The Impact of Economic Reform Programmes on Social Services

The Case of Malawi

AFRODAD
African Forum and Network on Debt and Development

The Impact of Economic Reform Programmes on Social Services

The Case of Malawi

African Forum and Network on Debt and Development
31 Atkinson Drive, Hillside,
PO Box CY1517, Causeway, Harare, Zimbabwe
Telephone 263 4 778531, 778536   Telefax 263 4 747878
E-Mail afrodad@afrodad.co.zw
Website: www.afrodad.org

About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

1 To enhance efficient and effective management and use of resources by African governments;

2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.

3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

Acknowledgements

AFRODAD wishes to acknowledge their great debt of gratitude to Paul Kwengwere of PMK Associates and his research team for investing considerable time and effort in the research process of this report. Many thanks also goes to those in the Malawi government, civil society, the UN family, international financial institutions, donor community and private sector who contributed to the research outcome through interviews or responding to questionnaires. We also remained indebted to Mandla Hadebe and Dr. Nancy Dubosse for helping in the final edit, proof-reading and layout and design of this report.

The financial support of Ford Foundation and Novib was invaluable to the project. The report benefited greatly from the facilitation of Ms. Mukelabai Mundale at the AFRODAD Lusaka offices and Mr. Taurai Chiraerae at AFRODAD secretariat. Many thanks to many of our colleagues whom we can not all name but whose input into the national FTA Commission meetings remains vital to this output.

Preface

AFRODAD has always believed that the causes of Africa's economic doldrums and debt crisis are both internal to the countries and external. External factors include the lack of responsibility on the part of the creditors resulting in loans not achieving their intended goals or loans being pushed. The establishment of a Debt Arbitration Tribunal will usher in more responsibility on the part of the Creditors and Debtors in the transactions on loans: in terms of loan contraction processes and use of the resources for enhancing the welfare of the masses of the people in Africa and elsewhere. More importantly presenting cases that show how loans miss their intended objectives before the tribunal is expected to result in changed behaviour on the part of both the Creditors and the Debtors. Cases of hurried privatization in Africa pushed in the 1980s are worth considering.

When countries in sub-Saharan Africa became independent, the state dominated the provision of utilities. However, in the 1980s the debt crisis and the ensuing contraction of budgets prompted a re-appraisal of public sector provision. Donors began lobbying for the restructuring of public services; by the 1990s, they were demanding full-scale privatization. The hopes for privatization were so high that donor spending on infrastructure fell in the expectation that the private sector would take up the slack. For example, World Bank lending for infrastructure investment declined by 50 per cent during 1993-2002- with much of this directed towards preparing firms for privatization.

Many African governments in the name of good governance, competition and deregularation were forced to comply in exchange of balance of payment support and under the guise that it was a way to lure private investors. However, implementation of such reforms has been disastrous as no investors came on board. The lessons were that the bank did not know which lessons to teach; it also showed that countries that had ignored bank dogma (China, Vietnam, India) were thriving, while those under bank tutelage did poorly. The World Bank is on record especially in Africa for failing to tailor projects to local conditions and for sometimes attempting to accomplish more than national governments can handle- failing to help cushion poor people against price and currency liberalizations, for focusing on the fiscal sustainability of pension systems to the detriment of the poor and for promoting the privatization of essential services.

This dossier for a Fair and Transparent Arbitration mechanism demonstrates that the International Financial institutions' insistence and experimentation with privatization did irreparable damage that still affects the country's ability to stand on its economic feet today-years after such programmes were abandoned. Poor families suffered from the reduction in subsidies and disconnection from services when they were unable to pay. To many it meant a denial of basic human rights and in most cases it carries irreversible life impacts. After years of inflicting pain and suffering on the poor and helpless masses, it is now clear to the advocates of privatization, especially the World Bank and the International Monetary Fund that the state remains the dominant provider of health, education, water and electricity. The International Financial institutions are still responsible for the development set back and its consequences. They owe the affected a form of recompense. Cancelling debts and mere policy shifts are not enough. Most of the public providers of utilities in sub-Saharan Africa need substantially more financing, especially for investment in extending service provision. They are trapped in a vicious circle of deteriorated infrastructure, high system losses, high costs and low revenue.

AFRODAD and its international partners in the civil society wishes to present this and many other cases as evidence for the need and cause for a fair and transparent arbitration process. Justice delayed is justice denied.

Charles Mutasa
Executive Director
AFRODAD
March 2007

Table of Contents

Abbreviations and Acronyms

ADD	Agricultural Development Division
ADMARC	Agricultural Development and Marketing Corporation
AFRODAD	African Forum and Network on Debt and Development
AIDS	Acquired Immune Deficiency Syndrome
AU	African Union
CABS	Common Approach to Budget Support
ERP	Economic Reform program
ESAP	Enhanced Structural Adjustment Program
GDP	Gross Domestic Product
GoM	Government of Malawi
GNP	Gross National Product
HIPC	Highly Indebted Poor Countries
HIV	Human Immuno-Deficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IHS	Integrated Household Survey
IMF	International Monetary Fund
IRIN	Integrated Regional Information Networks
MDC	Malawi Development Corporation
MDHS	Malawi Demographic and Health Survey
NSA	Non-State Actor
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Program
SOE	State Owned Enterprise
WB	World Bank

1.0 Executive Summary

This paper examines the general performance of structural adjustment programs (SAPs) in Malawi. In particular, it considers the adverse impact that SAPs have had on citizens' basic human rights as well as on social service provision. After good economic performance between 1964 and 1979, characterized by a high average annual rate of economic growth and macroeconomic stability, the economy of Malawi suffered from internal and external financial imbalances and a lower rate of economic growth from 1980. The fundamental causes were the oil price crisis, adverse terms of trade and external debt burden. The immediate causes were drought and closure of short rail routes to the sea, which resulted in a sharp increase in the cost of external trade.

The Malawian authorities approached the IMF for assistance for covering the balance of payments deficit, which they got through a series of stabilizations credits; and the World Bank for economic reforms since the problems were believed to be structural and hence long term in nature. Among other things, stabilization programs put ceilings on external and domestic borrowing, while emphasizing expenditure control and measures for increasing government revenue. Economic reform programs (ERPs) aimed at increasing economic efficiency and removing constraints to economic growth by improving price incentives, removing fertilizer subsidies, removing price controls, liberalizing production and marketing of crops, introducing or increasing user fees for education, health and other social services, and privatization of state owned enterprises, among other things.

The paper argues that ERPs have led to an increase in poverty and food insecurity, thus violating human rights. They have also affected the provision of social services, thus adversely affecting access to them by citizens whose human rights have thus been violated. This validates the illegitimacy of foreign debt. The paper concludes by stating that the government should be more careful on all externally influenced programmes and policies; should build local capacity for formulating policies and use resources from debt cancellation prudently. Civil society should offer more constructive criticism to government, while donors should refrain from believing that everything that they say is right.

2.0 Introduction

Economic Policy Reforms (ERPs) in sub-Saharan Africa, just like in other regions of the world, intensified in the late 1970s as a way of dealing with the general economic crises these countries were going through. The problems in the developing countries arose from three global crises: the oil crisis, declining agricultural commodity prices, and the international recession from the late 1970s to the early 1980s. The developing countries therefore faced unprecedented pressure in their external accounts after these consecutive international economic crises. Other reasons apart from the above are cited as having contributed to Sub-Saharan Africa economic deterioration. These include rapid population growth, adverse weather conditions (such as drought), mismanagement of economy due to the political instability and corruption (Adepoju, 1993).

In retrospect, it was difficult to find countries and institutions that were willing to finance these countries. There were number reasons: first, most of the countries that had been assisting were also in recession due to the oil crisis; second, the cold war was taking up a lot of resources; and third, the financing from the Eurocurrency market which had become common in the early 1970s was becoming difficult because of deterioration in terms of trade. The concerned governments [from Africa] therefore looked to Bretton Wood Institutions (IMF and the World Bank). In response, the Bretton Woods Institutions came up with a structural adjustment package comprising of a loan from the World Bank, if the country followed some recommended reform, called Structural Adjustment Program (SAP). This package has been faced with so much discourse since its inception and the failures (or successes) in most of the developing countries, and indeed the primary intention. Walden Bello (1998) summarized the short and long term objectives of SAP as to "rescue northern banks that had become overextended in the Third World; and to further integrate southern countries into the North-dominated world economy, respectively".

This paper looks at the general performance of SAPs and most of the reform programs Malawi has undertaken. The paper further looks at the adverse impact of such programs on the citizen's basic human rights as well as social service provision. Existence of human rights violation can be rated from different angles. The simplest measure of such violation is rampart poverty. According to Jukia Hausermann (1998), "poverty is in itself a violation of human rights. In addition, it causes vulnerability to a denial of a wide range other human rights". This paper therefore attempts to analyses the effects that ERPs have had on the provision of basic social services in Malawi by looking at the period before and period after.

