

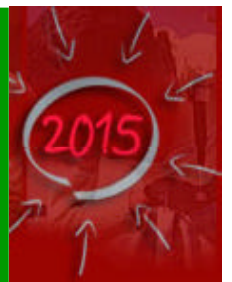


The Politics of the MDGs and Malawi



African Forum and Network
on Debt and Development

A Critical Appraisal of the Global Partnership for Development (Goal 8)



// Northern governments are guilty of offering empty promises to the poor when it comes to TRADE, AID AND DEBT RELIEF. While LDCs face a complex of problems, the report finds that their efforts to combat poverty have been systematically undermined by northern governments. On trade, the industrialized countries have operated a policy of highway robbery masquerading as market access preferences. //

Kelvin Watkins

(2002) Oxfam International Press release, Rigged Trade and Not Much Aid : How Much Rich Countries Help to Keep the Least Developed Countries Poor, Oxfam, International.

The Politics of the MDGs and Malawi

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Preface

“If Goal eight is ignored it is hard to imagine the poorest countries achieving Goal 1-7”

The Eight MDGs set minimum standards for reducing poverty and hunger; attaining universal primary education and gender equality; reducing child and maternal mortality, as well as the spread of HIV/AIDS, malaria and other deadly diseases; ensuring environmental sustainability; and promoting a global partnership for development. The main policy frameworks through which Malawi is implementing measures for achieving the MDGs are the Poverty Reduction Strategy Paper (PRSP), which was launched in 2002, and the Malawi Economic Growth Strategy (MEGS), which was launched in 2004.

Malawian poverty is widespread and deep. The broad picture is one of extremely low standards of living and substantial inequality throughout the country and especially in rural areas. Malawi's GNI per capita has fallen from US\$ 200 in 1990 to US\$157 in 2003. The servicing of debt is a major burden on the country's limited budgetary and foreign exchange resources. It also diverts resources away from expenditure on education, health, water and sanitation development and other social and economic services. In this regard, it is a major obstacle to the attainment of the MDGs. Malawi did not qualify for the original Highly Indebted Poor Countries (HIPC) Initiative in 1996 as a means of reducing its debt burden because its debt-service ratio was below the threshold of 20-25 percent. But it qualified under the enhanced HIPC, which was adopted in 1999, when the qualifying debt-service ratio was reduced to 15 percent. Malawi reached its Decision Point in December 2000, and adopted a PRSP in April 2002.

The resources saved on debt servicing, estimated at US\$50 million per annum, are committed to expenditure on pro-poor activities identified in the PRSP. The International Monetary Fund, the World Bank and other donors are providing debt relief under the initiative. The asymmetries and imbalances in the global trading system, including a number of World Trade Organisation agreements, constitute serious impediments to the country's growth and development. Malawi continues to face difficulties in implementing the agreements, including adapting national laws and improving its institutional capacity to meet its WTO obligations. Its access to industrial country markets remains restricted in areas where it has comparative advantage, including agricultural products and labour-intensive manufacturers.

As one of the poorest countries in the world, Malawi needs additional assistance in the form of Official Development Assistance (ODA). Yet ODA has declined in recent years as a proportion of donor countries' Gross National Income (GNI). Malawi's official foreign debt stands at about US\$3 billion. According to the 2004 Global Human Development Report, the Human Development Index (HDI) for Malawi is 0.388, which revealed that close to two-thirds of the population live in poverty, the majority of which are women.

Of particular importance to this research report is Goal Eight, outlining Northern governments' commitment to a global partnership for development - a late addition to the MDGs. Goal eight relates to issues of: debt cancellation, trade justice, equitable governance in global institutions, and political, social and economic rights for the poor – as an indispensable foundation for a politics that will enable sustained progress to end poverty in the South. It is an important goal for holding developed countries accountable in advancing the MDGs. This goal is particularly significant, as it requires richer countries to reform their policies and actions to contribute to the fight against poverty. The lack of basic rights in poor countries stems from and reinforces highly unequal power, within and between countries, which marginalize poor people's needs and priorities.

This paper is an attempt to provoke debate towards an answer.

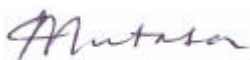
It argues that what is overdue is a viable global partnership that enables African countries to attain the Millennium Development Goals (MDGs) through having a lasting solution to their debt overhang, better and effective aid delivery, diversification and access to markets in the North for their primary commodity produce as well as fair trade. We draw from the Malawian experiences to suggest that a “development Marshal Plan” requires both a viable national agenda and fundamental global action to be sustainable. We take an international perspective, although Malawi is the primary focus of analysis.

The paper is therefore organized as follows: Chapter I briefly examines the nature and severity of Malawi’s development challenges. It also looks at the national plans and strategies put in place to attain the Millennium Development Goals. Chapter II evaluates the relationships between Debt on the one hand and the challenge to attain the Millennium Development Goals on the other. Empirical evidence suggests that debt badly deprives Malawi its prospects for a full-fledged democracy and equitable social service provision to its populous nation. Chapter III focuses on the aid delivery and its impact on Malawi’s potential to attain the MDGs, while Chapter IV addresses issues of trade and investment which are vital to the attainment of the MDGs. Chapter V speaks to the existing and potential roles that key stakeholders can play to make MDGs attainable and Chapter VI gives precise recommendations to pull Malawi out of its current economic quagmire and daunting poverty.

Malawi accumulated external debts without a corresponding growth in the economy, exports capability or poverty reduction. This report indicates that much of the borrowing contracted during 1973-82 was consumed by Balance of Payments (BOP) deficits caused by the first and second round of the oil crises. The report also finds that export commodity price deflation that started in the late 1970s and worsened during the 1980s also contributed to widening gaps in external liquidity and increasing demand for foreign borrowing. The primary shock to world interest rates that had started with surging inflation in the US after 1976 was transmitted worldwide and as a result, the rate of interest on Malawi debt rose (by 373%) from only 1.9% in 1976 to more than 9% in 1981¹. To a significant degree, Malawi herself also takes a larger share of the blame. The government’s policy of seeking comprehensive ownership of the means of production and also centralized management of the economy contributed to enhanced external debt accumulation to cover both heavy investment costs and persistent operating losses of public enterprises.

