that markets will be able to meet social aims; to supply food at affordable prices throughout the country, and to ensure that smallholder farmers can feed their families. Instead, Malawi now faces chronic food insecurity. The IMF/World Bank policies in Malawi's agricultural sector, supported by the bilateral aid donors, have failed.

Prior to these reform programs, the Malawi Government could ensure food availability even in the remotest areas of the country. Through subsidies and controlled prices, farmers were assured of affordable farm inputs and grain stores were maintained in remote areas. However, with the introduction of the agricultural reforms, Malawi is now faced by famine even more serious than the fabled 1949 hunger crisis.

As in other countries, agricultural reforms were imposed on Malawi without the donors having undertaken a proper analysis of their potential impact and consequences, particularly on the poor. Standard policies were applied to Malawi, following a one-size-fits-all approach. Subsidies for small farmers and the poor were reduced, price controls and regulations removed, and agencies that played a social role, such as the agricultural marketing agency, ADMARC, were re-structured and/or privatised.

The results in Malawi have included price rises and increased volatility. For instance, the removal of price controls led to a price increase for maize of 400 per cent between October 2001 and March 2002. Private grain traders have followed the market signals all too well – they have hoarded supplies and made money out of food shortages. This spirit of profiteering has fuelled corruption amongst Government officials in Malawi.

Agricultural reforms have done little to address the real problems of food production in Malawi – rural poverty, the impact of HIV/AIDS and discrimination against women. The chronic levels of poverty in Malawi's rural areas significantly affects agricultural productivity as it directly impacts on labour availability, access to inputs, health and education and other key social indicators. Over 60 per cent of Malawians live below the poverty line, and 20 per cent of Malawi's adult population are HIV positive.

Women constitute 70 per cent of Malawi's full time farmers and 87 per cent of the total agricultural labour force. Yet, despite their numbers and enormous contribution to the agricultural economy, they remain marginalised from the mainstream. Gender differentiated access to resources and benefits continue to hinder their full participation, even though this is indispensable to lifting food productivity and increasing Malawi's economic prosperity generally.

There is no doubt that Malawi needs agricultural reforms so as to enhance productivity and food security. There is no doubt either that Government parastatals, such as ADMARC, need to improve their management through reform. But, rather than ensuring that social aims are achieved through accountable government, the IMF/World Bank and other donors have pursued an agenda of austerity, deregulation and privatisation. And when, as in Malawi's case, there have been disastrous outcomes, they have denied any responsibility. The agenda of good governance and accountability has all too often been abused by donors, using it as leverage to ensure that developing country governments comply with their policies. It must also be applied to the donors themselves.

In addition to policy influence, the donors have insisted that Malawi continue to service its foreign debt at a time when there is widespread hunger. Even after debt reduction under the Heavily Indebted Poor Countries (HIPC) initiative, debt service still amounts to around 29 per cent of Malawi's Government spending. This heavy burden is further compounding the humanitarian crisis confronting such a poor nation.

The policies that donors have proposed for dealing with the crisis include food aid, but also an IMF loan of US$37 million to purchase maize. Since there is a shortage of grain in southern Africa, Malawi will most likely be forced to purchase grain from the US, including genetically modified grain. In its unmilled form, it will be used by desperate farmers to plant out. Malawi, as has been the case with other countries, will have GM crops introduced by the back door.

If countries in the South are to make any meaningful growth in their economies a new approach in the world economy is needed. The relations between the rich North and the poor South have to be re-defined. African Governments, supported by civil society, must be given the leading role in developing policies for their countries, instead of the IMF/WB dictating policy. Matters of food security and trade policy are fundamentally matters of justice and human rights. It is important therefore that poor countries are given enough space to articulate and implement their own policies, with the support of the international community.

Recommendations:

1. Malawi must maintain an efficient and transparent grain reserve agency to ensure adequate supply of maize throughout the year.
   - The function and stocking level of the Strategic Grain Reserve (SGR) must be decided by the Malawi government.
   - The SGR must be adequately capitalised and, if necessary, its operations must be subsidised.
   - A rapid response mechanism is needed to deal with future food crises at an early stage.
   - The SGR must be subject to regular independent audit, with oversight from Parliament and civil society.
   - Malawian civil society must participate in future policy decisions that impact directly on household food security.
   - The right to development and food, which is enshrined in Malawi's constitution, must be articulated into explicit obligations on behalf of all the parties involved in ensuring national food security policy. Accountability for protecting violations of citizens' right to food and to development must rest with the Malawi government.

2. Agricultural policy should be re-oriented to address the core problems of rural poverty, the escalating HIV/AIDS pandemic, and the marginalisation of women.

3. Donors should build the capacity of the Malawi government to undertake Poverty and Social Impact Assessment (PSIA), with the participation of civil society, on all major policies.

4. There should be full cancellation of Malawi's long term debts, on the understanding that funds are invested in the development of Malawi's economy and its people.

5. The Malawi government must take the lead in economic policy-making, and donors should play a role in building, not supplanting, the capacity of the government to do so with full accountability to Parliament and civil society.

1. Introduction: The sale of grain controversy

During May 2002, following warnings by United Nations (UN) agencies of a food crisis affecting approximately 13 million people in Southern Africa, Malawi hit the world media headlines with reports of widespread deaths from hunger and hunger related diseases. The estimates varied from five hundred to several thousand, making the current food crisis worse than the fabled Nyasaland famine of 1949. At the height of the current crisis, nearly 70 per cent of farming families were without food and starving, up from 31 per cent during the same period last year. [2]

When the authors of this report visited villages near Salima in the Central region in August 2002, food stocks and emergency aid supplies were depleted and the impoverished communities faced starvation. Many families were desperate for food and had resorted to eating maize husks and wild potatoes. We saw several freshly dug graves, indicating that far from tailing off, the death toll from hunger was still mounting in these remote parts of Malawi.

The food crisis coincided in April 2002 with Malawi's suspension from Highly Indebted Poor Country (HIPC) interim debt relief by the International Monetary Fund (IMF) and the World Bank, and subsequent controversy over corruption allegations against the Malawi Government and the fatal mismanagement of the country's strategic grain reserves. These events left the country tragically short of food and triggered a national crisis.

The decision to sell Malawi's grain reserves followed advice from the IMF to reduce operational costs and the level of buffer stocks held from 167,000 Metric Tonnes (MT) to 60,000 MT, in order to repay a South African bank for a commercial loan of US$300 million, incurred by the National Food Reserve Agency (NFRA), when it was established as a quasi-independent agency.[3] The IMF further advised that the maize be exported to neighboring countries, in disregard of the impending food crisis in Malawi.[4]

In the event, and evidently in clear defiance of the IMF, the Malawi Government sold almost all of the 167,000 MT reserve, much of it on local markets, to private traders, the new agents of the partially liberalised grain market. Traders stockpiled it and later profiteered from hunger.

Since then, all parties to the gross mismanagement of the country's food security policy have traded accusations and refused to take responsibility for their failures.

The IMF categorically disowned its advice to the Malawi Government, stating they had "no expertise in food security policy and we did not instruct the Malawi Government or the National Food Reserve Agency (NFRA) to dispose of the reserves."[5] Horst Kohler, the IMF Managing Director repeated the denial when he appeared before a British Parliamentary Committee on 4 July 2002, but came close to admitting responsibility under questioning: "I want to underline: this is an issue in the responsibility of the World Bank and the EU Commission. The IMF was part of this process of giving advice to the Malawi Government and the IMF may also have not been attentive enough, but I just tell you that I am not accepting that the IMF is made the culprit for this case, and I really also will go public if it continues, this kind of accusation. I have sent the President of Malawi a letter in which I made clear that he was involved with the World Bank and the EU Commission in this project; that the IMF was part of, say, the kind of international advice and the IMF may, again, not have been attentive enough how they exercised how to run this maize stock, but it was not the responsibility of the Fund to implement the advice … It is clearly an issue to think how we can avoid that this kind of mistake will happen again."[6]

At a meeting of the Malawi NGOs and the World Bank Consultative Group in Lilongwe on 6 August 2002, Dunstan Wai, the new World Bank Director for Malawi spoke candidly about the grain sale, but added another twist to the story by claiming that much of the stored grain was 'rotten' and needed to be sold.[7] Which prompts further concerns: whether the IMF, the World Bank, and the European Commission, individually or collectively acted legally when they advised Malawi to sell 'rotten' and possibly unsafe food to the public.

The Malawi Government, in turn, denied all responsibility and delayed declaring an emergency until late February 2002, when civil society organisations and the media presented irrefutable evidence of hunger related deaths. However, by June 2002 President Muluzi had not only accepted that there was a crisis, but said, "the IMF is to blame for the biting food crisis … they insisted the Government sell maize from its strategic reserve and requested that the Government abandon its starter pack agricultural subsidy program."[8]

The rapidly deteriorating relationship between the Malawi Government and its foreign financiers go back to July 2000 when a Parliamentary Public Accounts Committee published a highly critical report on corruption and fraud within the Malawi Government.[9] In October 2000, for instance, the British High Commissioner rebuked the Malawi Government for being soft on corruption and threatened to withdraw aid.[10] The dispute escalated and reached a critical point in November 2001 when several major donors, including the UK, EU, Denmark and the US suspended their aid programmes. The Malawi Government took this badly, at a time when it needed to import food to off set the worsening food shortages.