The main aim of this paper is to support the already ongoing work by AFRODAD on debt relief. Much has already been written on Malawi's illegitimate debts (AFRODAD on Malawi Debt, 2005) , which has highlighted the reasons for Malawi's odious debt and called for immediate cancellation unconditionally. This paper complements the work already done by tackling the human rights aspect outlining the various areas where economic program reforms goofed. The findings in this paper will indeed strengthen the argument for complete debt cancellation without any conditionality for Malawi and other countries in Sub-Saharan Africa.

The paper is divided into four parts. After this introduction, which covers methodology, the paper looks at economic reform programs. This second section looks at Malawi's contextual analysis and the general economic performance from the time the country became independent and the reason for going into externally influenced programs; it also looks at most of the major programs, tackling each one briefly. The third section analyses the effectiveness of these programs and presents a privatization case study to emphasize the implications of the programs for Malawian citizens. And the final part concludes and gives recommendations.

3.0 Economic Reform Programs

As already stated in introduction, externally influenced Economic Reform Programs in Malawi intensified in the 1980s soon after the country started experiencing economic problems. The first part of this section looks at Malawi in context of the issues that will be discussed extensively in the paper, viz: poverty, food security, social services provision and other related areas that affect human rights provision. This is done by looking at political and economic issues since independence. Understanding this discourse helps clarify some of the reasons why the country went into economic reform programs in the first place. The section then looks at most of the economic reforms that have immensely impacted policy.

3.1 Malawi: Contextual Analysis

Malawi is a small land locked country in Southern part of Africa, densely populated, with 12 million inhabitants living within 118,000 sq metres of land out of which a fifth contains water. Malawi's population density on land is one of the highest in Africa. For a country with one short rainy season (of four to five months), it is ironically dependent on agriculture which contributes over 35% of the GDP. The country also lacks substantial mineral wealth. Not surprisingly, the high population pressure on land and other natural resources, very small landholdings and the unreliability of rain present policy-makers in Malawi with a huge challenge of dealing with poverty and underdevelopment.

Some of Malawi's main indicators show some deterioration when we compare those in the 1960s to the current one. The per capita GDP was $210 in the late 1960s but in 2004 this had dropped to $170. According to the Integrated Household Survey (IHS) of 2004/05, 52.4% of the population lives below the poverty line, ie 6.4 million Malawians are poor , considerably high percentage of poverty for a country after 40 years of independence. Lately, the annual economic growth has been averaging below 2%, and hardly exceeding 5%, while in the 1960s and 1970s growth was mostly 5% and above.

With this deteriorating economic performance, and the government has been constantly blamed for poor fiscal discipline and "lack of political will". Several times donors have come up with economic recovery programs with the belief that Malawi can rapidly achieve sustainable growth. Unfortunately, these programs have continued increasing the harm to Malawi's economy. Consequently, instead of re-examining the realism of their assumptions in the Malawi context and adjusting the approach, they [donors] tend to look for excuses and then move onto another policy initiative (Booth et al, 2006).

3.1.1 Political Economy

Formerly a British colony, Malawi attained independence in July 1964 after gaining self government in 1963 when Malawi Congress Party (MCP) under the leadership of Dr Kamuzu Banda, won majority seats in Parliament. Soon after independence, in September 1964, Kamuzu's style of leadership was challenged by some senior cabinet Ministers who tried to persuade him to pursue stronger anti- colonial policies including speedy Africanisation. They failed, dismissed and fled into exile paving way for a one party state. The one party system was later institutionalized by an amendment to the constitution.

The effects on the economy arising from the conflicts triggered off by the 1964 cabinet crisis and the ensuing undemocratic ways of managing many of the affairs of the state were to be felt over several time. The subsequent years saw the Malawi economy being managed by Dr Kamuzu Banda with little support from the Executive, who he made sure was very loyal to him. Dr Banda eventually became the Life President in 1971, and the constitution amended to reflect the development.

The one-party system era was associated with fear, repression and obviously very little democratic activities or discussions pertaining to policies or laws. Despite this, social obligations in sectors like health were respected. However, quite a few policy changes took place and some of them had considerable effect on Malawians as we shall discuss in the coming sections. One example such major policy change was the shift from smallholder farming to large scale "estate" farming in order to improve national production; this had adverse impact on the incomes of the poor.

Brutal as he might have been portrayed in his 30 years rule of Malawi, Dr Banda honorably bowed down to multiparty system of government when challenged by the civil society in 1992, and two years later (1994) humbly accepted defeat in the Presidential elections.

The years from 1994 are a complete contrast to the 30 years after independence when all Malawians enjoyed freedom of speech and fully participated in democracy. The result was very good policies in place under the leadership of President Bakili Muluzi in a multiparty system of government. However, it was soon noticeable that actual implementation of most of these good policies was very questionable; the government lost control of fiscal discipline and corruption became a chronic government disease. Services in certain sectors like health deteriorated. By the time Muluzi's government was getting out of power in 2004, the IMF had suspended its support a couple times.

The current government that took over in 2004 headed by Dr Bingu wa Mutharika seem to be in control again and there is some noticeable traits that the economy is slowly but steadily moving in the right direction (Whitworth, 2005).

While most of the discussion in this paper is about the economic policy reforms, it is important to have the above clarification about political stages that Malawi has gone through. As one goes deeper in the economic analyses, some of the explanations in the trends can be attributed to the regimes during particular times.

3.2 HIPC and Malawi

In terms of Highly Indebted Poor Countries (HIPC), Malawi qualified for debt cancellation in 2000, which in HIPC terms is called "decision point". Decision point is reached when a country's debt is deemed unsustainable even after the full use of traditional debt relief mechanisms. At the Decision Point, creditors commit to providing sufficient amounts of debt relief to ensure that the countries' debt is reduced to levels deemed 'sustainable'. However, the debt is not actually cancelled until "Completion Point". Once countries have passed Decision Point, they are required to establish a further track record of good performance under IMF/World Bank supported programmes before they reach Completion Point. Malawi reached the Completion Point almost six years later, on 1st September 2006.

Some of the conditionalities (from the IMF) the country has been working between the decision point and completion-point include :

- The adoption of a full Poverty Reduction Strategy Paper (PRSP) prepared through a participatory process, and satisfactory progress in implementing and monitoring the PRSP for at least one year;
- The satisfactory implementation of financial and economic policies supported by the IMF's Poverty Reduction and Growth Facility (PRGF);
- The improvement of public expenditure management and governance, through quarterly expenditure reporting on spending in high priority areas and through the separation of fiscal management and audit functions under new legislation;
- The strengthening of land and credit markets;
- The implementation of specific actions in the social sectors aimed at targeting safety net programs to protect the poorest, improving health care delivery, slowing the spread of HIV/AIDS, and raising the quality of education;
- The confirmation of the participation of other creditors in the debt relief operation.

Although some conditionalities help the country to be on track in terms of development, overall, attaching them to debt relief is rather continuing the same mistakes that have been noted in the structural adjustment programs over time. Part of this paper argues that debt should be cancelled without any conditionality.

3.3 Economic Performance

3.3.1 The Glorious Years: 1964 to 1979

The period from independence in 1964 to 1979 can be described as glorious years for Malawi. The GDP per capita grew fairly rapidly from $158 in 1965 to $225 in 1979, in both cases using the 1983 US Dollar (Kydd and Hewitt, 1986). At independence, the economy was overwhelmingly agrarian with agriculture accounting for 55% of GDP. Although the overall share capital of agriculture declined slightly by the early 1980s, the sector was still enjoying a major share of closer to 40% of GDP. Within the agriculture sector, there was rapid development of estate agriculture.

Up to 1979, the country was generally able to achieve good economic growth as well as sustain a satisfactory balance of payments because of deliberate policy interventions targeting the agricultural sector and favorable terms of trade for Malawi's exports. During that time, the government emphasized export agriculture. This agriculture export policy was complemented by "the maintenance of a competitive exchange rate (avoiding the large appreciation of the effective exchange rate which occurred in most of Sub-Saharan Africa outside the Franc zone)" . The existence of an agricultural marketing board, named ADMARC (Agricultural Development and Marketing Board) in 1971, formerly Farmers Marketing Board further helped capitalizing newly developed private estates for Malawians and also helped proving ready market to smallholder and peasant farmers, thereby creating a middle class as well as helping the most vulnerable population. The banks too, which that time were partly publicly owned, were instructed by the government to give priority to estate agriculture. Table 3.1 below summarizes the average economic indicators for the period 1964-1975. Compared to the 1979-84 period, there is a huge difference in the indicators.

The general economic outlook during this period does not mean that the current account was always positive. On the contrary, it was negative most of the time. However, this was not critical and it was offset by long-term capital inflows until 1975. During the period 1975-1979, whenever the balance-of-payments difficulties emerged, though not a very critical constraint on growth, there was considerably large deficit. This deficit was mainly financed by a reduction of reserves with the IMF, drawing on the Compensatory Financing Facility and borrowing in the Eurocurrency market.