The paper concludes that, while there is ample evidence to support the role of international prices of oil and macroeconomic policies of industrial countries as the precipitators of external debt, domestic economic policies in Malawi itself not only failed to minimize the debt problem, but contributed to its worsening.

In resolving all the problems associated with Debt, Trade and Aid engaging civil society is not an option but a necessity.



Charles MUTASA
Executive Director

² How Did Malawi Accumulate External Debt www.surreyinstitute.org.uk

Acknowledgements

The Politics of the MDGs using country case studies was conceived from AFRODAD's annual and strategic planning in December 2004 and approved by the Joint Programming Meeting of its partners/affiliates in March 2005 in Nairobi, Kenya. Debt and economic activists present felt that tracking and critically analyzing the MDGs' Goal number 8 on Global Partnership's failure to pull Africa out of its trap of vicious circle of poverty, indebtedness and capital losses should be able to direct debates and deliberations on Africa's future on the right path.

The Politics of the MDGs: The case of Malawi is the result of hard work by colleagues within and outside AFRODAD. We warmly thank all the contributors to the report. Special thanks to the principal researcher Professor Chinyamata Chipeta for investing his time and energy to make this report possible. We are also indebted to Mr. Milward Tobias for assisting to collect some of the required data and information. We also thank Tirivangani Mutazu, our Research Program officer and Vitalice Meja our Program Director for Lobby and Advocacy for providing invaluable assistance by checking references and facts. We are also grateful to the financial support of HIVOs, Diakonia and Novib to our work and noble cause.

List of Acronyms

BOP	Balance of Payments
CISANET	Civil Society Agriculture Network
CONGOMA	Council for Non-Governmental Organisations of Malawi
CSO	Civil Society Organisation
DAC	Development Assistance Committee
EPA	Economic Partnership Agreement
EPAs	Economic Partnership Agreements
EP&D	Department of Economic Planning and Development
ESA	Eastern and Southern Africa
ESA-EU	Eastern and Southern Africa-European Union
ESAF	Enhanced Structural Adjustment Facility of the IMF
FA	Field Assistant
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HESSEA	Household Expenditure and Small Scale Economic Activities
HIPC	Highly Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HPI	Human Poverty Index
IHS	Integrated Household Survey
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MASAF	Malawi Social Action Fund
MDGs	Millennium Development Goals
MDHS	Malawi Demographic and Housing Survey
MEJN	Malawi Economic Justice Network
MNPFA	Malawi National Platform for Action
MPRSP	Malawi Poverty Reduction Strategy Paper
MPRS	Malawi Poverty Reduction Strategy

MTEF	Medium Term Expenditure Framework
NEC	National Economic Council
NGOs	Non-Governmental Organisations
NPASPDC	National Program of Action for the Survival, Protection and Development of Children
NSO	National Statistics Office
ODA	Official Development Assistance
PER	Public Expenditure Review
PHAST	Participatory Health and Sanitation Transformation
PIF	Policy Investment Framework
PPE	Protected Priority Pro-Poor Expenditure
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIP	Public Sector Investment Programme
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SMEs	Small and Medium Scale Industries
SWAPs	Sector Wide Approaches
TIP	Targeted Input Programme
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property Rights
TWG	Thematic Working Group
MPRSP	
UNDP	United Nations Development Programme
WTO	World Trade Organization

TABLE OF CONTENTS

Preface	iv
Acknowledgements	vi
Executive Summary	1
1.0 INTRODUCTION	2
1.1 Background	2
1.2 Political Context	3
1.3 Economic Context	3
1.4 Development Strategies	4
2.0 DEBT AND THE MDGS	6
2.1 Debt Relief Before and after HIPC	8
2.2. Creditor Participation	9
2.3. Domestic Debt	10
2.4 Impact of the Debt on Other MDGs	10
3.0 AID AND THE MDGS	12
3.1 Current Requirements	13
4.0 TRADE AND THE MDGS	16
4.1 Malawi, WTO and the MDGs	16
4.2 Trade with EU	17
4.3. Trade with the US and Sub-regional Groups	18
5.0 STAKEHOLDERS AND MDGS	19
5.1. The Role of Parliament	19
5.2 The Role of Civil Society	19
5.3 The Donor Community	20
6.0 RECOMMENDATIONS	22
6.1 Government	22
6.2 Civil Society Organizations	22
6.3 The Donor Community	23
7.0 CONCLUSION	24
8.0 REFERENCES	25
9.0 APPENDICES	26

LIST OF TABLES

Table 1: Malawi: Selected External Debt Indicators	6
Table 2: Malawi: Selected Indicators of Debt Burden	7
Table 3. Debt Service by creditor type 3 years before HIPC DP (MK)	8
Table 4. Debt Service and HIPC Relief, 2001-2003	8
Table 5: Status of Bilateral HIPC Relief Negotiations	8
Table 6 Net Aid to Malawi in Real Terms in Millions of US Dollars (2001 Prices) 1993-2002	12
Table 7 Net Aid from Various Sources as Percentage of GDP 1993-2002	13
Table 8: Cost of Achieving the Millennium Development Goals	14
Table 9 The Shares of Malawi in Global Trade, Capital Flows and Foreign Direct Investment	16

Executive Summary

Malawi is committed to the creation of a fair and equitable trading and financial system through its membership of the WTO, IMF and other multilateral organizations. It is also committed to good governance, fiscal discipline and the fight against corruption so as to gain the confidence of donors and ensure increased inflows of foreign aid into the country. Furthermore, it is implementing policy reforms under the enhanced HIPC initiative to secure debt relief.

As a result of the implementation of the above strategies and policies, the country has made satisfactory progress towards halving the proportion of the population below the minimum level of dietary energy consumption, attaining universal primary education and gender equality in primary education, halting the spread of HIV/AIDS, mainstreaming environmental sustainability into programmes and policies, and securing debt relief. Unsatisfactory progress has been made in halving the proportion of the population that lives on less than US\$1 per day, achieving gender equality in decision-making positions, reducing child and maternal mortality, halting the spread of malaria and other diseases, raising the level of aid and in developing an open, rule-based trading and financial system.