The diplomatic crisis continued and reached another critical point in 2002, when the donors raised suspicions about some Government officials profiteering from the emptying of the Strategic Grain Reserve (SGR) silos. By May 2002, the IMF delayed the disbursement of US$47 million in loans to Malawi because it had overspent its budget by US$45 million (1.9 per cent of GDP).[11] Malawi was also suspended from interim debt relief under HIPC, thereby adding US$4 million more to annual debt payments. Other donors took their cue from the IMF and froze development aid to Malawi.

"There is a need to recognise that corruption and weak governance in tandem with bad policies make financial aid ineffective, even counter-productive … Lack of good governance has resulted in misallocation of resources, increased the cost of doing business, created a general distrust in public sector activities, and weakened civil service morale."

Source: IMF, Malawi – 2002 Article IV Consultation: Concluding Statement of the IMF Mission, Washington DC, 14 May 2002.

However, many Malawians, while acutely aware of the need to combat corruption and strengthen governance, still accuse the donors of using the corruption issue to penalise the Government for defying their instructions not to sell the reserve grain on the local market. Corruption is also used as a lever to impose donor conditionality and to penalise Malawi for not meeting certain macroeconomic targets and for delays in privatisation, at least partly due to public opposition.[12]

"We are not going to do anything until you tell us where the grain reserve has gone." – British High Commisioner to Malawi

"The donors dwelt for too long on the issue of what happened to the SGR, and not enough on saving lives. No amount of explanation was going to bring that maize back into the SGR. Why kick a man when he is down?" - Minister of Agriculture and Irrigation, Hon Abeke Banda, BBC interview

*"My frank assessment is that this had a political dimension to it."
– Senior donor official*

Source: 'State Of Disaster, Causes, Consequences & Policy Lessons from Malawi', ActionAid June 2002.

The sale of grain controversy and donor relief, led to the international humanitarian relief grinding to a halt, having barely started. The food aid that trickled in was poorly distributed or found its way onto the market, including most of the 11,860 MT of maize from the European Commission.[13] The famine claimed more victims, mostly the very poor and socially marginalised, particularly in the remote and inaccessible parts of the country.

The Anti-Corruption Bureau, a donor-funded body, recently strengthened to investigate high corruption cases, published its findings into the sale of grain by the Strategic Grain Reserve Agency (SGRA).[14] It found no specific acts of corruption but reprimanded Leonard Mangulama and Friday Jumbe, senior members in Muluzi's Government for "criminal recklessness and negligence."[15] The former was dropped from the cabinet and together with three managers of the Strategic Grain Reserve Agency, is awaiting legal prosecution.[16] There are also demands for Friday Jumbe, the Finance Minister, to be dropped from the cabinet. The Catholic Commission for Peace released a list of names of purchasers of SGR maize, which included a number of prominent people who, "knew about the coming food price hike, so they bought grain from the SGR and withdrew these stocks from the market, driving prices up and creating an artificial shortage."[17]

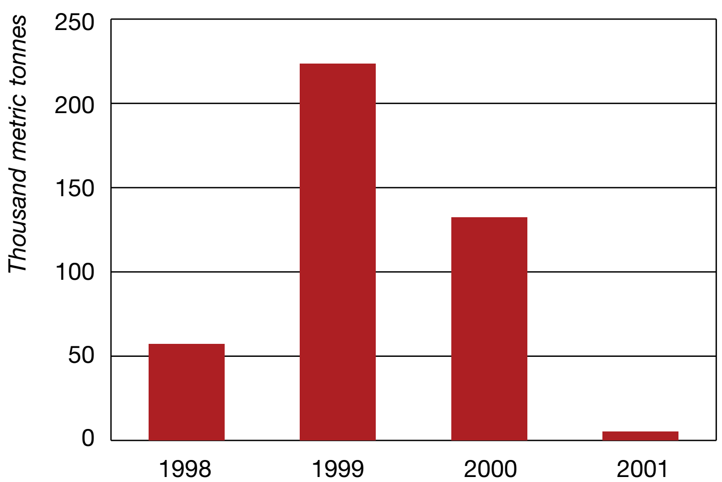
The Malawi Government ordered an internal audit of the NFRA, which was published in June 2002. But as the Civil Society Agricultural Network (CISANET) commented, "stakeholders would need access to a detailed report to come to a full judgement on the issues raised and the quality and depth of the audit process." Crucially, the audit does not cover the post – 2002 period for which most concerns have been raised.[18] Pressure is also mounting within Malawi for a fitting apology to the families of the famine victims.

The lack of publicly available information remains a key issue. The donors have criticised the Malawi Government for a lack of transparency, but have themselves refused to publish key documents, including the European Commission's report that was used by the IMF as a basis for its advice on grain stocks. Other important documents, such as the schedule for privatisation of the Agriculture Development and Marketing Corporation (ADMARC), have recently been released but have not included any consultation with civil society or Parliamentarians. The lack of public transparency in donor advice and conditionality undermines the efforts of civil society in Malawi to hold their government to account.

1.1 Food security

Malawi's annual maize deficit is approximately 630,000 MT. This is slightly reduced to just over 570,000 MT of maize equivalent when other foods such as rice, sorghum, millet and cassava are taken into account. The Government plans to import 250,000 MT of maize while some NGOs recommend that 208,000 MT are needed as emergency food aid. This still leaves Malawi with a deficit of more than 100,000 MT to be met by formal and informal trade. Importing such volumes of maize in the remaining 9-10 months of 2002/03 will greatly tax the capabilities of the Government and private sector, raising doubts whether all of this maize will be imported before the next main harvest in April-May 2003.[19]

Figure 1. ADMARC maize stocks as of the end of November



Source: ADMARC
FEWS NET/MALAWI

Food security and the role of the strategic grain reserves is a major policy area and has been muddled by disagreements between the Government and donors, and the political consequences of the sale of grain fiasco.

Since the sale of grain fiasco, the Malawi Government lacks confidence in the private sector's capacity to manage the maize market for the benefit of consumers, particularly those living in the remote rural regions. It is also concerned that Malawi's landlocked position leaves it vulnerable to the poor transport systems of neighboring transit countries. The Government also prefers to hold reserves because the scarcity of foreign currency reserves would mean delays in purchasing imports, whilst donor aid is unpredictable.

"Buying and selling grain may be more efficient than holding large stocks, but Malawi is not Kenya or Tanzania – we do not have ports like Mombassa or Dar-es-Salaam. We cannot import food from South Asia and within 3 weeks it arrives in the country. With the Strategic Grain Reserves we can feed people within a week."

Source: State of Disaster. Causes. Consequences & Policy Lessons from Malawi, Action Aid, Malawi, June 2002.

Meanwhile, the donor community supports further liberalisation and believes sufficient notice of any shortfall would be given to allow arrangements to be made for imports. However, they accept that problems exist in Malawi's quick response capacities. They recommend that the government should hold a financial reserve for purchasing grain when required.

Private traders are also reluctant to invest in the maize markets in Malawi because of a perceived lack of transparency in government policy and its interventions in the market using the SGRA. They are also discouraged by the poor transport system and inadequate market information generally.

1.2 Beyond denial to responsibility

It is important to understand the immediate factors that triggered the food crisis and to learn the right lessons. This is made pressing by the forecast of another poor harvest this year and the possibility of an El Niño event next year. The immediate task is to prevent, at all costs, a similar catastrophe from occurring again.

For the future, it is even more important to understand the underlying factors – the structural and institutional dynamics that have left an essentially agricultural country unable to feed itself, and its citizens, whose rights to food and development are enshrined in their country's constitution, unable to cope with a production shock that was actually less severe than the drought of 1991/1992.[20]

Key to this is understanding what has happened to Malawi during the interceding years. Its food security infrastructure has been torn apart by IMF-led economic liberalisation, after a decade of structural adjustment. These reform programmes have undermined farmers' access to vital agricultural inputs and eliminated consumer subsidies and food price stabilisation interventions. A decade ago, the agricultural parastatal, ADMARC, subsidised by the Malawian tax payer and government loans, operated throughout the country, supplying food from its depots at affordable prices and providing seeds and fertilizers to farmers at controlled prices. In most cases, these prices were uniform across the country, thereby providing an implicit cross-subsidy for smaller farmers, especially those in remote areas.

Since then, ADMARC has been partly restructured, with most of its markets in remote areas closed. This has created a serious capacity vacuum within Malawi's food security programme, which private traders cannot fill. The weak transport infrastructure is also problematic, with overhead costs being particularly high. For most of the start-up entrepreneurs, it is financially too risky or unprofitable to operate in the remote parts of the country. Initially, this capacity vacuum, a failure of liberalisation, resulted in a partial policy reversal. ADMARC was allowed to re-open some of its rural markets, but its capacity to purchase excess maize and other crops was severely hampered by cash flow problems. The rural poor, marginalised within the agricultural economy and ravaged in recent years by HIV/AIDS, were effectively abandoned to hunger and starvation.

The sale of grain controversy has become one of the most defining moments in recent Malawi history, albeit a tragic one. Nonetheless, it is important that it does not divert attention from the more fundamental causes and dynamics that have persistently undermined Malawi's economic progress. Of particular concern is the massive drain of scarce resources from this extremely poor country as a result of its unsustainable external debt burden and the profound failure of the donor-led neo-liberal economic reform agenda.