Table 3.1, Growth rates of selected national income aggregates: In real terms (annual growth rates), 1965-79 and 1979-84

			1965-79	**1979-84**
Aggregate				
1.	Real GDP		5.5%	2.6%
2.	Real GDP per capita		2.6%	0.1%
3.	Real Total Consumption per capita, of which:		0.8%	-1.5%
	(i)	Private Sector consumption per capita	0.2%	0.9%
	(ii)	Public Sector Consumption per capita	4.2%	-11.8%
4.	Real total investment per capita, of which:			
	(i)	Private Sector consumption per capita	12.9%	-16.5%
	(ii)	Public Sector Consumption per capita	4.2%	0.0%

Source: Government data, (Kydd and Hewitt, 1986)

3.3.2 The Recession Years: 1979 to 1984

Several factors, mostly external, are on the record of turning around Malawi's good economic trend from independence. In 1979, there was the oil shock that affected most countries globally, and Malawi was not spared. This coincided with intensification of the Mozambican civil war that disrupted the railway line to Nacala. The Nacala route, by that time, carried the bulk of Malawi's imports and exports. An estimate made by the Ministry of Transport in 1985 was that the economic cost of transport diversion in 1983 was $30 million when the index of rail handling of imports and exports was 35% of that in 1980 (Economic Report 1985). The agricultural sector, for the first time performed badly due to bad weather. This forced the government to import large quantities of maize for the first time since 1949/50.

The failure of the agriculture caused deep concern to the Malawi government which was proud of the country's record of food self-sufficiency and was prepared to take painful measures to avoid a repetition of what was regarded as the humiliation of having to import food (Kydd and Herwitt, 1986).

This is one of the reasons the country easily accepted the programs from IMF and World Bank, thinking that an easy solution would come by. Apart from poor agriculture production, Malawi's fiscal deficit was slowly increasing during the years 1975 to 1979.

It should be pointed out that so much has already been written on the technical ineffectiveness of these reform programs. Thandika Mkandawire and Charles Soludo (1999) looked at 30 studies, each study appraising the performance of SAPs with respect to particular sectors or issues and evaluated the compatibility of the policies and with the requirements for long-term development . The participants in the project set out to analyze the various policies under SAP from perspective of development - broadly understood as involving economic growth, structural change and elimination of poverty. The common conclusion in all the reports was that adjustment has not worked as promised. Even the World Bank, after a decade, finally admitted that "adjustment alone is not adequate for long term sustainable development" (1994, pg 2). Accordingly, Africa was advised to spend time and resources "adjusting" nonexistence or defective markets.

Our emphasis, as already clarified in the earlier sections, will be to examine the extent of such programs have violated the human rights aspect, by looking at the effects on social sectors which directly determine the livelihood of the common populace. Agriculture, health and education sectors will be examined. The agriculture sector is key to food security, and the constitution recognizes, though not directly, the right to food. This is clearly spelled in the fundamental principles where Malawi endeavors "to achieve adequate nutrition for all in order to promote good health and self sufficiency". Similarly, the constitution recognizes the need for government to provide adequate resources in order to eliminate illiteracy in Malawi and provide access to higher learning. Regarding health, the State is expected to provide adequate health care, commensurate with the health needs of Malawian society and the international standards of health care. Apart from the constitution of Malawi, the country is signatory to the human rights charter that clearly spells out different rights including the right to health, the right to education and right to food, the three main areas this paper concentrates on.

3.4 Reform Programs

The year 1979 saw the first IMF stand-by facility being signed in order to deal with the deficit that was getting worse. By that time the other options to borrow from Euromarkets had been exhausted. These IMF Stand-by facilities were basically short-term and medium term stabilization program that came with management conditionalities. The 1979 facility was worth SDR26.34 million. Stand-by facility was one of the three mechanisms the country used to deal with the deficit. The second mechanism involved taking Structural Adjustment Loans (SAL) from the World Bank. And third method of financing the payments deficits had been the successful rescheduling of official and commercial debt. These SALs were accompanied by Structural Adjustment Programs (SAPs).

Structural adjustment programs (SAPs) can simply be defined as a "package of economic and institutional measure designed to solve macroeconomic problems in developing countries by reducing government intervention in the economy, correcting the borrowing country's deficits and opening the country's economy to the global market" . The SAP works hand in hand with SAL, defined as "series of discrete lending operations…to provide quick disbursing balance-of-payments support to a country which is prepared both to formulate and to reach agreement with the (World) Bank on a structural adjustment program."

In general terms, three categories of policies formed part of any IMF programme: demand restraint; switching policies; and policies related to long-term supply or efficiency (William Lyakurwa, 1994). The aim of demand restraint policies was to curtail expenditure on imports and release resources for exports. Major policy instruments included: reduction in government expenditure and budget deficit; controls over money supply and credit creation; and policies to cut real wages. Switching policies intended to shifting resources from non-tradables to tradables by changing incentives. Policy instruments included: devaluation and exchange rate unification; changes in domestic prices especially in agriculture; and wage control. On the other hand, long-term supply policies were for raising the long-term efficiency of the economy by securing a more market-oriented economy subject to fewer restrictions and less segmentation.

Malawi went into SAP agreement in 1981. During the SAP period, three Structural Adjustment Loans (SALs) were given to the country from 1981 to 1988. Although the emphasis during the SAP was agricultural exports, each of the SAL came with its own conditionalities, outlining areas of reform, changing the whole focus of the government plans drawn during the 1964-79 period.

Some of the conditions that came with the SAPs were periodic adjustment of the exchange rate and interest rates, decontrol of industrial product prices, removal of fertilizer subsidy, and privatization of state-owned enterprises. In this section we shall briefly outline the specific target areas for each of the SAL.

3.4.1 Structural Adjustment Loan I

Loan amount Approved : 45 million US$

Year Signed : 1981/82

The first SAL was supposedly a funding program developed by the government in consultation with the IMF and World Bank on the overall policy and macroeconomic framework. The three major objectives under this program were: 1) a return to growth at the historically fairly modest rate of 4.8%; 2) the diversification of sources of foreign exchange, to be achieved through the promotion of new crops and agro-industries and the revival of peasant produced exports; and 3) the improvement of the internal and external balance.

One major factor during the first SAL was the push for the government to review its price control system, with a view to moving towards reduced intervention. The other was the exchange rate and interest rates deregulation. The rates would be periodically reviewed, though this was primarily a matter for dialogue with the IMF.

The formulation of the longer term solutions was likely to entail fairly extended periods of study and appraisal. The SAL analysis assumed that the major contribution to the improvement of the balance of payments would come from the reversal in the decline in the traditional peasant produced exports of tobacco, groundnuts and cotton. This was to be achieved mainly through substantial improvement in the prices for these crops.

3.4.2 Structural Adjustment Loan II

Loan Amount Approved : US$ 55 million

Year Signed : 1984

The policy reforms agreed in negotiations for the second SAL were set out under three headings. First were measures to improve the performance of the productive sectors, second, improved mobilization and management of resources and, third, steps to strengthen key institutions. In fact, the third category of measures was closely related to the first as it referred to the restructuring and/or management reorganization of three mainly production organizations, ADMARC, MDC and Press .

In this SAL's negotiation the Bank emphasized the substantial reduction in the extent of formal and informal price controls, since during the first SAL, despite the government agreeing to review the policy, but in practice, had made no significant changes.

It was during this SAL that the controversial user fees for essential social services like health were suggested. The Bank, in trying to develop ways of raising revenue, felt that this should be achieved by tariff increases in the public utilities and by greater cost recovery from the consumers of government supplied housing, health and education services.

3.4.3 Structural Adjustment Loan III

Loan Amount Approved : US$ 30 Million

Year Signed : 1986

During this SAL, implementation of subsidy removal became the main component. Although, the move was introduced in SAL II, because of currency devaluation and external transportation costs, the government asked for an extension of the subsidy removal period in order to maintain food security and due to the fact that Malawi had the highest fertilizer prices because transportation costs. In 1985, with the continued deficit, the donors insisted that subsidy removal become central due to the following reasons:

- Although smallholders with larger farms were the main beneficiaries of the program, there were major leakages of subsidized fertilizer to the estate sector;'

- withdrawal of the subsidy would contribute little to sharp fertilizer price increases: farmers were unlikely to respond to fertilizer price increases, especially as subsidy removal was to be accompanied by the introduction of high-analysis fertilizers; and
- farmers would shift to growing hybrid maize to reduce the impact of adverse price effects on fertilizer consumption

It was also during this SAL that the donors looked at expanding the role of the private sector in the marketing of smallholder crops as a major reform which included restructuring of ADMARC. Donors concluded that the correct response to the increased cost of ADMARC's operations was to liberalize the marketing of smallholder agriculture produce. Prior to the 1987-88 marketing season, approximately 120 of ADMARC's nearly 1,400 markets were closed.