The amount of resources required over the period 2003 to 2015 for achieving the MDGs is estimated to total US\$7.0 billion³. Malawi's tax and non-tax base is limited by the small size of the formal sector, which is relatively small. The ability of the country to raise the required sum through domestic saving is constrained by the small size of the economy as a whole. Therefore, it requires a large increase in aid, foreign investment and debt relief to finance the programmes for achieving the MDGs. Apart from the issue of resource availability, the country needs to reallocate public expenditure so that more is spent on activities that directly benefit the poor, and less is spent on administration.

Since the adoption of the MDGs, the United Nations Development Programme has played an important role in integrating the MDGs into the United Nations system's work in Malawi and co-ordinating the work of all donors with respect to the MDGs. Both the World Bank and the IMF provide debt relief and provide policy advice, in part through the Poverty Reduction and Growth Facility. The 189 NGOs in the country, especially the larger ones, play various roles in achieving all the MDGs. The smaller ones are handicapped by lack of adequate resources. All suffer from lack of a collaborative approach, lack of a working relationship among themselves and between NGOs and other institutions, limited territorial coverage, and the experimental nature of their work. Research and advocacy organizations monitor and evaluate the implementation of MDGs.

In order to boost savings to fill the resource gap for the attainment of the MDGs, fundamental reforms are required on a number of fronts. Developed countries that have not reached the ODA target of 0.77 percent of their GNP should do so now. ODA should be given for budget, not project support. Generally, aid should not be conditional on the country having a programme with the IMF. Once committed, aid should not be withheld. All outstanding debt of Malawi should be cancelled. Developed countries should eliminate all remaining barriers on exports from poor countries.

³ Malawi MDGs Report 2003

1.0 Introduction

1.1 Background

The Government of Malawi and its development partners are reorienting their work around the goals. In middle-income countries the implementation of the MDGs is integrated with regular budget processes and long-term development strategies. In the least developed countries like Malawi, poverty reduction strategies are the most appropriate instruments. In the case of Malawi, the MDGs are being implemented through the Malawi Poverty Reduction Strategy (MPRS) and Malawi Economic Growth Strategy (MEGS). The overall monitoring of the MDGs is in line with MPRS Monitoring and Evaluation Master Plan. Although the goals provide the framework for development, the success depends on political will, good governance, the implementation of good development policies and economic reforms.

Malawi is a small, landlocked country in south-eastern Africa. The country covers 118,484 square kilometres; of which 94,276 square kilometres is land. According to the 1998 census, Malawi's population is growing at 2 percent per year. In 2003, the total population was estimated to be 11.5 million. Population density varies from 46 persons per square kilometre in the Northern Region to 144 persons per square kilometre in the Southern Region, with a national average of 105 persons per square kilometre. Nearly 87% of the population lives in rural areas. The mean age of the population of Malawi is 21.9 years. In 1998, the percentage of the population under five years old for Malawi as a whole was 16.7. The dependency ratio for Malawi is 0.906, which means that every 10 working persons are supporting just over 9 dependents. Only 10% of the population is in formal employment, but 85% works in agriculture.

Malawi's economy remains very fragile with a narrow base, lacking in key social services and infrastructure. It is an economy that is vulnerable to various shocks, making it difficult for the country to attain sustainable economic growth. Agriculture remains the primary economic activity of the country as it contributes between 35 to 39% to GDP and over 90% of export earnings. It also employs 80% of the labour force. The country faces trade deficits almost every year and this is financed in the most part by Overseas Development Assistance (ODA).

Life expectancy has dropped from 48 years in 1990 to 39 in 1998 and 37.5 in 2002 mostly due to the high incidence of HIV/AIDS, malaria and other killer diseases. About 14.8% of the population is HIV/AIDS positive, placing Malawi among the 16 countries with the highest HIV/AIDS incidence in the world. The reduction in life expectancy attributed to the HIV/AIDS scourge in Malawi is estimated at 0.5% per annum. Assuming no change in the present levels of HIV/AIDS incidence, life expectancy at birth is expected to drop to 34.8 by 2010 (World Bank, 2002). Nearly 95% of the people affected by HIV/AIDS are economically active adults who are in the 15-49 age group. Some 70,000 people die every year from AIDS and some 70,000 children annually join the pool of 850,000 orphans. Economic efficiency of the population is reduced by the increasing morbidity and mortality of the working age population. Studies on the impact of HIV/AIDS on economic growth indicate that, as a result of the scourge, the potential GDP growth during 2000-2010 could be reduced by between 1.5 and 2% per annum⁴

Malawian poverty is widespread and deep. The broad picture is one of extremely low standards of living and substantial inequality throughout the country and especially in rural areas. Malawi's GNI per capita has fallen from US\$ 200 in 1990 to US\$157 in 2003.

According to the 2004 Global Human Development Report, the Human Development Index for Malawi is 0.388, which revealed that close to two-thirds of the population live in poverty, the majority of which are women. The Integrated Household Survey (IHS) of 1998 estimated that 65.3% of the population, representing about 6.3 million people, lives in poverty. Further, the IHS states that 28.7% of the population was in extreme poverty, characterized by the inability to meet their calorific food requirements all year round.

⁴ World Bank, 2001, 'Malawi Public Expenditures: Issues and Options', Washington D.C.: World Bank.

Inequality as measured by the consumption Gini coefficient stands at 0.52 for urban areas and 0.37 for rural areas. The survey further revealed that the richest 20% of the population consumed 46.3% of the total consumption of goods and services while the poorest 20% consumed only 6.3%.

1.2. Political Context

Malawi attained independence in 1964 and became a republic in 1966. The ruling party manoeuvred to create a one-party state, banning the opposition and establishing one of Africa's longest serving dictatorship. Anyone who differed with the leadership was declared an enemy of the state. Opponents of the ruling party fled into exile to escape persecution. This changed in 1993 following a referendum that led to a return to multiparty politics in 1994.