2. The leaking grain bowl: Accounting for the slump in agricultural productivity

Nearly four decades after political independence in 1964, Malawi's predominantly agricultural economy still remains fragile, with scarcely the capacity to ensure food security for its people. Declining agricultural productivity has resulted in increased importation of maize,[21] the country's major staple food. The agricultural sector contributes 41 per cent to Malawi's Gross Domestic Product (GDP) and employs more than 85 per cent of the total labour force, making it a vital resource to economic progress.[22]

Agriculture also contributes to 90 per cent of Malawi's total export earnings, with tobacco accounting for the largest share, followed by tea and sugar. Yet this over-dependence on raw materials, an enduring legacy of colonialism, makes the economy extremely vulnerable to world market price fluctuations. Since 1995, Malawi's trade balance has been in deficit, with the export value of tobacco and tea, the principle export commodities, generally in decline.[23]

To mitigate the impact of negative balance of payments due to poor trade performance and a heavy debt burden, successive governments have tried to expand production through large-scale agriculture for export. This policy has failed to stabilise export revenue flows and has been detrimental to poor small-scale farmers, most of whom have effectively been relegated to the economic margins in the push to increase cash crop exports.

2.1 Malawi's food shortages

"Malawi is in a perpetual state of food emergency. Most farmers don't produce food for more than four months. We are living on the edge, all the time. Addressing the transitory food crisis does not address the underlying problem, which is the low productivity of agriculture."
– Village leader in Salima district

A combination of factors affecting low food productivity have been noted by the National Economic Council of Malawi (NEC) – soil deterioration, bad weather, lack of inputs (fertilisers, improved seeds and access to credit), bad roads, labour shortages and policy inconsistencies.[24] Yet food productivity is ultimately dependent on the successful resolution of two fundamental issues: the economic exploitation of women and the abject poverty of the rural population. Both Government and donors acknowledge these problems and have recognised policy deficiencies, but they have yet to scale up their responses or implement effective measures.

"Constraints on women remain a particular concern. Although a number of Bank-supported projects in the 1990's directly or indirectly aimed at improving the status of women, a range of constraints continue to suppress women's incomes, health and educational status, and their potential response to economic signals. ... Bank projects helped reduce some of these constraints, but the impact has so far been confined to a relatively small proportion of women."

Source: World Bank, Malawi Country Assistance Evaluation, November 2000.

2.2 Women

Women constitute 70 per cent of Malawi's full time farmers and 87 per cent of the total agricultural labour force.[25] Yet, despite their numbers and enormous contribution to the agricultural economy, they are marginalised from the mainstream agricultural economy. Gender differentiated access to resources and benefits continue to hinder their full participation even though this is indispensable to lifting food productivity and increasing Malawi's economic prosperity. According to the United Nations Development Programme (UNDP) human development index of gender equality, Malawi ranks 161 out of 175 countries, and 80 out of 90 countries on the gender empowerment index measure of political representation and economic participation.[26] The disempowerment of Malawian women reflects limited access to:

- **Land entitlements**: Out of a land area of 9.4276 million hectares, only 32 per cent is suitable for rain fed agriculture.[27] Commercial farming takes a disproportionate share of this, and women's entitlement to what remains for food production, is restricted by social and economic discrimination. Some 56 per cent of all smallholder farm families in Malawi cultivate less than one hectare of land each and plots continue to be fragmented.
- **Credit**: This partly reflects the collateral requirements of lending institutions, such as ownership of land or other property, which women farmers are normally not able to provide. Rural women also tend to take small loans for their enterprises, and lending institutions are

unwilling to service small loans because of the high transaction costs. Available credit is mainly for direct agricultural inputs such as seeds and fertilizers, but women want loans to be flexible so that they can use them to pay for labour and to buy food during months when food is scarce, or to meet more long-term needs such as poultry enterprises and small-scale dairies.

The collapse of the Smallholder Credit Association (SACA) after the drought of 1991/2 was partly caused by the withdrawal of government subsidy and the drive to liberalise the agricultural sector. It has had a lasting impact on poor farmers' access to credit. As SACA defaulters, a good number of women have been excluded from alternative supplies of input credit, such as the Malawi Rural Finance Corporation (MRFC), whose interest rates are nevertheless prohibitively high for the poor, at 45-50 per cent.

About 71 per cent of all seasonal agricultural work is done by women. Women also contribute time to food processing activities such as threshing grains, winnowing, sorting seeds and pounding. But there is clearly a limit to how far women's time and energies can be stretched. When the limit is reached, agricultural production or household needs suffer.

While the Government has tried to address these gender issues, by establishing the Commission on Women in Development (WID) to develop relevant policies and programmes, they have generally been unsuccessful. Despite working with other government programmes with gender focussed components and interventions, the official response to the needs of women have been generally ineffective.

2.3 Poverty

"Poverty has afflicted us for so long, now it is killing us." – Villager in Salima district

The chronic levels of poverty in Malawi's agricultural sector significantly affects food productivity, as it directly impacts on labour availability, access to inputs, health and education, and other key social indicators. Over 60 per cent of Malawians live below the poverty line.[28] Rural unemployment is very high, wages are very low and agricultural production generates very little income. It has pushed most Malawians to the edges of survival, made them socially and economically vulnerable and unable to cope with production shocks.

2.3.1 Food insecurity
Farmers are unable to undertake critical crop and land management tasks because at peak periods (January to February) most rural households are short of food, and opt to look for food through temporary lease farming or 'ganyu', rather than working on their own plots. Casual labour is engaged on the tea and tobacco estates during peak periods, which also happen to coincide with the months of food insecurity in the rural areas (November to February). Labour migration from the smallholder plots to the estate sector reduces labour availability and results in food shortages.

"Around two thirds of ganyu labourers were paid in cash, and one third in kind in 2000/01. The most common form of in-kind payment was grains for food or ufa. Men were employed on a wide range of crops, while women were employed mainly on maize, for which payment rates are lower than other crops. Women were paid around half of what men earned for similar tasks."

Source: Nyirongo et al, A quantitative study of markets and livelihood security in rural Malawi, 2001.

2.3.2 Agricultural inputs
The overwhelming majority cannot afford to purchase fertilizers, seeds and chemicals, especially given the high commercial rates of interest. The Starter Pack (SP) initiative, which issues small size packs of free improved seed and fertiliser to farmers, was initiated by the Ministry of Agriculture and Irrigation in 1998. This programme was repeated in 1999/2000 season and was arguably responsible for the increased output of that season. The subsequent season, 2000/2001 registered a 40 per cent reduction in output.[29]

Table 1. Maize production in 1999-2000 by receipt of Starter Pack 2[30]

	SP2 recipients Production 50-kg bags	*Non-recipients Production 50-kg bags*
Mean	9.0	7.6
Standard Deviation	7.8	7.6
Number of farmers	1447	989

The free inputs programme is not viable without foreign donor assistance. Donors have resisted extending the scheme to all farmers with their dogmatic opposition to public subsidies to farmers. Yet the rising cost of agricultural inputs, following market liberalisation and price deregulation, has limited the poor farmers' ability to buy fertilisers and improved seed.

The removal of subsidies led to a sharp increase in input prices and a drop of 43 per cent in the usage of fertilizer.[31] Seed sales also declined by 56 per cent. Supply of inputs to the remote rural areas has been generally poor because the private traders that replaced the parastatal ADMARC found it too costly to operate effectively because of the bad roads.

The Starter Programme has been replaced by the Targeted Input Programme (TIP), which targets the poorest half of the smallholder population. From October 2002, there are plans to distribute free inputs – maize, legume seeds and fertilisers to 2 million farmers at a cost of US$14 million. Malawi intends to contribute US$1.5 million, DFID US$7.5 million, Norway US$3 million and the World Bank US$5 million.[32] However, while welcome, the number of farmers who urgently need inputs is close to 3.2 million, leaving 1.2 million without aid. Considering the high degree of impoverishment in the rural sector and the need to lift productivity quickly, it is imperative that the programme is extended universally, making sure that distribution is fair and not influenced by party politics. It is also important that those who can afford to buy the inputs, particularly within the commercial estate sector, do not receive the benefits.