3.4.4 Enhanced Structural Adjustment Facility (II)

Amount of Loan Approved: SDR 67.0m

Year Signed : 1988

Second ESAF : SDR 50.96m (1995)

The Enhanced Structural Adjustment Facility (ESAF) was created in 1987 with a basic intention to strengthen substantially and in a sustainable manner, the balance of payments position and to foster growth. ESAF took over the SAF as the IMF's main window for concessional loans, and Malawi was one of the first beneficiaries of this facility, signing the loan on 15th July 1988. Another reason succeeding SAF was because ESAF was a much larger injection of IMF support in the 1990s. Actually, Malawi went through two ESAFs, the second was signed in October 1995. In this section, I have covered the reform programs under the two ESAF programs together.

During the implementation of ESAF, the government was forced to undertake a number of changes in different sectors. In agriculture, there was halting of transferring of land from customary tenure to estates, an implementation of a SAP III conditionality of reversing the emphasis in estate farming. For the first time, peasants were legally allowed to grow burley tobacco on customary land, a cash crop which until then was reserved for estates. In foreign trade, for exports, there was reduction of the scope for export licensing and introduction of an export retention scheme, and in imports, relaxation of import controls. Perhaps, a major change under forein trade was the relaxation of exchange control that came in 1994. Under monetary policy, there was liberalization of interest rates (1990), elimination of direct bank credit (1992), and opening of the financial market to new entrants (1990/91).

3.4.5 Agricultural Sector Adjustment Credit (ASAC)

Amount of Loan Approved : US$ 79m

Year Signed : 1979

The main goal of Agricultural Sector Adjustment Credit was to allow smallholders to grow burley tobacco and obtain full value for export sales. The project was designed to mobilize a vast reservoir of potential export capacity and remove one of the leading causes of rural poverty in Malawi by changing the role of ADMARC and establishing new rules for the production and marketing of tobacco. The project envisaged a "new deal" for smallholders, who would obtain a substantial portion of market revenues from all tobacco sales and gain access, on a pilot basis, to the right to produce burley tobacco. Since burley tobacco yielded 10 times the income per hectare of hybrid maize (the leading subsistence crop), the reforms promised a strong attack on rural poverty (Winfred,1996).

The project also continued to support macroeconomic adjustments in line with earlier operations, and added steps to improve the efficiency of land use on estates; divest ADMARC of its noncommercial functions (or ensure their proper budgetary support); revise the Ministry of Agriculture's budget; and redirect maize breeding towards high-yielding flint hybrids.

3.4.6 Poverty Reduction and Growth Facility I

Amount of Loan Approved : SDR 45.11.0m

Year Signed : 2000

The first real PRGF (2000) for Malawi involved SDR45.11 million. Since the PRSP process was still going on, the interim PRSP provided a sound basis for the concessional lending. According to the IMF release, the objectives of the authorities' new three-year program included the achievement of a sustainable GDP growth of at least 4.5 percent, a reduction of inflation to low levels, a significant improvement in Malawi's external position, and a reduction in the number of people beneath the poverty line. These objectives were to be achieved by reducing monetary growth, achieving a balanced fiscal position, improving spending control, deepening structural reform, strengthening governance and prioritizing pro-poor expenditure. Reserve money was expected to be the operational target for monetary policy and the exchange rate allowed to float freely.

The programs supported by the PRGF were to be derived from the country-authored Poverty Reduction Strategy Papers (PRSPs) to ensure country ownership and a clear orientation towards achieving the joint objectives of poverty reduction and growth. The PRGF main focus was to support programs aimed at fostering lasting growth that culminates better living standards and reduction of poverty (AFRODAD, 2005 - PRGF/PRSP Study). It should be pointed out that the PRGF was supported by budget support commitments from the Common Approach to Budget Support (CABS) group of donors

On the fiscal side, crucial features of the program were a new commitment of control system and the avoidance of further spending arrears; and a stop in maize marketing intervention and subsidization of petroleum. The program sought to preserve the gains to smallholder agriculture from the liberalization of tobacco growing and marketing, by avoiding any burdensome restrictions on tobacco buyers. Under this program, there was emphasis of improving governance, as well as the strengthening of the institutional and legal environment in the areas of corruption, fraud and misappropriation of public funds.

The PRGF I went off track within a year of its approval. There was no fiscal discipline during the period from 2000. The deficit increased from 5.8% of GDP in 2000/01 to 7.9% in 2001/02. The deficit increased still further in 2002/03 to a massive 11.6% of GDP. The last one could be as a result of the maize operation (costing 3.8% of GDP) following the poor harvest in 2002. The donors too were not prepared to continue 'pouring good money after bad' in support of a fiscally irresponsible government. Most CABS budget support was conditional upon GoM remaining on track with the IMF and so was suspended when the PRGF went off track .

In 2003, there was an apparent improvement in fiscal management and Malawi got back 'on track' with the IMF PRGF in October 2003, consequently resulting in the CABS donors resuming disbursements of budget support. This did not take long. There was again a relaxation in expenditure control in the run-up to the May 2004 elections, resulting in a 2003/04 deficit of -7.8% and the abandonment of the PRGF.

The Malawi government then agreed with the IMF to implement a Staff Monitored Program (SMP) in order to establish a track record of good expenditure, prior to approving the second PRGF. By all means, the SMP was successful, and restored donor confidence, and consequently led to the signing of the new PRGF in 2005.

3.4.7 Poverty Reduction and Growth Facility II

In August 2005 the IMF Board approved a new Poverty Reduction & Growth Facility (PRGF) for Malawi, indicating a substantial improvement in the country's international standing. A substantial number of conditionalities were consequently put in place. An AFRODAD study on "The Impact of the Poverty Reduction and Growth Facility on Social Services in Malawi" (2005) identified conditionalities in the form of quarterly quantitative targets i.e ceilings and floors on some monetary and fiscal variables; and also structural benchmarks in form of achievement of established datelines on completion of important activities. The following are quarterly quantitative benchmarks which Malawi has had to go through in undertaking the PRGF II:

On monetary aggregates, the following variables were going to be monitored on quarterly basis

- The floor on net foreign assets of the monetary authorities
- Ceiling on net domestic assets of the monetary authorities
- Ceiling on reserve money

On fiscal aggregates the following variables are going to be monitored on quarterly basis

- Ceiling on central government's net domestic borrowing
- Ceiling on central government wages and salaries
- Ceiling on central government discretionary expenditures

On the External sector, the following variables are also going to be monitored.

- Ceiling on the accumulation of external payments arrears
- Ceiling on new non-concessional external debt with maturity over one year.
- Ceiling on new non-concessional external debt with maturity less than one year

Several Structural Performance Conditionalities and benchmarks were put in place, most of them targeting 2006, when Malawi was likely to reach completion point for HIPC.

4.0 Analysis of Effectiveness of ERPs

Most macroeconomic studies have given general conclusion that the impact of economic policy reforms has been negative in the short term. In this study, we tried to concentrate our analysis on the areas of concern outlined in the TORs and with reference to the rights of the citizens. The study has little quantitative analysis. This section therefore gives an analysis of the effective of the programs and further looks at some real life views of on the effects of the reforms in order to achieve more. One major case study covered is effects of privatization on Malawians living in rural areas.

The approach in the analysis will be to look at the period prior to these programs and the period after these programs started. In line with the TORs, a number of sectors will be specifically covered, viz: agriculture which shall be done together with liberalization, then health and education. Privatisation case study has been chosen because it is one of the major reforms that came with these economic policy reform programs. Its effects give paramount evidence of some of the major effects on the Malawian citizens. During the analyses in the specific sectors, much effort will be to look at whether the Malawian's rights are violated and if, where necessary, the government has failed its obligation to accord the citizen the necessary services so that s/he is able to live in dignified manner.

4.1 Period Before and During Economic Review Programs

The years when the country did not have any externally pushed reform programs has been briefly covered in section 2 of this paper as the years of glory. Closely looking at the two periods we can identify a few distinct features, as outlined below:

1964-1979

- Some rapid economic growth - the annual average rate of increase in GDP was over 5%, and over the whole period, GDP per capita more than doubled;
- growth based on agriculture - the government promoted an agricultural development strategy;
- Despite a government emphasis on productive rather than social sectors, there were some improvements in social welfare. Infant mortality declined from around 200 per 1,000 in 1964 to around 130, and per capita daily calorie intake increased from 2,250 in 1964 to 2,400 in 1975.
- Because of a policy that favored Estate Production in Agriculture, per capita grain production fell from 240 kg per person in 1964 to around 210 by 1979.