Unlike other African nations Malawi's political transition was very peaceful. However, the events surrounding these transitional elections suggest that there was a political crisis, one that remains today. Common perceptions about the nature of this crisis point to: voting patterns that are largely along regional and ethnic affiliations; the alleged irregular management of the electoral process; the governments' misuse of the radio for party propaganda; an inadequate separation of interests between the state and the ruling party; the phenomena of senior civil servants in government, parastatals and companies losing their employment to ruling party supporters; supporters of the opposition parties losing contracts and other economic opportunities to government supporters; and the Islamization of the country with foreign aid.⁵ Though such perceptions may not always be supported by objective facts, their existence influence behaviour. The acute sense of marginalization, exclusion and discrimination felt amongst many Malawians, for example, is a likely factor in the poor levels of participation in national affairs, including policymaking.

Political tension and mistrust has also been promulgated by the activities of politicians who increasingly have sought populist policies, "promising free food, fertilizer, shoes, houses, bicycles, and credit" thereby raising expectations beyond capacity for meeting them. Populism has translated into the implementation of half-conceived policies including the free primary education, distribution of free seeds and fertilizers and massive expansion of secondary schooling.⁶

1.3. Economic Context

From 1987 to 1996, a ten-year Statement of Development Policies (DEVPOL2) guided Malawi's national policies. Policy Framework Papers (PFPs), which were an invention of the International Monetary Fund (IMF) and The World Bank, were short-term (3-year) policies based on the DEVPOL2. At the sectoral level, Malawi developed specific policies in response to international consensus and conventions. For example, the National Program of Action for the Survival, Protection and Development of Children (NPASPDC) was developed in the 1990s.

In 1994, Malawi successfully moved from a one-party state to a multi-party political dispensation through democratic elections. After the change of Government in 1994, the new Government launched the Poverty Alleviation Programme (PAP). The launching of PAP was aimed at combating the rampant poverty in Malawi, which, in the eyes of many Malawians, was a consequence of the former one-party rule. Policy frameworks and other planning tools such as the Medium Term Expenditure Framework (MTEF), Public Sector Investment Programmes (PSIPs) and Sector Wide Approaches (SWAPs) supported PAP. Later, in 1996, the Government embarked on a long-term perspective study to define the future and aspirations of the country. The study culminated in Malawi Vision 2020, which was launched in 1998. However, both the PAP and the Malawi Vision 2020 lacked effective implementation mechanisms. As a result, since 2000 Government has taken advantage of the HIPC-led PRSP to produce a Malawi PRSP as a first step in the implementation of the Malawi Vision 2020. The Malawi Poverty Reduction Strategy Paper (MPRSP) was launched in April 2002. The Malawi Economic Growth Strategy was formulated to enhance pillar one of the MPRSP, which looks at generating pro-poor growth.

5 Chirwa, W.C. and M.M. Nyirenda, 2002, 'Consultations by Helicopter: People's Participation in Policymaking,' A Research Report for Christian Aid (UK), London and Zomba: Christian Aid.

6 Fozzard, Adrian and Chauncy Simwaka, 2002, 'How, When and Why Does Poverty Get Budget Priority: Poverty Reduction Strategy and Public Expenditure in Malawi', ODI, Working Paper

It concentrates on stimulating growth by promoting private sector investment, growth and trade in some key priority high potential sub sectors such as mining, agro processing manufacturing, in particular textiles and garments and tourism.

1.4 Development Strategies

From 1995 to date Malawi has implemented a number of reforms, notably the three Fiscal Restructuring and Deregulation Programmes (FRDP), which is another form of Structural Adjustment Programmes (SAP) supported by the World Bank. Malawi has also been through a series of Enhanced Structural Adjustment Facilities (ESAF) supported by the IMF. These programs not only cover the liberalization of fiscal and monetary policies but also trade and liberalization and the privatization of public enterprises. In parallel to the introduction of the Poverty Reduction Strategy Paper (PRSP) approach internationally, the IMF has adopted the Poverty Reduction and Growth Facility (PRGF) as its main instrument in Malawi.

Apart from strengthening the role of the private sector, government will encourage diversification of the economy. It will support the processing of primary commodities. This vertical diversification of the economy will not only increase the level of economic activity and hence incomes of Malawians, but also increase exports of manufactured finished and semi-finished goods. Government will support new industries in this regard by instituting "protectionist" policies and assist in tackling their trade and non-trade barriers.

Government is addressing these general weaknesses in the business climate so as to stimulate investment in the prioritized sub-sectors. While doing so, it has decided to enhance its cooperation with the private sector, which it recognizes as the engine of growth. In this respect, it will concentrate its attention on the creation of enabling environments, particularly in the industrial, trade, fiscal and financial sectors. In particular, government will invest more resources to improve economic infrastructure whose unreliability undermines competitiveness and discourages investment. It will also introduce a package of measures to encourage and support business growth, including appropriate tax and non-tax incentives.

Public Sector Reform will also be a priority. Building upon the reduction in the number of ministries, Government will focus on right-sizing the civil service to improve efficiency. Simultaneously, Government will develop a medium term wage policy and introduce a progressive improvement of the Public Service general conditions of service - aimed at increasing wage competitiveness and public sector productivity. Public enterprises have been a major drain on Government finances for many years and a source of extra-budgetary expenditure – often without providing a satisfactory service. Government will continue with the privatization programme. Enterprises remaining in public hands will be required to operate along strictly commercial lines. Those providing social services will be covered transparently by explicit subsidies in the Budget.

The rural sector contributes a substantial part of national income, employment and exports. Government is therefore aware that the strength of the economy also depends on the number of people engaged in gainful employment. Since most of the people in Malawi live in rural areas, it is critical to focus on the development of rural areas for the fight against poverty. Rural development therefore constitutes a key component of the poverty reduction strategy. Government plans to establish integrated multisectoral projects in many parts of the country like the revitalization of rural growth centers. These are intended to address rural concerns in a more systematic and comprehensive manner.