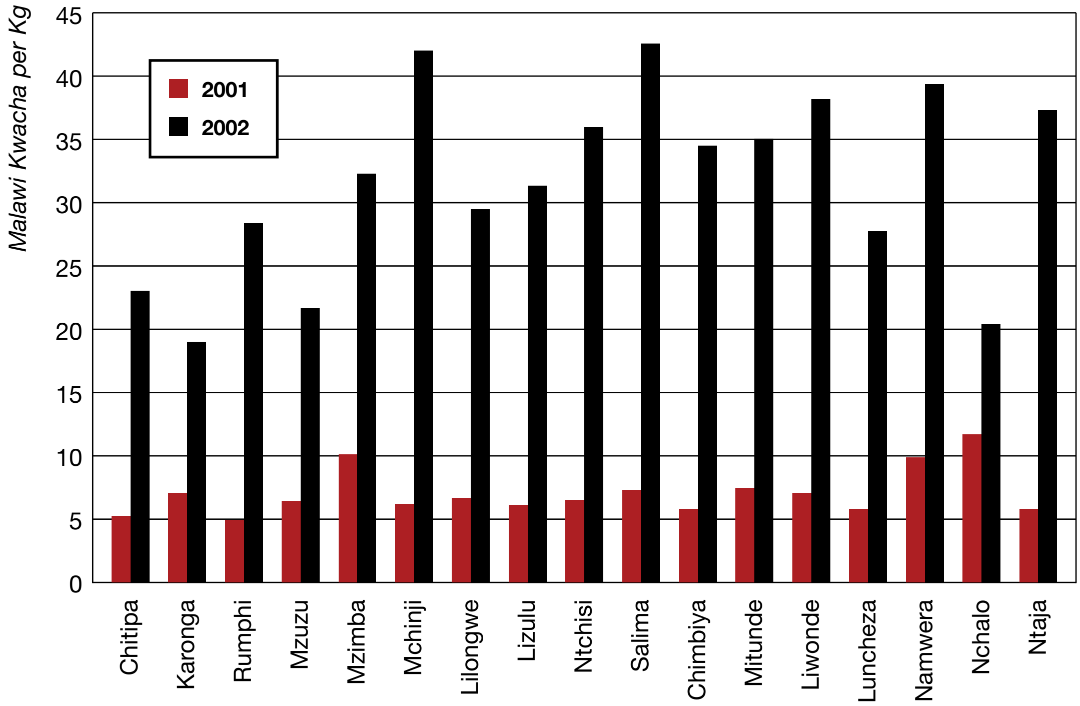
The key objection to extending the free input programme universally is cost – approximately US$25 million. However, the financial and social costs of not doing so are much higher.

2.3.3 Profiteering

At critical times during the food crisis, most Malawians could not afford the extremely high prices for maize, their staple food. This was partly due to artificial market shortages through stockpiling. In September 2001, private traders stockpiled maize waiting for the right time to sell. When ADMARC announced the national selling price at MK17/kg, they responded by selling above this price, and well beyond what most Malawians could afford. In 2002, prices in some places shot up to MK37/kg and over. Most people depleted their meagre savings buying food, ultimately ending up with no money and no food.

The figure below compares local market maize prices for February 2001 and 2002. In most markets maize prices are 5 to 7 times those of last year at the same time.

Figure 2. Comparison of local market maize prices, February 2001 vs. February 2002



Source: Ministry of Agriculture and Irrigation FEWS NET/MALAWI

"The household which does not grow its own food is considered 'dead'." – Nkhotakota

"Without growing your own food, you are looked down on, because you always beg or do ganyu in order to survive." – Dowa

"It is shameful when visitors come around and you do not have ready food for them. If there is no food, or not enough variety of food in the house, the children go begging. Parents become ashamed of their lack of responsibility when people go around begging." – Nsanje

Responses to lack of food in Malawian households from 2000–01
Source: Targeted Inputs Programme, Main Report of the Monitoring and Evaluation Programme, Sarah Levy and Carlos Barahona, Sept 2001.

2.3.4 Ecological damage

Poor people cut down trees to sell as firewood and charcoal to buy food and other essentials. This has contributed to ecological degradation. Tobacco growing has made the problem worse by demanding a lot of trees for construction of fences, sheds and for curing. The liberalisation of burley tobacco growing also led to a massive increase in the demand for trees, which have been cleared to give way to agriculture and to provide fuel wood for a growing population that has no alternative sources of energy.

The State of the Environment Report (1998) ranks soil degradation as the most serious environmental problem facing the country.[33] It is estimated that Malawi loses a total of 160 million metric tonnes of topsoil per year, averaging 20 metric tonnes per hector per year and contributing to mean crop yield loss of 4-11 per cent per year. Clearly this leads to declining soil fertility. During the 1960s 'unfertilized' local maize typically yielded 1700 kg/ha. Now yields have fallen to a national average of less than 1,000 kg/ha. Across the country the response of maize to fertilizer has declined: in Lilongwe, for example, it has fallen from an average of 23 kg of maize per kg of nitrogen in 1957-1962 to 13 kg in 1983 -1985.

"We have nothing to eat and no money. Cutting down the trees is not good but what can we do? Selling wood for fire and other things gives me money to buy food for the family." – Nkhata

The poverty of the majority of small-scale farmers in Malawi that leads them to trade off long-term sustainable land use for short-term unsustainable use is a major problem.

2.3.5 Health

The health status of the rural population is amongst the worst in the world. There is a yearly cholera epidemic, half the children under five are chronically malnourished and nearly one-fourth of infants do not reach the age of five. HIV/AIDS prevalence has become the leading cause of death for the working age group. Women, who constitute the major source of agricultural labour, bear a heavy burden of caring for the sick and young children. This reduces the time allocated to agricultural production, perpetuating poverty and food insecurity. Health spending per capita in 1998/99 was a mere US$12 compared with US$1,532 in the UK, US$2,392 in Canada and US$1,980 in Australia.[34]

In Malawi, as in other African countries, the economic consequences of the HIV/AIDS pandemic are yet to be fully documented, but the preliminary evidence is alarming. HIV/AIDS prevalence is estimated at 20 per cent of the national population. It has reduced life expectancy from 51 years to 36.6 years, which is the lowest in Southern Africa. Mortality due to AIDS is known to peak among women in the 30-34 age group.[35] Considering the pivotal role of women in food agriculture, this has had a significant impact on production and food security.

In a recent study by CARE on the impact of HIV/AIDS in Central Malawi, almost all affected households reported decreased agricultural productivity due to deaths and withdrawal of the sick from production activities.[36] Care for the sick also reduces available labour and increases the financial pressures on the households.

The social consequences of the HIV/AIDS pandemic in Malawi are enormous. It has produced a million orphans, and this number is likely to be doubled in the next decade. The pandemic is rapidly changing the social demographics of Malawi, particularly within the rural sector. It has created child-headed households and weakened the support structures for the very young and the elderly.

The Government, supported by the donor community and NGOs, has initiated various interventions to contain the pandemic. Last year, the National AIDS Control Commission was set up with the Government, mobilising US$110 million from international donors to implement the HIV National Strategic Framework.[37] The National AIDS Secretariat has also been restructured and a national HIV/AIDS task force set up to strengthen implementation of the national strategic plan. As much as these efforts are commendable, Malawi's response needs to be radically scaled up to effectively combat the pandemic. Public awareness and education on the scale of Uganda's relatively successful response is paramount. This will require active participation by conservative Christian and traditional religious institutions.

Mobilising extra resources and building the institutional capacity to absorb them is now an urgent priority. A noticeable handicap is Malawi's extremely low health spending and weak public health infrastructure, which is incapable of delivering effective treatment services and care. In spite of the real danger of another exponential jump in the prevalence rates, health spending remains at less than 3 per cent of Gross Domestic

Product.[38] This compares scandalously with debt service of around 4 per cent, the amount that the IMF and rich Northern countries, including Britain, insist Malawi should pay in debt service.[39]

3. The failure of structural adjustment reforms

The failure of IMF and World Bank designed programmes to alleviate poverty is writ large in the development history of Malawi. Over the past two decades impoverishment of most Malawians has increased – GDP per capita has stagnated and declined from US$200 in 1997 to US$160 in 1999,[40] with hyperinflation impacting heavily on the worsening food security situation. After having been 'adjusted' for over two decades, there is little sign of the promised benefits of structural change and prosperity for Malawi's poor.

3.1 Blaming the Banda dictatorship

Following political independence from Britain in 1964, President Dr. Kamuzu Banda initiated Malawi's post independence development strategy. This aimed at achieving growth through estate-led agriculture, oligopolistic industrial activity and self sufficiency in food production. During the 1960's this strategy, supported by the World Bank, yielded a 6 per cent annual growth rate. However, global recession during the late 1970s and early 1980s exposed the strategies underlying weaknesses, as Malawi's GDP contracted. President Banda's strategy had inhibited economic diversification as he monopolised state economic activity and suppressed broad participation in growth.

Following the global economic crisis of the late 1970s, President Banda's Government agreed to implement a far reaching IMF and World Bank Structural Adjustment Programme (SAP), supported by Structural Adjustment Loans (SALs), aimed at breaking up Malawi's state monopolies to achieve economic liberalisation. From 1981, several key SALs were negotiated and launched, including the Industry and Trade Policy Adjustment Credit (ITPAC) in 1988, the Agricultural Sector Adjustment Credit (ASAC) in 1990, and the Entrepreneurship Development and Drought Recovery Programme (EDDRP) in 1992.[41] These reform programmes dictated successive currency devaluations, market and exchange rate liberalisation, removal of subsidies and trade barriers, rationalisation of public enterprises, and fiscal and monetary reform.

But results have been disappointing. Malawi has not sustained the 6 per cent economic growth achieved in the 1960s, and the late 1970s.[42] These extensive structural adjustment reforms failed to make any real impression on Malawi's shocking poverty levels and poor economic performance. This failure has prompted the World Bank to question its role in Malawi during this period, and why it continued to, "lend when its efforts were yielding apparently poor results."[43] The World Bank blames President Banda because, "he and his associates had a major, autocratic influence on the society, dominated the economy and shaped the direction of external assistance."[44]

While Banda's obsessive control and use of Malawi's parastatals to amass personal wealth is well known, this retrospective conveniently ignores the mutually beneficial relationship between the IFIs, the transnational companies and donor governments, and the late dictator. Their economic and political support propped up Banda's regime for three decades, even when it was ostracised by the rest of Africa for politically aligning with apartheid South Africa.[45]

Ultimately, Banda's grip over the economic life of Malawi proved counter-productive to the economic reform agenda of the IFI's. The World Bank admits this in its 1998 Impact Evaluation Report; "until the 1980's, the Bank, along with the rest of the aid community, did not recognise the depth of the distortions of the economy, which were being created by the strategy being pursued by Government during the Banda era." But this is a rather belated attempt by the World Bank to disown its less honorable past in Malawi.