However, income distribution was highly unequal and worsening - in the late 1960s the top 10% of the population received over 50% of national income. The Gini- coefficient, measuring the overall inequality in distribution, was 0.448 and increasing.

1979 to Present

This period is characterized by:

- Falling per capita incomes. Between 1979 and 1996 GDP growth averaged 2.5% per year, which went down further to annual average GDP growth of 1.6% during the period 1998-2003. This is even beneath the population growth rate;
- There was a further decline in per capita grain production, partly reflecting continued reduction in average sizes of landholding - with calorie intake declining as a result, from 2,400 per person per day in 1975 to fewer than 2,100 by 1996.
- In the 1990s government re-orientated its public expenditure away from economic infrastructure towards the social sectors. However, in conditions of low growth, increasing inequality, one of the most severe HIV/AIDS outbreaks and steady environmental degradation, the rate of improvement in infant mortality slowed and average life expectancy fell.
- Free primary education, introduced in 1994, improved enrolment rates but at the expense of pupil/teacher ratios and service quality.

4.2 Poverty Levels

In terms of the number of people that live below the poverty line, the current status shows that 52.4 percent of the population lives below poverty line and 22.4 percent are rated ultra poor (2005 IHS2). In other words about 6.4 million Malawians live in poverty and as many as 2.7 million Malawians are in dire poverty such that they cannot afford to meet even the daily recommended food requirements. This data from the IHS2 is not directly comparable to the past poverty levels hence it has been difficult to compare with pre-reform period. However, compared to the previous IHS1 (1998), there is almost no improvement in the poverty levels as can be seen in Fig 4.1 below.

Fig 4.1: Proportion of the Population Decimal Poor and Ultra Poor

1998 and 2005

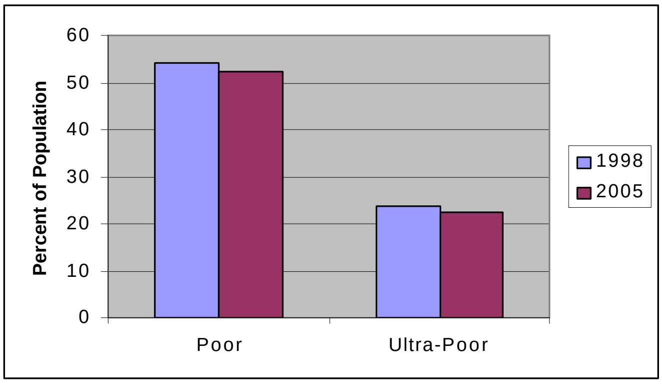


Table 4.1 below gives some of the economic indicators showing that the country did considerably well during the period from independence (1964) to around 1980, in contrast to the period after.

Table 4.1 Selected Macro-Economic Indicators for 1971-80 period and 1981-2000 period

Indicators	1971-1980 Period	1981-2000
Rate of Growth of Real GDP (% per annum)	6.1	3.0
Rate of Growth of Formal Sector Employment (% per annum)	7.1	3.6
Gross Domestic Savings/GDP (%)	26.2	16.6
Commercial Bank Prime Lending Rate (%)	9.8	25.4
Rate of Inflation	9.5	24.4
Current Account Deficit of the Balance of Payments/GDP (%)	13.1	9.4
Broad Money/GDP (%)	16.8	17.2
Exchange Rate (Malawi Kwacha per US Dollar)	0.8	17.2
Budget Deficit Excluding Grants/GDP (%)	-7.3	-10.2
Budget Deficits Including Grants/GDP (%)	-5.3	-5.7

4.3 Liberalization of the Economy

One major innovation that came with the ERPs was economic liberalization. Right from 1980, with the first SAP, the Bretton Woods Institutions felt that market forces should prevail in the economy. In this analysis the impact of economic liberalization will linked it to the major sector of the economy: Agriculture. Agriculture has been singled out because it is the backbone of Malawi's economy and any poor policy change can lead to detrimental effects. It is not only the main source of livelihood for the majority of Malawians who live in rural areas, but also the main foreign exchange earner. Significant changes in this sector, therefore, have had some implications in the economic rights of the citizenry as much as they influence overall economic growth.

4.3.1 Liberalization in the Agriculture Sector

Agriculture continues to be the most important sector of the Malawi economy, contributing almost 40% of GDP. It is the main source of livelihood for the great majority of the poor. In 2005, the sector employed 80% of the workforce, and contributed 90% of foreign exchange earnings (World Bank, Malawi Government, 2006). According to Chilowa in a study on "The Impact of Agricultural Liberalisation on Food Security in Malawi", the emphasis in ERPs, especially the initial SAPs was promoting market and price mechanisms, less on addressing production constraints and non-economic barriers to broad-based economic growth (Chilowa, 1998).

Since independence government was in control of most of the agricultural issues with the aim of maintaining food security levels at all times. Up to 1979, this worked successfully as the government promoted estate holdings and was at the centre of pricing policy for smallholder agriculture, using pan-seasonal and pan-territorial official commodity prices administered by ADMARC. These prices were adjusted and announced before the beginning of the growing season. In essence, price intervention in the agriculture sector took the form of setting producer floor prices and maximum consumer prices for officially traded crops of the smallholder agricultural sector. In addition, prices of inputs were pan-territorial and these were officially set by the government. ADMARC provided assured and reliable markets for smallholder output; paid farmers cash on delivery; provided credit for and subsidized the cost of inputs to members of farmers' clubs; stabilized prices seasonally and annually; paid maize producers higher than export parity prices; and probably subsidized the consumption of maize and rice (Chilowa, 1998; Scarborough, 1990).

Within the SAPs, four distinct key areas of reform that relate to agriculture can be identified. First was deregulation of marketing activities, which was enacted in 1987 and essentially eliminated ADMARC's quasi-monopsony power in smallholder agriculture marketing in the domestic market. There were no significant barriers to entry in the marketing of smallholder crops with the new legislation, except restrictions placed on foreigners. The licensing procedure was much decentralized. Each Agricultural Development Division (ADD) was responsible for issuing licenses to private traders operating in that area, after satisfying additional conditions such as possession of a proper weighing instrument. This decentralization minimized the red-tape in the licensing process. The liberalization of produce marketing attracted many traders especially in the year following liberalization: 917 in 1988/89 and 543 in 1989/90. These fluctuations reflect the relative ease of entry and exit.

Second, the reforms introduced agriculture output and input pricing. This was a move from the government's objective of achieving a marketed surplus of maize, to the World Bank's desire to see considerable increases in the producer price of smallholder export crops (Kydd and Hewitt, 1986). Following implementation of SAL II, the government began to incorporate more economic criteria into the determination of prices for smallholder crops and inputs. The International Development Association (IDA) parity pricing was adopted such that the producer price of maize was increased by 68% in 1982. By 1996 marketing liberalization of smallholder crops and inputs was almost completed. There was full liberalization of crop and input marketing by removing licensing procedures. Prices of all other crops, except for maize were fully liberalized. In order to promote food security, the price of maize was still under limited control especially with respect to state marketing activities. However, the fixed producer pan-territorial and pan-seasonal price system was replaced with a price band.

Third, some measures were put in place to foster private marketing. In this regard, the Ministry of Agriculture provided training to some of the private traders in produce marketing, financial management and book-keeping. About 1097 private traders from various Agriculture Development Divisions were trained between 1989/90 and 1992/93. The World Bank in 1993 also provided a loan to the government through the Small Enterprise Development Organisation in Malawi (SEDOM) to extend lines of credit to private traders.

Finally, SAL II brought about restructuring of ADMARC which started in 1984. This restructuring was in form of asset swaps among ADMARC, Press Corporation and Malawi Development Corporation (MDC), divestiture of assets and privatization of subsidiary companies. In 1984, the government embarked on rationalization of activities in its holding companies through portfolio swaps among Press Corporation, MDC and ADMARC. Under SAL III and its supplement in 1986 and 1987, a major divestiture programme of ADMARC's investments unrelated to its marketing activities was implemented.

In 1987/88 the divestiture exercise targeted industrial activities where ADMARC was a minority shareholder and most of its share holding was sold to existing shareholders with pre-emptive rights. Before liberalization, and with the support of the government, ADMARC established an extensive marketing networking in the rural areas. It is reported that ADMARC operated in 1200 markets by 1987. Due to liberalization of smallholder agriculture crop trading in 1987, ADMARC rationalized its marketing activities, closing down markets that were unable to attain an annual output of 60 tonnes. About 125 markets (15%) were closed on the basis of output criteria by 1988.

Subsidy removal on agricultural inputs affected the smallholders generally who, because of poor returns due low land holdings could now no longer afford fertilizers. The initial arguments from Malawi government for supporting subsidies were high transportation costs and the frequent exchange rate adjustments. Indeed, it transpired then that after 2 years of phased subsidy removal in 1987, the Malawian fertilizer price/official maize price ratio was still one of the highest in the developing world (Chilowa, 1998).