Malawi's long-term economic goal is to achieve high and sustainable economic growth in order to attain the Millennium Development Goals by 2015. For the overall objective of poverty reduction to be achieved, Malawi is focusing on maintaining a stable macroeconomic framework with low inflation, pursuit of a prudent and sound public finance strategy, and on policies to increase productivity and competitiveness of the economy, expand employment opportunities, promote a fair and efficient tax regime and improve the quality and cost effectiveness of the public services. These medium and long-term policy perspectives

of the government are clearly described and discussed in the Malawi Poverty Reduction Strategy (MPRS) and the Malawi Economic Growth Strategy (MEGS), which analyze the economic development path the government, must take. The government will continue on this path and ensure that the Millennium Development Goals remain as its core economic objectives.

The government also aims at embarking on deliberate policies that aim at transforming the economy from that of a purely agricultural one with a mono export commodity and with consistently negative savings ratio to an economy that has a diversified export base, a high and respectable share of a manufacturing sector and one that would resume earlier respectable savings and investment ratios. Anchored by stable macroeconomic conditions, the achievement of these conditions should lead to sustainable high economic growth rates and poverty reduction; which are the ultimate economic goals of the government.

Attaining the Millennium Development Goals will require an open, rule-based global economy in which all countries, rich and poor, participate for their benefit. At present, Malawi's participation in international trade is not in its favour. During the past five years, for example, the trade imbalance deteriorated from a deficit of MK3.2 billion in 2000 to MK23.9 billion in 2004. Over the same time period, the current account imbalance worsened from a deficit of MK11.2 billion to MK39.8 billion. In 2000 and 2002, large capital inflows more than offset these deficits as a result the country realized overall Balance Of Payments(BOP) surpluses after debt relief of MK5.4 billion and MK8.1 billion, respectively. In the other years, Malawi's overall Balance Of Payments (BOP) after debt relief was in deficit. Progressively, gross official reserves measured in months of import cover declined from 4.7 in 2000 to less than 2.0 in 2004.

The competitiveness of all sectors is also undermined by high external and internal transport costs. The high external transport costs can partly be explained by geography, i.e. Malawi's long and uncertain links to the sea. The high internal transport costs are explained by the poor network of secondary roads, trucking cartels that keep prices high, restrictions on the operations of foreign vehicles, and high taxation of the transport sector.

2.0 Debt and the MDGs

According to the new criteria put forward by the World Bank, Malawi is a seriously indebted poor country.

Annual data on the total external debt of Malawi are available on a continuous basis only from 1973. Prior to that year, the data are discontinuous. This weakness in the

data aside, in the 1970s the total external debt of Malawi was modest (Table 1). Before the end of the decade, the total external debt rose and quadrupled between 1970-74 and 1980-84 (Table 1). During subsequent half-decades, the total external debt of the country grew at a slower rate, doubling between 1980-84 and 1990-94 and nearly tripling between 1980-84 and 1995-2001 (Table 1). Recent data indicate that the total debt has continued to rise, reaching US\$2,912 million in 2002 and US\$ 2,960 million in 2003. In per capita terms, total external debt more than tripled between 1970-74 and 1980-84, but less than doubled between 1980-84 and 1995-2001 (Table 1). In 2002, total external debt per capita was US\$271.

"Debt is tearing down schools and hospitals. The effects are no less devastating than war"⁷

An alternative method of ascertaining the magnitude of total external debt is to consider the so-called debt ratio (total outstanding debt as a proportion of export earnings). For Malawi the debt ratio is shown by half-decade in Table 3. The data in that table indicate that the debt ratio did not change much during the 1970s. Subsequently, it rose fairly rapidly, doubling between 1975-79 and 1985-89. From 1985-89 the increase in the debt ratio has once again been modest. As percentage of gross domestic product (GDP), the pattern of growth of total external debt has been similar (Table 1).

Table 1: Malawi: Selected External Debt Indicators

Indicator	1970-74	1975-79	1980-84	1985-89	1990-94	1995-2001
Total External Debt (US\$ million)	215.75	450.90	859.08	1,266.20	1,749.20	2,453.40
Total External Debt Per Capita(US\$ million)	43.59	80.45	132.83	167.58	197.26	237.21
Total External Debt/Export Earnings %	183.5	198.0	289.4	400.8	440.2	478.0
Total External Debt/GDP %	35.3	57.2	70.8	100.3	100.0	144.7

Sources: World Bank, World Debt Tables, World Development Indicators and African Development Indicators (various issues) and International Monetary Fund, International Financial Statistics (various issues).

Insofar as not all external debt is repayable in one year, comparing total external debt with a single year's export of goods and services or gross domestic product is not a very useful measure of the burden of external debt. Debt service as percentage of export of goods and services avoids this problem. As shown in Table 2 Malawi's debt service ratio in the 1970s was moderate. It accelerated in the early 1980s and has since remained high, indicating that a significant proportion of export receipts has been used to repay principal and pay interest on external debt. The debt service ratio should have been higher but for debt relief received since 1982. Recent forecasts indicate that the debt service ratio will rise above the average for the 1995-2001 period. Debt service as percentage of GDP is another useful concept that shows the claims that are made on a country's domestic output by external debt service obligations.

⁷ Adabayo Adedeji, African Center for Development strategy, Nigeria.

The trend in this ratio has been similar to the trend in the debt service ratio. The trend in interest payments on external debt as percentage of GDP has also been similar to the trend in the debt service ratio (Table 2).

Table 2: Malawi: Selected Indicators of Debt Burden

Indicator	1970-74	1975-79	1980-84	1985-89	1990-94	1995-2001
Debt Service/Exports %	10.4	9.3	20.0	32.4	22.5	16.2
Debt Service/GDP %	1.6	2.2	4.3	7.4	5.2	4.3
Interest Payments/GDP %	1.4	1.6	3.2	3.6	3.8	4.8
Official Exchange Rate Kwacha/US\$	0.83	0.86	1.14	2.25	4.44	36.27

Sources: Malawi Government, Economic Report (various issues), World Bank, African Development Indicators (various issues) and International Monetary Fund, International Financial Statistics (various issues).