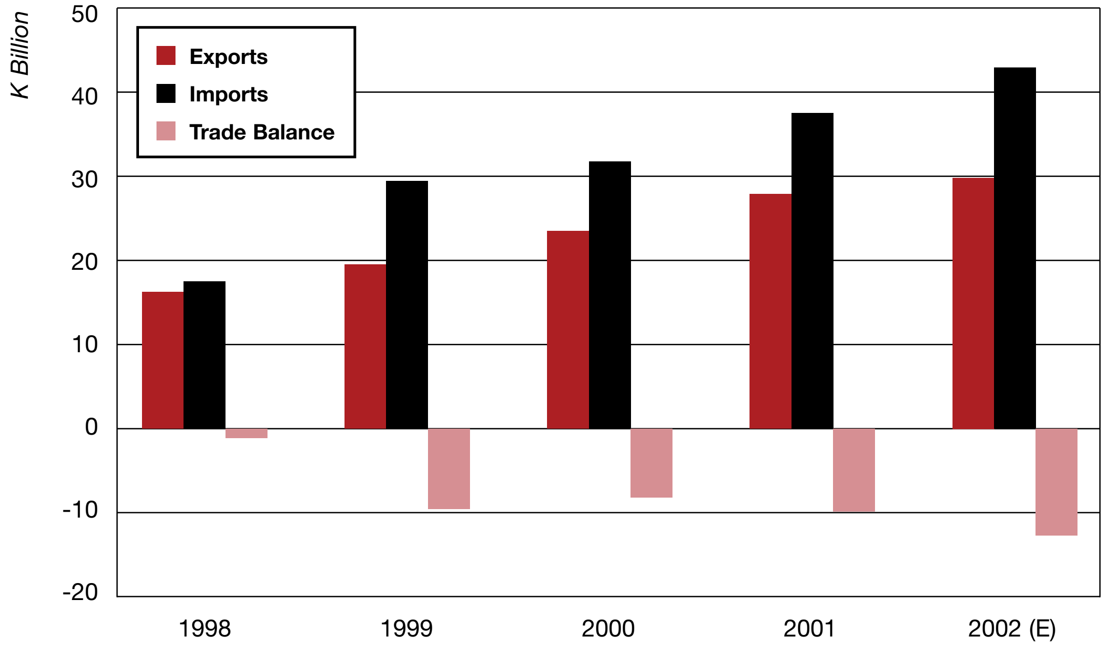
3.2 Commodity dependency

The reform programme continued from 1994 under the new democratic Government of President Bakili Muluzi, including the Fiscal Restructuring and Deregulation Programme (FRDP) in 1996.[46] Despite this return to democracy, poor economic performance has continued. The fundamental reason for this is Malawi's commodity dependency, a direct result, and failure, of the previous decades of economic reform programmes.

Malawi's heavy dependence on tobacco and tea exports, reinforced under SAPs, makes it extremely vulnerable to price fluctuations on the world market. Tobacco production has increased continuously since independence, reaching 130,000 hectares or 5.5 per cent of Malawi's arable land; the highest intensity of tobacco cultivation for any country.[47] But prices have fluctuated, sometimes unpredictably, making budgetary projections based on realistic revenue flows uncertain.

The unit price of tobacco is currently US$2.35 per kilo, representing a decline of 8.1 per cent from 2001, partly reflecting anti-smoking trends in Northern countries. Tea unit prices also declined by 3.2 per cent in 2001. Generally, Malawi's commodity terms of trade worsened by 6.4 per cent from an index of 125.2 per cent in 2000 to 117.2 per cent in 2001.[48] This has affected Malawi's trade balance, which has consistently shown a deficit as the table below indicates.

Figure 3. Malawi's visible trade balance, 1998–2002 (E)



Source: National Economic Council, National Statistical Office, Treasury and Reserve Bank of Malawi.

3.3 Regional trade

As a land locked country, Malawi stands to gain significantly from strengthening regional trade, particularly with Zambia, Tanzania and Mozambique. Mozambique shares the longest border with Malawi and, along with Tanzania, provides access to sea trade routes. But the potential of regional trade is presently limited by:

- Poor regional communications and transport infrastructure throughout southern Africa.
- Restrictive migration policies that inhibit movement of people and goods across borders.
- Similarity of goods. The economic structures of most countries in the southern African region, except South Africa, are similar – agriculturally based and depending on one or two major products for export. In the case of Malawi and Zimbabwe, tobacco and maize are the major agricultural crops. Similarities in the structure of these economies limit their ability to trade amongst themselves. This can be overcome by diversification and a regional strategy that allows each country to develop comparative advantage based on value added specialisation.
- Lack of reliable trade information across the region. This is essential to facilitate better production and distribution strategies.

Malawi is a signatory to the regional trade bloc, the Southern Africa Development Community (SADC), which was originally born out of the necessity to resist the economic might of apartheid South Africa. With the collapse of apartheid, the development of SADC into an effective trading bloc has been encouraged by what many in the region see as threats by globalisation and the development of major trading blocks such as the North American Free Trade Area (NAFTA), the European Union (EU), the Association of South East Asian Nations (ASEAN), and the Economic and Social Commission for Asia and the Pacific (ESCAP).

SADC aims to rationalise intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements, to ensure efficient production within SADC, contribute towards domestic, cross-border and foreign investment and ultimately to establish a free trade zone in the SADC Region. These objectives of effective economic co–operation and trade between the Southern African nations are restricted by their dependency on Northern economies. Malawi's cash crop economy is tied to the unpredictable global commodity market. Concerns over security, heightened by political instability and war in the SADC region have also prompted caution and slowed down regional integration.

4. Privatisation: The national wealth in fewer hands

Box 1

Privatisation, liberalisation and the food crisis
Privatisation and liberalisation policies were introduced in the agricultural sector to break the monopolistic legacy of Banda's Government in the sector. This aim was to allow the private sector to participate. However, these brought more harm than good. It led to the removal of subsidies on farm inputs, and an increase in prices on once affordable fertilisers, pesticides and seed. The hardest hit group was the subsistence farmers, who are the largest proportion of grain producers in the country. The privatisation of ADMARC, the only grain board that controls prices of grain and also makes sure that grain is available even to the remotest areas, is a further blow to the poor.

Although the grain board needs to improve its efficiency by restructuring its management, complete privatisation of the board will worsen the food crisis and will lead to further profiteering by private traders. One lady, Nambewe from Thyolo had this to say, "we were selling this maize to this trader at MK1.5 per Kg and yet he is selling it back to us at MK32 per Kg instead of the recommended MK16. How can we survive this?"

This stresses the fact that to a large extent, the liberalisation and privatisation policies of the IMF/World Bank on Malawi are to blame for the food insecurity, especially amongst the poor people. Failure to change these policies will further promote the poverty circle in Malawi. Subsistence farmers need assistance through subsidies if they are to grow enough food and avoid hunger.

The accelerated privatisation of Malawi's publicly owned enterprises is a key objective of the IMF's economic reform programme. As noted in Malawi's preliminary HIPC document, and the interim PRSP, wide-ranging liberalisation measures were to complement various macroeconomic stabilisation actions to stimulate private sector growth. Over the medium term, the IMF committed Malawi to maintaining so-called competitive conditions in the marketing of key commodities, such as grain, fertilizers, and petroleum, and to accelerate the privatisation of public enterprises.

In reality, privatisation has simply meant the sale, and usually hurried sale, of the national assets to private companies, mainly transnationals or their local subsidiaries.

"to accelerate growth, also structural obstacles to private sector development will have to be tackled, including by reducing the high level of government intervention in the economy through parastatals."

Source: Malawi – Concluding Statement of the IMF Mission, May 14 2002

Malawi's privatisation programme started with the passing of the Public Enterprises (Privatisation) Act in 1996. Since then the programme has been plagued by controversy, and the Government was forced to suspend it for four months in 2001, after controversy over the privatisation of Malawi Telecom. The public outcry has been fuelled by exponential price increases by the newly privatised or partly privatised utilities, such as the 44.4 per cent tariff increase by the Electricity Supply Corporation of Malawi (ESCOM) in 2001.[49] As demonstrated in the previous chapter, privatisation of the grain market, followed by rampant profiteering by private traders during this year's famine, has been disastrous.

As Mr. SM Kakhobwe, chairman of Malawi's Privatisation Commission notes in the 2000 annual report, the decision to privatise state monopolies such as ESCOM and Malawi Telecom has, "generated a lot of debate in the country and alternative policy have been suggested. As a result, the pace of privatisation has been slow."[50]

In principle, private sector involvement in economic activity aims at facilitating a sound basis for sustainable development. The underlying assumption is that the private sector is capable of engendering a positive environment for more capital accumulation and investment to increase economic prosperity. As in many other African countries, this assumption does not appear to prevail in Malawi.