There are generic obligations of states and non-state actors namely to respect, protect and fulfill the right to food. The right to food breaks down into four standards namely, that it has to be adequate, nutrious, safe and culturally acceptable. With the structural adjustment programs, several possible violations may have taken place in relation to availability food through the structural policies under the advice of the IMF. This systematically undermined the capacity of the Malawian state to respect the right to food at the same time protect the right to food. By liberalizing the price control, the state lost capacity to protect poor people against private trader sharks. .

4.3.2 The Health Sector

During the second SAL, the thrust of fiscal strategy was the raising of further revenue so that budget deficit could be reduced further. The Bank's view was that this should be achieved mainly by tariff increases in the public utilities and by greater cost recovery from the consumers of government supplied housing, health and education services (Kydd and Herwitt, 1986). This did not go well with the government especially on the prospect of raising user fees from health and education services. The government further felt that increased charges would severely reduce access to services by poorer groups.

Even though the battle to abandon user fees was partly won , the sector's expenditure has not been adequate to cater for increasing number of patients. Currently, there is an increasing numbers of in-patients per government hospital bed, declining availability of drugs and other materials, and inadequate numbers of doctors in relation to the size of the population. As a result, the heath indicators are alarming. Maternal mortality has been on the increase - in 1996 it was 620 per 100,000 live births, and in 2000 it had reached 1120 (Demographic and Health Survey). Even the under-five mortality rates have been on the increase: 203 in 1977, 148 in 1987, 210 in 1998, and now at 234/1000 . Almost 70% of the population depends on government hospitals in terms of health services.

An important aspect to health development is the nutritional status of children as it allows evaluation of the susceptibility of the population to disease, impaired mental development, and early death. There has been little improvement in the height and weight of children under age five since 1992. Children's nutritional status in the 2004 MDHS is virtually identical to the status in 1992 MDHS and 2000 MDHS. It is estimated that as many as 48 percent of children under five years of age in Malawi are stunted (too short for their age), and 22 percent are severely stunted. Five percent of children are wasted (or too thin), and 22 percent are underweight. These numbers are extremely high for the 21st century, and even for Sub-Saharan Africa, hence pause one of the biggest health challenges in Malawi.

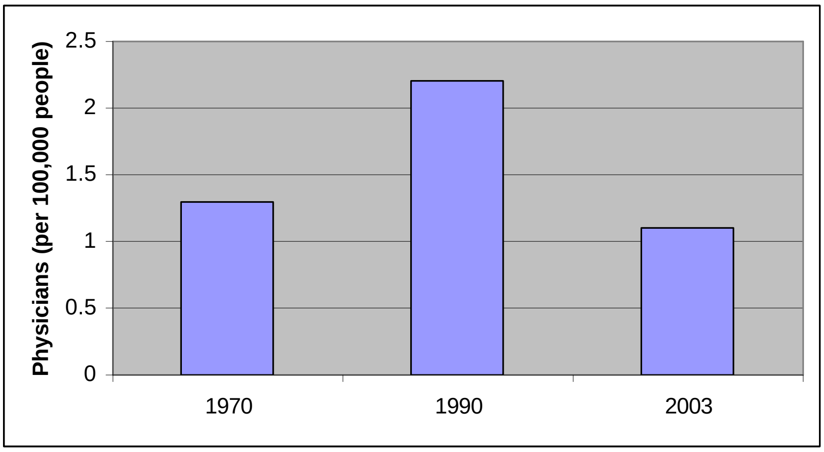
The country's budgeted expenditure for the year 2004 was about $750m, with Ministry of Health taking up 11% of the total budget, second from education which has about 15% allocated to that sector. In real numbers, the actual amount allotted to the Ministry [of Health] is an equivalent of about U$85m, making the per capita below US$8, an amount much below the minimum required standard by World Health Organization . About half of this amount is geared for capital expenditures and the rest used to fund its recurrent expenditures . Considering that most of the opportunistic infections resulting from high number of people with HIV have to be treated from this budget, this is obviously inadequate. However, the introduction of Sector Wide Approach by CABS has helped increased the general health funding especially from the 2004/5 budget.

Sickness in the family, especially for breadwinner, is something that poor people particularly fear. It means food and income suddenly stop. A downward spiral of poverty begins: food becomes scarce, causing malnutrition, and children are withdrawn from school and sent to work. If a working adult dies, then the ratio of dependants to adults increases. If he or she is permanently disabled, then another dependant is created. If the health sector is not prioritized in any economy, poverty becomes persistent.

The poor funding levels and terrible infrastructure in the health sector demotivate the staff working in this area. As a result, the country is experiencing very low levels of service. Most doctors and nurses have migrated and are now working in the United Kingdom. According to a report that came out in The Lancet Journal in 2004, "there are more Malawian Doctors residing in Manchester, England than in Malawi" . Figure 3.2 below shows how doctor-patient level has performed in selected years, 1970, 1990 and 2003. The rate in 2003 is actually lower than the 1970. The rate is expected to improve since the government has been working on the remuneration package with support from the donor community, in order to deal with the migration problem. However, apart from migration, the skilled personnel have also been victims of HIV/ AIDS pandemic.

The life expectancy rate has also been decreasing, more sharply in the last 20 years, from 46 in 1987 to 37 in 2002. This is a result of the spread of the HIV/AIDS epidemic, and the problem is more common in most of the Sub-Saharan countries especially Southern Africa.

Fig 4.2 Physicians per 100,000 people in Malawi, 1970, 1990, 2003



4.3.3 The Education Sector

Education is positively associated with agricultural productivity, higher incomes, lower fertility rates and improved nutrition and health, in addition to being a prerequisite for attaining these outcomes. The PRGF has put education as the centerpiece for poverty reduction. It is a key for attaining prosperity, a catalyst for socio-economic development and industrial growth and an instrument for empowering the population. It helps in facilitating the development of a culture of peace, critical for socio-economic, political and industrial development. However, challenges being faced in the education sector include lack of properly trained teachers, lack of timely review and reform of the school curriculum, consistent with the new national needs and aspirations and also backward cultural attitudes among others.

The primary education has had user fees from as far back as colonial times, and was adopted after the country attained independence in 1964. When the ERPs started (with SAP in early 1980s), this was never looked at as a deterrent to education for the deprived. This was clearly noticeable in 1994 when the government introduced free primary education and the percentage of enrollment doubled. Nevertheless, even though during that time the ERPs were running, no effort was made by the donors to immediately support the process. Infrastructure was not there and there weren't enough trained teachers. Consequently, the years after the introduction of free primary education has seen the worst quality education for Malawi.

The free primary education was introduced in 1994, and indeed there was some great improvement in the primary enrollment. Despite the improvement in the primary schools several factors show that education standards are way below class such that even the achievement of universal primary education by 2015 seems unlikely to be achieved (Table 3.2 below gives an indication of some of the areas where Malawi will unlikely achieve the MDG target). Currently, about 25 percent of school age children from poor households do not enroll in primary education and the drop out rate is very high, estimated at 20% for Standard 8 (World Bank 2004).

Table 4.2: Malawi Progress Towards MDGs for Poverty, Education and Maternal Health, as of end 2005

	Baseline (1990-92)	Intermediate (1998-2000)	Most Recent (2004-2005)	MDG Target for 2015	Target Feasibility
Goal 1: Eradicate extreme poverty and hunger					**Unlikely**
Target 1: Halve, between 1990 and 2015, the proportion of people under the poverty line	54%	53.9%	52.4%	27%	
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger (under the ultra-poverty)	28%	25.2%	22.2	14%	
Goal 2: Achieve universal primary education					**Unlikely**
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling (completion rate)	-	69%	60%	100%	
Goal 5: Improve maternal health					**Unlikely**
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	620	1120	960	155	

Statistics for secondary school education are more appalling. Of the 66 percent of children in the secondary school age (14 to 19 years) who were in school, only 22 percent were actually in secondary school, while the balance were still in primary school, a probable explanation for the high Primary Gross Enrollment rate. The difference in secondary enrollment rates is also very large between poor and non-poor students. About three times as many non-poor students as poor students are enrolled in secondary education and boys and girls from the richest groups are 10 times as likely to attend secondary school compared to those in the poorest group. Money availability is main factor for such a difference, while early marriage and pregnancy also contribute. And for some, its mere lack of interest.

Tertiary education poses the biggest challenge by far. Enrolment is very small (less than 1 percent of Malawi's population) and is associated almost exclusively with the households from the richest groups. Furthermore, of those enrolled in tertiary education, the vast majority live in urban areas.

The underdevelopment in the education sector; the poor quality education; inadequate learning materials; poor school administration structures: all this is in contrast to what the constitution states on role of the state in provision of education. The expectation that illiteracy will be solved in Malawi nor the attainment of Millennium Development Goals by 2015 can only be a dream if this type of policy trends continues. The approach by the IMF and World Bank did not take into consideration that the country can achieve sustainable development if a high percentage of Malawians are educated.