The burden of the total external debt on the government budget has been onerous, especially after 1979. For example, of the total debt service payments made in the 1981/82 fiscal year, 65.0 percent were on account of the external debt (Malawi Government, 1984). As a percentage of total government recurrent expenditure, external debt service payments were 25.8 percent in 1981/82, lower during 1982/83-1983/84, but accelerated and peaked at 38.3 percent in 1986/87. The increase in external debt service payments contributed to the rise in the overall budget deficit, the size of which increased markedly between 1979/80 and 1981/82. During the initial period of debt relief, the budget deficit was smaller during each fiscal year, but rose sharply after the initial debt relief in 1985/86 and peaked in 1986/87. To finance these deficits, government has had to borrow abroad, thus further increasing external debt, and at home, mainly from the banking system. Borrowing from commercial and other banks has led to an increase in interest rates and to crowding out of the private sector from the financial market, while borrowing from the central bank has had an expansionary impact on aggregate demand and fuelled inflationary and balance of payments pressures.

Most of the external debt of Malawi is long-term and concessional, being owed to multilateral lending institutions like the World Bank, the IMF and the African Development Bank. Therefore it is less burdensome than short-term debt. During 1995-2001, for example, long-term debt averaged 97.8% of total external debt. And concessional debt averaged 89.7% of total external debt. Malawi services long-term debt owing to multilateral lending institutions all the time, unless it is rescheduled or it is given debt relief, and in spite of the fact that its debt right now is not sustainable. The external debt level is considered to be sustainable if the net present value of the debt-to export-ratio is 150% and the net present value of the debt to revenue ratio is 250%. In 2002, the net present value of the debt to export ratio was 183%, having declined from 297% in 2000.

During the 1970s, which was a period of relatively low external debt burden, real Gross National Product (GNP) grew rapidly at an average annual rate of 5.4%. During the 1980s and early 1990s, there was considerable slowdown in the rate of growth of real GNP. This was a period when the external debt burden weighed most heavily on Malawi. During the next seven years, when there was a reduction in the relative burden of the external debt, real GNP grew rapidly once again, averaging 6.3% per annum. Trends in the growth of real per capita GNP followed the same pattern as that of trends in the growth of real GNP.

2.1 Debt Relief Before and after HIPC

Before HIPC Malawi was getting debt relief using the traditional methods like Debt Restructuring under the Paris Club and London Club; Fifth Dimensions of Adjustment under the World Bank; and Japanese Debt relief grant. Each of these facilities was providing some amount of relief on the country's resources⁸.

The structure of Malawi's external debt portfolio has been heavily skewed towards multilateral creditors. This means that the traditional relief initiatives were not benefiting Malawi sufficiently since multilateral creditors were not providing relief. The country was therefore paying enormous amounts of debt. Table 3 below shows debt service by creditor type three years before the HIPC DP for Malawi.

Table 3. Debt Service by creditor type 3 years before HIPC DP (MK)

Creditor Type	1998	1999	2000
Bilateral	14,381,511	24,655,701	18,123,337
Multilateral	55,802,971	68,134,391	51,093,557
Commercial	2,510,255	3,295,957	2,107,498
Total	72,694,737	96,086,049	71,324,393

Source: Ministry of Finance, Malawi

With the enhanced HIPC initiative, participation of multilateral creditors, and application of the Cologne Terms by Paris Club creditors implied that Malawi's debt relief would be significant, and debt service payments would fall significantly. Table 4 below shows the HIPC debt relief and actual debt service payment, 2001-2003 – after Decision Point.

Table 4. Debt Service and HIPC Relief, 2001-2003

	2001	2002	2003
Debt Service	63,005,366.96	40,622,672.63	43,058,378.40
HIPC Relief	27,062,414.04	28,871,955.37	47,454,641.60

Source: Ministry of Finance, Malawi

A lot more relief would have been received by Malawi. However, there were problems with commencement of implementation of the HIPC initiative, mainly with serious delays in bilateral negotiations to ensure full participation in the initiative. As indicated in Table 4 above, the HIPC relief is far much lower in the first two years than in 2003. Some creditors did not make commitments until four years after DP. Japan has just changed the method of delivery of relief away from the traditional reimbursement method to total (100%) forgiveness of ODA debt that is falling due. The Republic of China is yet to agree to provide relief under the initiative, as it is not part of the international community under which the HIPC Initiative is formulated.

Malawi's pace of implementing the HIPC initiative has been tenuous and slow. The PRSP was not ready until mid 2002. The minimum one year implementation of the PRSP would thus imply that Completion Point would not be reached until after June 2003. The Completion Point trigger points to be implemented over a period of one year was not possible as some would require institutional reforms that could not be undertaken within a short period. In 2002, donors started to withhold assistance to Malawi due to fiscal indiscipline. This implied that the programme targets as agreed with the Fund could not be easily achieved. Domestic debt soured with increasing pressures on budget financing as expected donor inflows were not forthcoming. Malawi experienced slippage on the PRGF and hence was off-track with the IMF program. The Completion Point was set for December, 2003. However, by this time Malawi had not achieved the required targets. The Completion Point was therefore shifted to December, 2004.

⁸ However, data is not readily available on the amount of relief provided.

The Fund, sympathizing with Malawi's situation, agreed with authorities that even without PRGF, if the country maintains the targets in the Fund's Staff Monitored Programme (SMP) Completion Point would be reached by December 2005.

2.2. Creditor Participation

One of the constraints that have impacted directly on the delivery of HIPC in Malawi is the debt owed to non-Paris Club creditors. There have been protracted negotiations with non-Paris Club creditors over the past three years. Other Non-Paris Club creditors, such as the Republic of China, have even been reluctant to engage in negotiations. This year there have been some positive indications and Malawi is likely to receive comparable treatment from 99% of all creditors for loans contracted prior to January 1997.