The IMF reform agenda has one major handicap; it has been trying to kick start a foreign-led market economy in Malawi without a strong or established class of local entrepreneurs. British colonialism actively discouraged its formation and Banda's dictatorship limited its growth to the small, but influential, expatriate community involved in the production for export of tobacco and tea. This has produced a noticeable institutional and capacity vacuum for the privatisation programme.

The overwhelming majority of Malawians play an insignificant role in the economic activities associated with the liberalisation programme, in comparison with the white, Asian expatriate and donor communities. Credit facilities to support the financial involvement of Malawians in business exist through commercial banks, but the cost of borrowing associated with the restrictive financial market is prohibitive. The required collateral ranges from 60 per cent to 120 per cent in the form of fixed assets, rendering credit facilities offered by most of the country's commercial banks inaccessible to most small-scale investors. The financial risks of privatisation to small investors are also comparatively much higher. There are barriers to improving economic performance and increasing efficiency, including undeveloped infrastructure, inflation and high interest rates, and poor communications.

Within Malawi, there is a political struggle over development options: on one hand, the need to safeguard the interests of Malawi's poor, particularly over food security and livelihoods, despite the discrediting of state-led development in the past; and, on the other hand, the arguments about increasing economic efficiency through applying neo-liberal economic policies. However, the recent food security blunders and disagreements between the Malawi Government and its donor partners have only deepened the collective ambivalence, if not silent opposition, to crucial aspects of the reform agenda.

There is particular concern over the fate of well-known utilities that clearly cannot survive without public subsidies, but are also not performing as well as partly privatised enterprises. The table below from the 2001/2002 budget statement (by Dr. Mathews Chikaonda, the Minister of Finance and Economic Planning) raises serious concerns about some key parastatals, now partly privatised but still making huge financial losses. Below is a table from his report:

Table 2. Loss-making partly privatised parastatals (MK78=US$1)

Malawi Development Corporation	Loss of MK89 million against a budgeted profit of MK7 million.
Malawi Housing Corporation	Loss of MK15.2 million against a budgeted profit of MK8.3 million.
Malawi Posts Corporation	"Situation so critical that not only is it unable to service its financial obligations, but it is also failing to cover its operational costs"
Malawi Telecommunications Limited	Unable to service MK385 million debt.
Air Malawi	"Unless revenue is more fiercely generated and remuneration and other operational costs correspond to revenue realised, our national flag carrier will be locked in perpetual financial crisis and will one day collapse."
Electricity Supply Corporation	Decentralisation process of Malawi taking longer than anticipated. Increased tariffs by 44.4 per cent, yet unable to service its debts.

Source: 2001/2002 Government of Malawi Budget statement by Minister of Finance and Economic Planning.

Out of 99 public enterprises listed for privatisation by the Privatisation Commission, only 26 had been fully privatised by 2000. Clearly, the anticipated pace of the privatisation programme was overly optimistic, as the measured progress of most of the listed divestures below indicate.

Table 3. Divestiture (privatisation) sequence plan

Public Enterprise	*Holding Body*	*Status*	*Proposed Timing*
National Bank of Malawi	Government	Public offering and listing completed in August 2000	Not known
General Tobacco Properties Ltd	ADMARC	Completed	
Malawi Railways	Government	Completed	
Malawi Finance Co Ltd	ADMARC	Ongoing	Unknown
Malawi Rural Finance Co Ltd	Government	Ongoing	Unknown
Malawi Development Corporation	Government	Ongoing	Unknown
ADMARC	Government	Ongoing	Unknown
Malawi Housing Corporation	Government	Ongoing	Unknown
ESCOM	Government	Yet to start	
ADMARC Investments Holding Co. Ltd	ADMARC	Yet to start	
Lilongwe International Airport	Government	Yet to start	
Blantyre Water Board	Government	Yet to start	
Machenga Coal Mine	MDC/Gov't	Completed	
Malawi Diary Industries	Government	Completed	
Government Press	Government	Yet to start	
Malawi Savings Bank	Government	Yet to start	
Nasawa Farm	Government	To be retained by government	

Source: Annual Report, Malawi Privatisation Commission 2000[51]

More significantly perhaps, there is institutional resistance within Malawi to the hurried pace and dogmatic pursuit of privatisation as the result of donor conditionality. The insistence by the IMF that public utilities, such as ADMARC, ESCOM and MTL, should be privatised has mobilised a silent but politically significant civil society opposition to the privatisation programme. For a nation slowly emerging out of the shadows of President Banda's brutal dictatorship, civil society opposition is not always visibly vocal but significant nonetheless. Many believe that enterprises with a public purpose should be subsidised and remain public to ensure affordable services for all. This opposition has sometimes met with police repression when openly expressed.

Box 2 **Protesting economic reforms**

LILONGWE, May 15 2000 (AFP) – Riot police fired teargas to break up a peaceful demonstration against draconian economic reform policies imposed by the World Bank and the International Monetary Fund (IMF). The protest was dispersed just an hour before President Bakili Muluzi was due to open a two-day consultative group meeting of Malawi and its western donors.

Two protesters were arrested, according to co-organizer Shyley Kondowe, a human rights activist. The demonstrators carried placards denouncing the two institutions, which back tough economic reforms for the impoverished southern African state. Kondowe told AFP the police had been over-zealous, noting that he had permission from police inspector-general Bernard Mphinji to stage the peaceful demonstration.

Within the public enterprises, the pace of reform has also slackened as a result of what many perceive to be the failure to curb corruption. The weak regulatory framework for liberalisation has compounded unfair competition, as companies use their huge resources to influence decision makers and create dominant market positions. The active involvement of civil servants, state officials and politicians in business, either directly or through proxies, makes the fight against corruption particularly daunting.

The sheer economic power of transnational companies, many of whom are richer than the poor countries they operate in, has translated into political influence over national governments. In Malawi, as in most African, Asian and Latin American countries, political and economic decisions have been made to provide favorable environments for the investment and marketing needs of transnational companies, without necessarily safeguarding the public interest. Effective and affordable services to the poor are particular concerns.

In spite of differences between the Malawi Government and the IMF over the privatisation of ADMARC, it is generally perceived that for Malawi to remain internationally competitive, it needs to offer preferential terms to transnational companies. However, the imperative to create profits has often conflicted with wider social responsibilities. In Malawi, as in most poor countries, there is an urgent need to reinforce legally binding regulation of the activities of transnational companies so that they are obliged to pursue their business within human rights and environmental law and in the interests of Malawi's people, as well as the pursuit of corporate profits.

5. Donor aid and conditionality: Two sides of the same coin

"Throughout colonialism, they openly dictated to us. These days they purport to advise us. The difference, in the light of Malawi's recent experience is purely semantic. They still wield the big stick."

Source: Malawi Economic Justice Network

During the IMF/World Bank Spring Meetings in 2002, Malawi's development loans were frozen and it has been suspended from interim HIPC debt relief. They disapproved of the Malawi Government's conduct over the sale of the reserve grain, alleging corruption and bad governance, and were highly critical of the pace of privatising the country's key parastatals.

"the parastatal sector will continue to pose risks to the successful implementation of the 2002/2003 budget. Government interventions in the food and other agricultural markets, ultimately to the National Reserve Agency (NFRA) and the Agricultural Development and Marketing Corporation (ADMARC) taking heavy recourse to budgetary financing."

Source: Malawi-2002 Article IV Consultation. Concluding Statement of the IMF Mission, May 14, 2002.

The IMF and World Bank also accused the Malawi Government of financial indiscipline and derailing the agreed macroeconomic strategy.

"the macroeconomic strategy (was) derailed as the implementation of fiscal policies was marred by a lack of spending discipline by

government and premature changes in revenue policy. Government borrowing has resulted in high real interest rates of almost 50 per cent, crowding out credit to the private sector. Large budgetary resources were diverted to bailing out parastatals – some of which incurred loses due to past government instructions to intervene in the market."

Source: Malawi-2002 Article IV Consultation. Concluding Statement of the IMF Mission, May 14, 2002.

These economic sanctions, coinciding with the escalation of the food crisis, impacted negatively on the international humanitarian effort. At this critical time, it slowed down to a trickle as the death toll mounted. The donor community's apparent obsession with 'bringing the Government to book' was misguided in these circumstances, and the IMF's dogmatic opposition to Government support for parastatals to ensure food security was also highly insensitive.

The food crisis highlighted, in dramatic fashion, the disproportionate influence of donor interests over Malawi's domestic affairs. Malawi is heavily indebted to them and dependent on their financial support to run both its recurrent and development budgets. Around 37 per cent of the recurrent budget is funded by donors and 80 per cent of the development budget.[52]

This high indebtedness and financial dependency has ensured the massive drain of Malawi's meagre resources to rich creditors through the servicing of a never-ending stream of debt repayments (approximately US$70 million annually).[53] This is ultimately secured by aid conditionality and economic sanctions.