4.4 Privatization Case Study

In this section we briefly look at privatization, its consequences and examine one of the controversial cases of privatization in Malawi, all this within the context of ERP discussion. Simply put, privatization is the transfer of public enterprise to private ownership. Beginning in the 1970s, there has been a global trend to move away from state ownership and control towards privatization. Apart from the general fact that several of the State Owned Enterprises (SOEs) were inefficient and poorly managed, the period (1970-1990) was dominated by the growing dominance of neo-liberalism as a model for economic development (Jaunch, 2002).

One of the conditionalities that came with the ERPs was privatization of government owned companies. This was around 1985, within the period of the first SAP. Despite all the reliance on agriculture, ironically, the first company to be subjected to privatization was Agriculture Development Marketing Corporation (ADMARC), an institution that has been providing food support and back-up for rural Malawians, and whose full privatization still remains a big contention by civil society up to now.

One area where there have been a lot of blunders is the privatization of utilities. For example, every day about 30,000 children in the Third World die of preventable causes. Many of them could be saved if they had access to safe water. The World Bank argues that governments in impoverished countries have to privatize their water supply and distribution systems if they are to get the efficient delivery of water that is needed.

On the face of it, the argument makes sense. The adequate supply of water and other public services is too often frustrated by inadequate funding, inefficient bureaucracy or lack of political will. Promoters of private ownership say it brings investment and cost-effective service.

Experience and common sense say otherwise. Private investors aren't attracted by poor and rural communities. Any improvements that might come with private ownership are in areas that generate profit. Private water, telecommunications and electricity companies tend to focus on efficiency in collecting tariffs, but not on improving service, though it can be argued otherwise. In most cases, these companies will ignore long term major investments, and any investment is transferred to the customers. Costs of services usually leap up quickly, annoying middle class and wealthy customers but potentially in most cases leaving the poor without service at all.

People in affected communities do not have a voice in how or if they want their services privatized. People in impoverished countries want efficient services, sometimes even if the cost is higher as lack of services can carry hidden costs (especially in utility services). In some, privatization may be the way to go. They need to be allowed to choose if it is appropriate for them.

Looking at the large number of countries in Sub-Saharan Africa, high prices and disconnections must mean that the poorest segments of society are likely to be the main losers from the privatization process. However, the privatisation process can also be helpful if the SOEs are very inefficient and do not provide the services at all to the poor, who cannot afford any alternatives or backup. In certain key sectors, like water, if privatization leads to increases in the use of unsafe water sources, the consequences will be disastrous for public health (Kate Bayliss, 2001).

To answer the question whether Privatization be said to have strengthened public finances by reducing the huge subsidies that governments often had to sink into loss-making SOEs, we need not only look at the money saved but the consequences of the poor after such a move. In Malawi, a good case that has had a lot of discussion, evaluations, and a motion in parliament is the privatization of ADMARC.

4.4.1 ADMARC Privatization

The World Bank has been demanding the commercialisation of the Malawian agricultural marketing board as a condition of its latest structural adjustment loan. Actually, the privatization of the state marketing board in Malawi (ADMARC) has been an objective of the World Bank for 10 years. It represents a central element in an approach to agriculture that holds that full liberalization of the sector will be best for poor women and men. This approach has been increasingly questioned in Malawi and other countries in the region, particularly in the context of the recurrent food crises. Many commentators believe the full liberalization of other elements of the agriculture sector under the Bank greatly contributed to the food crisis and the subsequent deaths in 2002.

ADMARC has been the driving force of food security in Malawi because of a number of reasons. Right from its formation, it marketed agricultural inputs and outputs, and provided good support especially in most rural areas where there was poor infrastructure, where other traders would find it difficult to operate. In most of the rural areas, it has been proven that without ADMARC, most peasant farmers would not have had food sufficiency most of the years.

ADMARC faced some organisation [and financial] problems from late 1970s due to poor management and the bad weather the Southern African region was facing. As ADMARC was going through financial problems, the economy of Malawi as a whole also found itself in a crisis. When the SALs came in, not surprisingly, ADMARC was one of the targets of reforms. Indeed, since then, the corporation has undergone various changes. These have among other changes, included market liberalization, a phased removal of input subsidies, and rationalization. ADMARC is on the list of current privatisations.

After all the reforms, including partial commercializing ADMARC and closing some of its outlets, several problems have occurred. Oxfam Study (2002) identified some of these as:

(a) Although private traders were allowed to complement the marketing activities of ADMARC, a problem still exists in the sense that these private traders find it difficult to go to some remote areas due to poor roads and transport services. Thus, some farmers in areas where ADMARC withdrew have found it difficult to sell their produce and to buy food and inputs. This poses a problem to the government since it has a duty to ensure that these areas have access to markets for produce, food, and inputs. Consequently, ADMARC has found itself being called upon to service such areas. But since government has to support ADMARC's commercialization programme for the benefit of World Bank, one reality it has had to face is that if ADMARC were to make a commercial decision when operating in these areas, the poor would be adversely affected. For example, if ADMARC were to supply maize to food-deficit households in such areas, the commercially viable price would be beyond their reach. The government has therefore entered into memoranda of understanding with ADMARC to the effect that it will undertake to pay ADMARC for the costs it incurs while performing such social roles on its behalf. However, the problem that still remains is that in most cases, the government has not lived up to its obligations and separating the social role is not easy.

(b) Related to the problem discussed in (a) above, is the fact that a cost-effective mechanism is not yet in place for the supply of food to food-deficit areas. For example, sometimes ADMARC moves maize from one corner of the country to another during the buying season, only to be asked to transport it to another far corner of the country during lean months. But as already mentioned, the government usually does not fully reimburse the transport costs that ADMARC incurs in undertaking such operations.

(c) Certain areas of the country, such as Likoma Island, are perpetually food-deficit. But there is no long lasting solution to ensure that such areas have access to food at reasonable prices, without jeopardizing the financial position of ADMARC.

(d) The commercialization programme that ADMARC is undertaking is in some cases being frustrated by political interference. For example, even when ADMARC feels that the closure of a certain non-viable market will not adversely affect the poor, politicians usually resist the move because they fear that it will be politically costly. A case in point is one where a suggestion by ADMARC to replace a permanent market with a mobile one is resisted simply because of the view that development is non-existent unless one can see a permanent physical structure.

This is one area that gives some true colours to privatization at grassroots levels. A number of factors are not taken into consideration as international institutions give their conditions. Mostly, these have to do with poor understanding of the local and remote situations, knowledge of the infrastructure available and real levels of poverty.

Such a move also has a lot of social implications for the employees. For a poor country like Malawi where poverty is rampart and over 50% of the population is unemployed; organisations like ADMARC provided some employment to a percentage of the population. The closure of over 100 markets meant that all those people who worked in those markets were now unemployed. Very little options were available to them. They could not go in produce trading because the wages they were getting from ADMARC were low and because most of them were seasonal or temporally employees, their being lay off did not lead to some benefits which could help them continue leading a dignified and comfortable life.

Even Poverty and Social Impact Analysis (PSIA) undertaken by World Bank concluded that ADMARC played an important role in supporting the lives of poor women and men, and that this role would be destroyed by privatisation. However, the publication of privatisation was delayed for two years; until the Malawian Parliament had agreed to the reform process of privatisation went ahead.

Most of the civil society organizations, as well as important government departments felt that privatization of ADMARC was wrong too. In an interview with IRIN, the then head of Disaster Preparedness Department, Mr Lucius Chikuni in relation to privatization of ADMARC was quoted as saying :

"They [ADMARC] have markets throughout the countryside. The concern is, if it is privatised, would the private owner keep these markets - maintain and sustain markets which are not profitable? The answer is no. The private owner would be looking for a return on investment. Some of these markets are not profitable, [they] are a social service, and people are concerned about this.

"But then again, the IMF and the donors say we must privatize ADMARC, along with the other parastatals. I believe the Bretton Woods Institutions are wrong - they don't look at the social aspects of the parastatals. When these social aspects are removed, misery is brought on the people. The people become poorer."

5.0 Conclusions and Recommendations

The question of the legitimacy of the loans that came with SAP has already been competently answered by AFRODAD 2005 report (Illegitimate Debts - The Case of Malawi). The report found that:

"Most of the official foreign debt of Malawi was incurred when the country was under the despotic rule of Banda. Creditors gave loans to prop up this oppressive regime and not to serve the interests of the people. In other words, this debt is odious. The loans from the IMF were not sanctioned by the nation through Parliament. Creditors continue to give loans to Malawi when they know fully well that the new regime is blatantly corrupt and wasteful in the use of resources. Again, most of the loans from the IMF are not sanctioned by Parliament."