The weakness in comparable treatment clause is that there is no clear legal framework for enforcing compliance with HIPC agreements with non-Paris Club creditors. Table 5 below outlines the status of negotiations between the Government of Malawi and its creditors:

Table 5: Status of Bilateral HIPC Relief Negotiations

Creditor	Status as at December 2003
Austria	Agrees to offer relief on eligible debt up to 100% cancellation. The agreement has been signed.
France	Offered 100% cancellation on non-ODA debt and 100% refinancing of ODA debt. The agreement has been signed.
Germany	Agrees to offer relief on eligible debt (non-ODA) up to 100% cancellation. The agreement has been signed.
Italy	Agrees to offer relief on all non-ODA debt up to 100% cancellation. The agreement has been signed.
Sweden	Agrees to offer relief on all non-ODA debt, up to 100% cancellation. The debt restructuring agreement has been signed
United Kingdom	Agrees to offer relief on all non-ODA debt, up to 100% cancellation. The debt restructuring agreement has been signed
Japan	Agrees to offer relief on all non-ODA debt, up to 100% cancellation. The debt restructuring agreement has been signed
Spain	Agrees to offer 100% cancellation of all non-ODA debt and 100% rescheduling of all ODA debt.
Gov. of South Africa	Agrees to offer relief on all non-ODA debt, up to 100% cancellation.
China/Taiwan	Negotiations in progress for consideration.
Kuwait	Agrees to offer relief at Completion Point.
ADC of South Africa	Offered 100% cancellation up to December 2003. However, since January 2004 the Government has been paying, debts as they fall due.
ADB/ADF	Offered up to 80% cancellation up to December 2003 and Government has since been paying debts as they fall due. The relief promised for the interim period has been exhausted.
IMF	Has been offering relief and all that was pledged during the interim period has been exhausted.
FMO Netherlands	This is debt guaranteed by Government to a statutory corporation and negotiations are underway to get relief.

2.3 Domestic Debt

During the government of Bakili Muluzi when the country was grappling with the excruciating foreign debt, another economic malaise that was taking its toll was domestic debt. The government resorted to borrowing from the domestic market to fill the gap left by suspension of aid by donors. The government has frequently used treasury bills excessively and this has caused a sharp increase in domestic debt to about MK 70 billion⁹ (US\$ 770 million), or US\$ 100 million more than its annual domestic revenue. This means that the government has to service both foreign and domestic debt at the expense of spending for poverty reduction and other important national priorities.

Malawi's domestic debt has increased steadily over the past decade. Between 1994 and 2000 the stock of domestic debt increased nearly five-fold from K2.2 billion to K11.6 billion. In 1994, the government borrowed heavily domestically due to withdrawal of donor aid, increased wage demands and other recurrent outlays, including the cost of the general election. For more or less similar reasons, the government again borrowed heavily domestically in the early 2000s and the domestic debt stock shot to K60 billion in 2004. Since then it has come down to K54 billion due to reduced levels of domestic borrowing.

Domestic debt has been a problem in attaining MDGs to the extent that the high government borrowing requirements to recycle it have pushed up interest rates, thereby discouraging borrowing and investment by the private sector, which have constrained the rate of economic growth. In addition, high government borrowing requirements have crowded out the private sector from the money market while government's own resources have been spent on servicing this debt rather than on increasing expenditure on the MDGs.

2.4 Impact of the Debt on Other MDGs

Debt service has resulted in the decline in the rate of economic growth that in turn has been associated with a decline in per capita income. According to data reported in the World Development Reports, Malawi's GNP per capita appears to have risen during the 1970s and peaked at US\$210 in 1983. Thereafter, it decreased, reaching US\$160 in 1987. It rose again, reaching the previous peak of US\$210 in 1992 and a higher peak of US\$220 in 1997. Since then per capita GNP has fallen continuously and now stands at about US\$195. The servicing of this debt is taking up 20% of total revenue. Government intends to cut the level of the debt further by reducing borrowing.

The decline in the rate of economic growth has been associated with a decline in education services that make it difficult to attain the MDGs. As measured by net enrolment ratios, primary school enrolment showed little improvement between 1965 and 1990, rising from 44% to 50%. After the introduction of free primary education in the mid-1990s, net primary school enrolment has doubled. Secondary school education is not free. Following a policy decision to increase the number of secondary school places; net enrolment has increased there too, from 4% in 1990 to 25% in 2000. But there has been no increase in enrolment in higher education since 1990, which remains at one percent. The increase in primary and secondary school enrolments has not been matched with a commensurate expansion in resources. As a result, classroom accommodation is inadequate, with many primary school pupils having to learn under trees. Secondary schools have resorted to shifts, which puts an extra burden on teachers. Boarding accommodation in secondary schools is also inadequate.

Health has experienced a similar fate. The increase in budgetary allocation to the sector has not been adequate to cater for a rapidly increasing number of patients. This has resulted in increasing numbers of inpatients per government hospital bed, declining availability of drugs and other materials, and inadequate numbers of doctors in relation to the size of the population. The delivery of medical services in government hospitals and clinics has certainly become inefficient. This has contributed to an increase in the death rate and therefore the decline in life expectancy from 43 in 1987 to 38 in 2001.

⁹ October 2004

The major cause of the decline in life expectancy, though, is AIDS. Infant mortality rate, which was 104 per 1,000 live births in 1977, declined to 83 in 1987, but rose to 117 in 1998.

The corresponding under- five mortality rates were 203 in 1977, 148 in 1987 and 210 in 1998. Thus, both infant and under five mortality rates have increased recently. Furthermore, they are also comparatively high. The maternal mortality rate has also increased recently.

Provision of credit to economically empower the youth and make them productive is a key policy measure that has been adopted in the multi-party era to reduce unemployment among the youth. This is complemented by measures to train the youth in vocational and other skills.

3.0 Aid and the MDGs

Malawi is an aid dependent country. In the 2001/02 fiscal year, for example, foreign aid represented 38.9% of total revenue and grants and 34.0% of total expenditure (Malawi Government, 2001). In the following fiscal year, foreign aid was only 21.6% of total revenue and grants and 16.9% of total expenditure because some of the aid was withheld due to bad governance, corruption and lack of fiscal discipline (Malawi Government, 2002). The 2004/05 budget estimates put aid at 32.9% of total revenue and grants and 29.5% of total expenditure (Malawi Government, 2004) in the hope that the measures taken to reduce the level of corruption, to improve fiscal discipline and so restore macroeconomic stability, and to improve governance generally, would generate more foreign aid, which it has done. Donors grant most of the aid for specific projects and programmes. The proportion of the aid that is given for budget or balance of payments support is relatively small.