6. Malawi's debt burden

Box 3

Debt and the food crisis

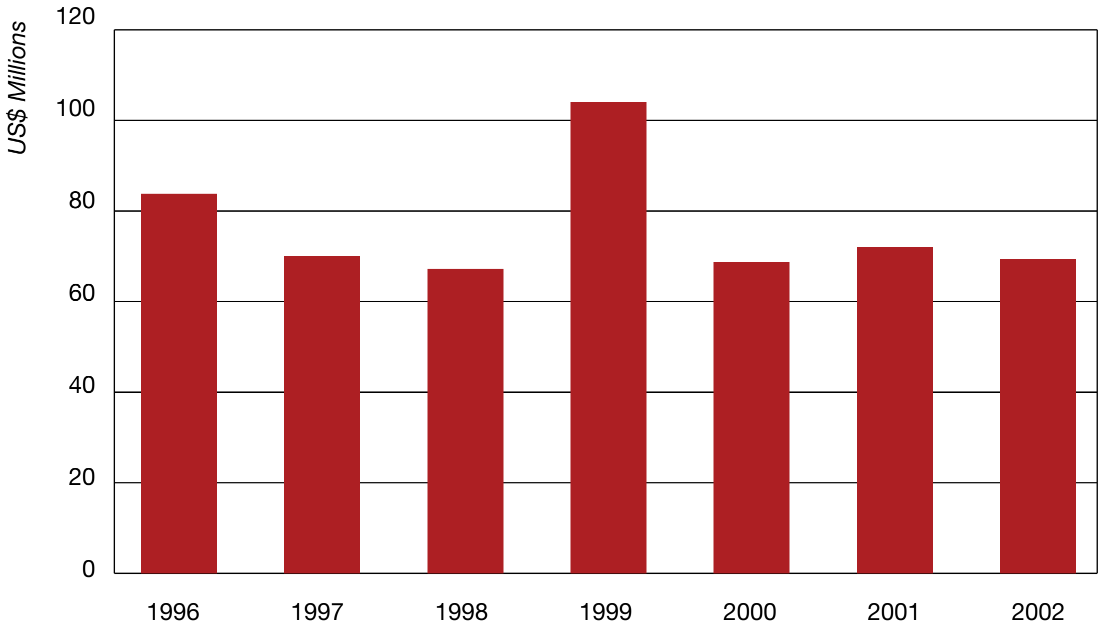
Debt servicing in Malawi, just as in many other Third World countries, has been a massive constraint on development. In 1999, Malawi used up US$143 million to service its foreign debts. Even having qualified for debt relief, Malawi will continue to use up a huge chunk of its budget to service its debts. In 2002, Malawi will pay US$70 million in debt service. In comparison to allocations to health, education and agriculture, debt service is taking up 20 per cent of the national budget, surpassing the sum of the allocation to these three sectors together. As long as Malawi continues to service these debts there is less funding for the agricultural sector. As demonstrated in the previous chapters, the agricultural sector in Malawi needs adequate funding if production is to be maintained or even increased. If the sector cannot produce enough grain, then the country will have a shortfall in grain reserves, causing hunger and famine. Malawi's debts contributed to the recent food crisis and that is why donors are being called upon to cancel 100% of Malawi's debt. This money could be used to develop the country to be self reliant in food.

Malawi's external debt burden drains away much-needed resources to combat poverty and the country's perennial food crises. At the end of 2000, the total debt stock stood at US$2.5 billion, of which 86 per cent was owed to multilateral creditors, 13.7 per cent to bilateral creditors and 0.3 per cent to commercial creditors. The International Development Association (IDA), the concessional loan facility of the World Bank, is the major multilateral creditor accounting for 72.5 per cent of the total debt stock. Japan is by far the major bilateral creditor with 70 per cent, followed by China with 9 per cent and Austria with 6 per cent. The rest of the bilateral debt is owed to France, Germany, Italy, Sweden, UK, and Spain.[54]

The debt profile is dominated by concessional loans from IDA, following Malawi's decision to avoid commercial borrowing during the 1980s and creditor reluctance to extend credit since HIPC debt relief in 2000.

The graph below shows the mounting trend of Malawi's punishing debt service payments from 1996.

Figure 4. Malawi's external debt service, 1996–2000



Source: Debt and Aid Office, Ministry of Finance, Government of Malawi.

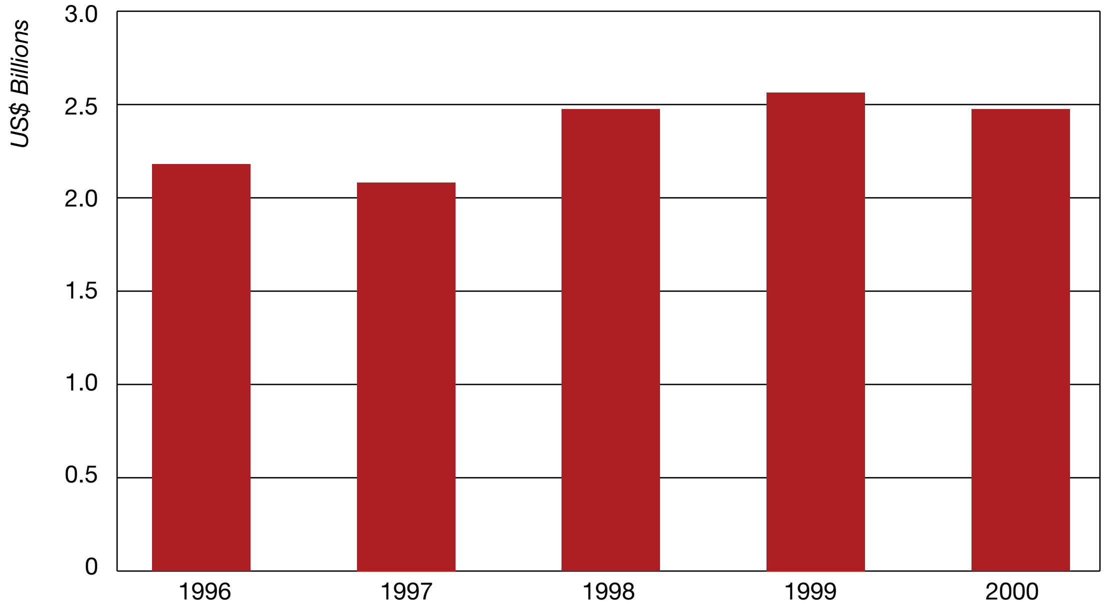
6.1 Origins of the debt crisis

Malawi's debt build-up dates back to the late 1970s, when it experienced serious macroeconomic imbalances caused by both external and internal shocks. In 1979, the total debt stock stood at less than US$1 billion. By 1999, it had shot up to US$2.27 billion. This dramatic increase for Malawi's fragile economy was caused by hikes in global oil prices and deteriorating terms of trade. Internally, the drought of 1980 and 1981 also imposed severe pressures on the national budget and necessitated external borrowing. Malawi experienced two other droughts in 1992 and 1994, along with estimated losses of US$100 million from adverse terms of trade.[55] Critically, the civil war in Mozambique during the 1980's disrupted Malawi's access to the sea, particularly the railway line to the ports of Nacala and Beira. Export and import costs increased dramatically, again necessitating external borrowing. By 1996, 23 per cent of Malawi's debt was for balance of payments support.[56]

A significant proportion of Malawi debt was incurred by Dictator Banda's regime.

For decades, the donors financed Banda's extravagant projects and loss making companies, until the campaign for democracy forced the international community to impose economic sanctions in 1992.

Figure 5. Malawi's external debt, 1996–2000



Source: Debt and Aid Office, Ministry of Finance, Government of Malawi.

One of the first actions of the new Government was to introduce Universal Primary Education and increase health and education spending by 50 per cent, to US$148 million per year. But under pressure from the IMF and World Bank to curb government expenditure, the health and education budget by 1999/2000 had been cut back to under US$100 million – the same level as during the Banda era.[57] Subsequently, planned increases have been put in jeopardy by the suspension of donor aid and the IMF loan. Under guidelines set out as conditions for Malawi to reach its HIPC floating completion point, health and education spending was to remain 15 per cent lower than at their peak in 1997/98.[58]

Thus an effective condition of inadequate debt relief is that health expenditures be kept below the level that the democratically elected government wants; this, in a country which has one of the highest levels of HIV prevalence in the world, estimated at 20 per cent.

The general ineffectiveness of donor aid has also been raised by Malawian civil society organisations and groups. The World Bank's own assessment of its projects during the 1990's indicates that, "investment operations saw lower results with 57 per cent having satisfactory outcomes and only 15 per cent likely to be sustainable."[59] The contribution of the IMF's Structural Adjustment Loans (SAL's) to the debt burden is also estimated to be significant, considering the scale of investment in the failed SAP reform programme. To determine the full extent of Malawi's debt burden and its composition, we propose that a comprehensive audit of the country's debts, similar to the one undertaken by the Nigerian Debt Management Office, be undertaken as soon as possible.

6.2 The debt campaign

Concern over Malawi's debt crisis was initially raised and brought to international attention by Malawian civil society, mobilised through the Jubilee 2000 campaign in the late 1990's. The campaign highlighted the negative impact on social spending, particularly on health and education. It also raised concerns about the prevalence of donor driven programmes, the poor co-ordination of aid projects, lack of consultation with local people, the obsessive secrecy that governed debt negotiations, and the need to stop the political uses of aid by donors and the government.