This study has attempted to add more information to substantiate the illegitimacy of debt. The approach was to look at the citizen's human rights violation and their denial of social services. It has been noted in the paper that poverty itself is a violation of human rights. Furthermore it causes vulnerability to a denial of a wide range of other human rights. Malawi's case is one where poverty has worsened over the years, especially after the economic reform programs were introduced. By examining liberalization in agriculture sector, the health and education sectors, the statistics give clear evidence that the conditions that came with the reform programs have made Malawian citizens became worse off, hence should not be repeated.

In terms of recommendations, the Malawi government needs to take action in a number of areas:

- there is need to be extra careful on all externally influenced programs and policies;
- There is need to develop the internal capacity and make sure that policies come from within with greater consultation with different stakeholders in development;
- All external loans should go through legitimate process, which is basically sanctioned by the parliament;
- Having achieved the completion point in September 2006, the government needs to effectively use the money that was supposed to service debt so that more people move out of poverty rather than be overtaken by further adverse effects of conditionalities. This paper has shown the negative effects of some conditionalities that have brought more misery than good to Malawians.
- For the economy to grow, the country needs to make sure that there is at 6% annual growth rate. This can be achieved by good prioritization of sectors that can make the country achieve this trend of growth.

The Non-State Actors (NSA) should:

Offer more constructive criticism to government and offer alternatives regarding externally influenced programs and policies. It has been noted that certain times the criticism offered from some NGO does not have a basis nor does it offer good alternatives;

- Help monitor government HIPC funds so that they do not get into politicians pockets
- Push for more information dissemination on such issues so that all actors work together to help government.
- In cases of reforms such as privatization, the NSAs should not blindly go against the reform but should weigh the benefits and costs. There are times when privatization helps reduce the misuse of public funds. In such a case privatization would be welcome, though the NSAs should be able to make sure that the companies that buy the SOEs have some obligation to Malawians, rather than only concentrate on profits.

The donors should:

- Refrain from their normal thinking that whatever they say is right;
- Involve and consult local organizations that have strong links with the communities, so that their approach to any programs is very participatory;
- Use of Poverty and Social Impact Analysis (PSIA) so that before they suggest any reform, they have evidence-based policy choices and options, as such adverse impacts are minimized;

Bibliography

Adams, Patricia (1991) Odious Debts, Loose Lending, Corruption and the Third World's Environmental Legacy, London, Earthscan

Adepoju, Aderanti. ed. (1993) The Impact of Structural Adjustment on the Population of Africa. London: United Nations Population Fund.

AFRODAD (2000) "International Arbitration Court on Foreign Debt" (Document: AFRODAD.IAC.1) mimeo

AFRODAD (2005) "Illegitimate Debts - The Case of Malawi"

AFRODAD (2005) "The Impact of the Poverty Reduction and Growth Facility on Social Services in Malawi".

Bayliss, K., (2001), Water privatisation in Africa: lessons from three case studies, University of Greenwich

Bello, Walden (1998), "Structural Adjustment Programs: "Success" for who?" Unpublished.

Booth et al (2006), Drivers of Change and Development in Malawi, IPRAD and ODI, London

Candler W (1996) Malawi: Agricultural Sector Adjustment Credit, World Bank Report No. 15641

Chilowa, W (1998) The Impact of Agricultural Liberalisation on Food Security in Malawi. Food Policy, Vol 23, No 6, pp 553-569.

Chipeta C., Mkandawire, M. L. C. and Taye, H. (1999), Malawi: Globalisation, Liberalisation and Sustainable Human Development, a Country Assessment Report for UNDP/UNCTAD

Hausermann Julia (1998), A Human Rights Approach to Development, Rights and humanity, London

High-Level Regional Consultative Meeting on Financing for Development, Asia and Pacific Region (2000) Jakarta, 2-5 August 2000, http://www.unescap.org/drpad/projects/fin%5Fdev/reportses1.htm

IBRD (1998) World Debt Tables, vol.1, Washington DC

IDA and IMF (2005), HIPC Initiative - Statistical Update.

IMF (2002) "The Design of the Sovereign Debt Restructuring Mechanism - Further Considerations", November 27, mimeo

IMF Press Release no 00/77 dated 21st December 2000, titled "Malawi to Receive US$1 Billion in Debt Service Relief: The IMF and World Bank Support Debt Relief for Malawi Under the Enhanced HIPC Initiative". IMF website.

Jaunch, H. (2002). The Big Privatisation Debate - African Experience. Labour Resource and Research Institute for Namibia.

Kaluwa, B. M., Silumbu, E. B., Ngalande-Banda, E. and Chilowa, W. R. (1992) The Structural Adjustment Programme in Malawi: A Case of Successful Adjustment? In SAPES Books Monograph Series No. 3, ed. B. M. Kaluwa.

Krueger, Ann (2001) "International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring, (26 November) http://www.imf.org/external/np/speeches/2001/112601.htm

Kydd, Jonathan. and R. E. Christiansen, "Structural change and trends in equity in the Malawian Economy, 1964-1980," Working Paper No. 2 (University of Malawi: Income Distribution Project. Centre for Social Research, 1981b).

Kydd, J. and A. Hewitt (1986), "The Effectiveness of Structural Adjustment Lending: Initial Evidence from Malawi," World Development, 14 (3), pp. 347-365.

Kydd, J. and Christiansen, R. (1982), "Structural change in Malawi since Independence: Consequences of a Development Strategy based on Large-scale Agriculture," World Development, 10 (5), pp. 255-375.

Kydd, Jonathan, and R. E. Christianscn. "Income distribution in Malawi," Technical Paper. No. S (New York: UN Department of International Economic and Social Affairs, Office for Development Research and Policy Analysis, 14 April 1983).

Lending: Initial Evidence from Malawi, World Development. Vol. 14, No. 3. pp. 347-365, 1986.

Lyakurwa, W (2005) Sub-Saharan African Countries' Development Strategies: The Role of Bretton Wood Institutions, From Helping the Poor? The IMF and Low-Income Countries, FONDAD, The Hague, June 2005, www.fondad.org

Malawi Government (2005), Annual Economic Report (Various Issues), Ministry of Economic Planning and Development, Malawi Govt Printer (Budget Document # 2).

Malawi Government and World Bank (2006), Malawi Poverty and Vulnerability Assessment: Investing in Our Future. Draft for Discussion.

Malawi Growth and Development Strategy (2005), Malawi Government.

Mkandawire, T and Soludu C.C (1999). Our Continent Our Future: African Perspectives on Structural Adjustment. African World Press Inc. Trenton, New Jersey.

Mkwezalamba, M. (1989) The impact of liberalization of smallholder agricultural produce pricing and marketing in Malawi. Report submitted to Ministry of Agriculture.

Moss S and Beckett, B (2004) IFI Policy and Practice and Disaster Risk Reduction: Malawi and Mozambique Case Studies. Christian Aid UK (Draft Paper) November 2004.

Munthali, Thomas (2004). The impact of Structural Adjustment Programmes (SAPs) on Manufacturing Growth in Malawi, MA Dissertation, University of Leeds

NEC (National Economic Council), NSO (National Statistical Office) and IFPRI (International Food Policy Research Institute) (2001) The Determinants of Poverty in Malawi, 1998: An Analysis of the Malawi Integrated Household Survey, 1997-98, Lilongwe: National Economic Council

Nthara, K. (2002). What Needs to Be Done to Improve the Impact of ADMARC on the Poor, Phase II Final Report prepared for the Joint Oxfam Programme in Malawi, Blantyre.

Owusu, Kwesi and Ng'ambi, Francis (2002), Structural damage: The Causes and Consequences of Malawi's Food Crisis, World Development Movement, London.

Norwegian Government (2005) "The Soria Moria Declaration on International Policy" (English version, only available for Chapter 2, on international policy) http://www.sv.no/regjeringsplattform/kap2engelsk/

Paris Club (2004) "Press Release" (21 November) http://www.clubdeparis.org/rep_upload/PrIraq21nov04.pdf

Permanent Court of Arbitration (2005) "General Information - homepage", http://www.pca-cpa.org/ENGLISH/GI/

Raffer, Kunibert (2004), Implementing Fair Debt Arbitration: What need be done? http://homepage.univie.ac.at/Kunibert.Raffer

Scarborough, V. (1990) Domestic food marketing liberalization in Malawi: a preliminary assessment. ADU Occasional Paper 13, Wye College, University of London.

Teunissen J.J and Age Akkerman, HIPC Debt Relief - Myths and Reality, FONDAD, February 2004, www.fondad.org

Whitworth Alan (2005), Malawi's recent fiscal performance & prospects, Presentation: http://www.sarpn.org.za/documents/d0001778/index.php

World Bank (1985), Malawi Economic Recovery : Resource and Policy Needs.

World Bank (1987), World Development Report, New York: Oxford University Press.

World Bank (1990), Malawi Agriculture Sector Adjustment Credit (ASAC), Washington: World Bank.