6.3 Debt reduction initiatives

Successive governments have tried unsuccessfully to reduce Malawi's external debt burden through debt rescheduling and debt conversion deals. An estimated amount of US$24 million was rescheduled with Paris Club creditors in 1983 and US$25 million in 1988. The London Club also rescheduled US$35 million worth of debts in 1988. Since 1995, debt conversion deals in the form of debt equity swaps have been negotiated with the Commonwealth Development Corporation, Cargill plc (Africa Division) and others.[60] In spite of all these efforts, Malawi's debt crisis continued to escalate, prompting the Government to redouble its efforts to join HIPC.

Box 4

The HIPC initiative

The Highly Indebted Poor Countries (HIPC) initiative was launched in September 1996 to provide debt burdened countries with an exit strategy towards sustainable levels of debt. A country was deemed eligible for debt relief if its ratio of debt to export of goods and services was between 200 per cent and 250 per cent. The indebted country was also expected to undergo six years of structural adjustment in order to qualify for relief. This conditionality, which gives the creditors economic leverage over poor countries, made the initiative very slow and highly restrictive. Malawi could not be considered for eligibility because its ratios were on the borderline of the threshold. During the G7 Summit held in Cologne in 1999, the creditors reduced the thresholds to embrace more debt-distressed countries, partly in response to widespread criticisms about the HIPC initiative. Enhanced HIPC provided for a lower ratio of debt to exports of 150 per cent and a floating completion point between 1 to 3 years for an indebted country to be considered for relief. The stage was set for Malawi's entry. The IMF and World Bank approved Malawi's entry into HIPC on 21 December 2000, after conducting a joint Debt Sustainability Analysis (DSA) which confirmed that Malawi's external debt was unsustainable (debt-to-exports ratio: 267 per cent).[61]

6.4 Expected debt relief

The enhanced HIPC initiative provides US$643 million in Net Present Value (NPV) terms, equivalent to approximately US$1 billion in nominal terms, to be delivered over 20 years.[62] This relief is targeted to reduce the NPV of debt to 150 per cent of average exports. Malawi was expected to receive interim relief amounting to US$165 million, from both bilateral and multilateral creditors between December 2000 and December 2003, but was suspended in May 2002, after receiving only an estimated US$41.3 million.[63] It is now obliged to service its debt in full, including loans from China and Taiwan and commercial creditors such as FMO of the Netherlands, who as non-members of the Bretton Woods institutions, are not obliged to provide debt relief under HIPC.

According to the World Bank, Malawi will not be sustainable on the basis of the debt-to-exports criteria decided by the World Bank until after 2010. However, the World Bank's debt sustainability indicators were all based on misleading assumptions about the future economic trends of Malawi. Real GDP growth was projected to rise from 3 per cent in 2001, to 4.5 per cent in 2003, and thereafter to rise steadily towards growth of 6 per cent by 2020.[64] Export volumes were projected to grow at a rate of 4.6 per cent from 2001-2020, incorporating 3 per cent growth in tobacco exports and 7 per cent growth in non-traditional exports. Past and current trends indicate that these assumptions are grossly exaggerated.

Malawi remains heavily dependant on tobacco, tea and other export crops that makes it extremely vulnerable to external conditions, most notably the long term decline in commodity prices. These adverse terms of trade mean that the creditors' optimistic projections for national income and export growth are never realised, severely affecting the government's ability to service its debts. Additionally, HIPC debt relief is conditioned on full implementation of IMF and World Bank economic reforms, which have failed to bring economic prosperity to Malawi.

6.5 The Poverty Reduction Strategy Paper process

Malawi's entry into HIPC was conditional on producing the PRSP, which is meant to be a plan for poverty reduction, produced by the Government in consultation with civil society. In principle, it is a credible road map for effective utilisation of debt relief resources. In practice, however, the process of consultation was very unsatisfactory. Malawi reached "decision point" on 7 December 2000 only because it agreed an "interim PRSP" with no public consultation at all. Then the Government allowed only a limited public consultation process to turn the "interim" paper into a full one. Several civil society organisations raised concerns at the time but agreed, "that although the PRSP is far from a perfect solution and is still driven largely by the IMF and World Bank, it nevertheless represents the best opportunity yet for the genuine participation of Malawians in working out how to tackle poverty. However it was also felt very strongly that this would not be possible in the time frame the Government is currently following."[65] The following observations on the PRSP process suggest that the initial fears were justified.

Box 5

Civil society participation in the PRSP process in Malawi[66]
Wiseman Chirwa and Michael Nyirenda, 11 January 2001

- Consultation was very limited. In fact, the PRSP in Malawi did not consult local people directly, but rather their representatives. As a result, most people felt excluded from the process. It compromised the so-called consent of Malawian civil society to the PRSP process.
- Participation in the PRSP was conducted through Thematic Working Groups (TWG), direct submissions and consultation workshops. But a major problem was the timing of these activities. Members of civil society who participated in TWGs, complained of short-notices to meetings. Local leaders were also given insufficient time to consult their people. There were no resources provided to the local leaders to facilitate these consultations.
- The objectives of the Malawi Government in involving civil society in the PRSP were not clearly stated. It appears that they were interested in civil society participation to meet the IMF's conditionality stated in the PRSP formulation guidelines. Civil society representatives in the structures of the PRSP were initially rejected by the Government and screened to select the acceptable ones. The Government attitude was that it was only prepared to work with those civil society representatives that it deemed acceptable.
- Civil society concerns were expressed about the Government's commitment to the poverty reduction strategy. There was a noticeable gap between the objectives of the PRSP and consultation process. This created conflicts between Government and civil society as the Government officials felt that civil society organisations were interfering in their responsibilities. Civil society was accused of trying to institute a parallel government.
- Civil society participation was severely curtailed by lack of capacity and information from government sources. There was limited cooperation from government officers. Documents were not made available on time to civil society organisations. As a result at crucial points during PRSP process, civil society organisations could not comment on critical documents.
- Virtually no local people we interviewed indicated having heard about the PRSP. For most local people the PRSP was completely unknown. A few isolated individuals that managed to participate complained of a lack of information from Government sources. Access to PRSP documents was difficult.

6.6 Total debt cancellation

Malawi's Jubilee Debt campaign, led by the broad-based Malawi Economic Justice Network, is calling for the total cancellation of Malawi's debt. They are advocating for strong civil society participation in the implementation of debt relief to ensure that freed resources are committed to alleviating Malawi's chronic levels of poverty and to building a sustainable economy for the benefit of all its citizens.

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2 *Nation Newspaper*, 14 February 2002. President Muluzi also quoted this figure when he declared a 'State of Disaster' on 27 Febuary 2002.
3 ABSA bank
4 Local estimates wrongly suggested that last year's maize shortfall of 600,000 MT could be partly offset by an increase in crop and tuber production. This resulted in complacency within the Malawi Government and the donor community. Nevertheless, the IMF and World Bank generate their own independent information data – which makes it all the more surprising that they and the European Commission (authors of the report that formed the basis of the IMF advice) could also get it so wrong. As early as July 2001, The Famine Early Warning System Network (FEWS NET), a USAID funded project, had noted the worrying signs. By September 2001, private traders were stockpiling maize to enable them to sell at higher prices later. The national maize stocks had run down to only 15,000 MT. Official warnings about serious food shortages circulated in October 2001, with reports from Save the Children (UK) and World Vision. A food security assessment conducted by the EU and the World Food Programme also reported that up to 25 per cent of households in 35 'food insecure extension planning areas' required relief assistance.
5 IMF (2002) *Interview-IMF Denies Advising Malawi to Sell Food*. Reuters, May 2002.
6 Kohler, H. (2002) United Kingdom Parliament Treasury Select Committee, 4 July 2002 http://www.parliament.the-stationery-office.co.uk/pa/cm200102/cmselect/cmtreasy/uc868-iii/uc86802.htm
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8 Malawi Leader Blames IMF for Food Crisis: Reuters, June 6, 2002
9 ActionAid (2002) '*State Of Disaster, Causes, Consequences & Policy Lessons from Malawi*', ActionAid, June 2002.
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11 State of Disaster, op cit
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15 Daily Times, op cit
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17 State of Disaster, op cit
18 Interview with Victor Mhone, CISANET, Lilongwe, August 2002
19 The figures here were accurate as of August 2002. International food aid responses may change the picture in the coming months.
20 State of Disaster, op cit
21 Except in 1999
22 Malawi Poverty Reduction Strategy Paper, April 2002
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32 *The Nation*, 9 August 2002
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35 State of Disaster, op cit
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37 Minister of Finance and Economic Planning (2001) *Budget Statement*, 22 June 2001
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39 World Bank (2001) *Global Development Finance 2001*, World Bank, Washington DC, USA.
40 UNDP (1997 – 1999) *Annual Human Development Reports*, UNDP
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44 *Malawi – The World Bank and the Agricultural Sector,* op cit

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47 Ministry of Agriculture and Livestock Development (1995) *The Agricultural and Livestock Development Strategy and Action Plan 1995*, Ministry of Agriculture and Livestock Development
48 *Economic Report 2002*, National Economic Council, Malawi Govt.
49 Minister of Finance and Economic Planning (2001) *Budget Statement*, 22 June 2001
50 The Privatisation Commission (2000) *Annual Report*
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52 Malawi Government (2002) *Financial Statement for Financial Year 2002/03*, Malawi Govt.
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