“There are large areas of the aid system that are in urgent need of reform” Patrick Watt, Action Aid, UK

Table 6 Net Aid to Malawi in Real Terms in Millions of US Dollars (2001 Prices) 1993-2002

Year	All Donors	Members of DAC	Non-DAC Members	Multilateral Donors
1993	471	152	3	316
1994	430	232	4	194
1995	373	202	2	169
1996	432	242	0	190
1997	316	161	1	154
1998	404	194	1	209
1999	409	212	4	193
2000	434	262	6	166
2001	405	196	11	198
2002	359	215	9	135

Source: World Bank, *African Development Indicators 2004*, pp. 289-292.

The data in Table 6 show trends in the flow of real ODA to Malawi from various sources between 1993 and 2002. Members of the Development Assistance Committee (DAC) are the largest source of aid to the country seconded by multilateral donors, with Non-DAC bilateral donors accounting for far less net aid to Malawi. Net aid peaked in 1993, the very year when non-humanitarian aid was suspended in order to force the country to adopt multiparty democracy. The cutback in aid by bilateral donors was more than offset by aid from multilateral institutions. Since then, there has been a decline in net aid to Malawi. Although bilateral donors have increased their aid, multilateral institutions are the ones that have reduced theirs. The data in Table 6 also exhibit fluctuations in the flow of aid from year to year from all sources. These fluctuations reflect a number of factors, including the completion of projects, the state of satisfaction by donors of the fulfillment of conditionality by Malawi, and dissatisfaction with corruption and governance.

“We are poor yes, but we are a sovereign state and nobody should teach me how to run this country” - President Bakili Muluzi, Malawi

¹⁰ Action Aid International (2005) Real Aid An Agenda for Making for Making Aid Work, Action Aid, UK.

The information conveyed by the data in Table 7 is not much different from the one conveyed by the data in Table 6 above. Proportionately, members of DAC have provided more aid than multilateral organizations.

Table 7 Net Aid from Various Sources as Percentage of GDP 1993-2002

Year	All Donors	Members of DAC	Multilateral Donors
1993	24.0	7.7	16.2
1994	39.8	21.2	18.2
1995	30.4	15.5	14.8
1996	20.2	10.9	9.4
1997	13.6	6.9	6.7
1998	25.0	11.7	13.3
1999	24.7	12.6	11.8
2000	26.2	15.8	10.0
2001	23.9	11.6	11.7
2002	19.8	11.8	7.5

Source: World Bank, *African Development Indicators 2004*, pp. 293-295.

The data in Table 7 also show fluctuations in net aid as a proportion of GDP from year to year. As a proportion of GDP, net aid from all sources peaked in 1994 and has declined since that year.

It reached its lowest level in 1997. These fluctuations reflect changes in aid inflows for the reasons that have been put down above, and changes in GDP.

The tying of aid to conditionality, including policies dictated to the country by donors, delays in aid disbursement, suspensions of aid or outright withdrawal have all made it difficult for Malawi to use aid for sustainable development, including poverty reduction. Another problem has been that the priorities of donors have not always been consistent with the priorities of the government.

Aid to Malawi during the regime of Bakili Muluzi was heavily affected by issues of corruption and mismanagement of loans as well as political intolerance. Danish Charge D’Affaires Finn Skadkaer Pedersen said “a weak administration” and “systematic intimidation of the opposition” in Malawi since 1995 has made it difficult to implement development programmes. Malawi’s former President Bakili Muluzi is on record for having lashed out at donors, accusing them of meddling in African politics by using their aid money to influence political trends on the continent. Relations between Denmark and Malawi soured late last year when Copenhagen was forced to recall its outspoken Danish ambassador to the country Orla Bakdal after an audit report he instituted, on how Danish money was being spent, revealed some anomalies.¹¹

The major bilateral donors are the governments of the United Kingdom, Japan, Germany and the United States of America. The main multilateral donors are the World Bank and the African Development Bank. All these donors insist on good governance, accountability and transparency in the way that their aid is used. The projects that they finance are regularly monitored and evaluated. But most of them can cut aid if the country does not satisfy conditionality or slips on good governance or corruption as it happened in 1993, 1997 and 2002. This deters progress towards attaining the MDGs.

3.1 Current requirements

According to the Millennium Development Goals report for Malawi (2003), Malawi would require US\$7.0 billion in the period 2003-2015 in order to attain the MDGs by 2015. The above cost estimates imply that Malawi would require an annual average of US\$584 million per year between 2003 and 2015.

¹¹ BBC News, ‘Malawi corruption’ halts Danish Aid, Thursday, 31 January, 2002,

Current disbursements are in the region of US \$200 to US \$300 million per year. In view of capacity constraints, it is estimated that over the next five years the country will require US \$400 million per year in order to implement the economic transformation programme. Therefore, US\$2.0 billion would be required in the period 2004-2009.

Table 8 shows the summary of financial resources required to achieve the MDGs.

Table 8: Cost of Achieving the Millennium Development Goals

Millennium Development Goal	Base Level	Current Level	Target Level	Cost (MK'b)	Cost (US\$b)
	1990	2002	2015		
Halve the proportion of the population in poverty (%)	54	65.3	32.7	220.00	2.00
Halve the proportion of the population without potable water %	51	42	25.5	110.00	1.00
Achieve Universal primary School %	20	20	100	110.00	1.00
Reduce by two-thirds under-five mortality (per 1000 live births)	234	189	78	110.00	1.00
Reduce by 3/4 maternal mortality (per 100,000 live births)	620	1120	155	110.00	1.00
Begin to reduce HIV/AIDS incidence %	13	15.0	<13.8	110.00	1.00
TOTAL				770.00	7.00

Malawi does not have a formal income grant programme for tackling the income gap between the rich and the poor. The Poverty Reduction Strategy Paper (PRSP) talks about effecting direct welfare transfers to support the poor who cannot be supported by other means. Similar transfers are administered routinely on a small scale every year. The PRSP has not made a difference in terms of magnitude of the sums involved. The only significant income support programme in Malawi is the Targeted Input Programme (TIP) whose aim is to enhance the productivity of the capital-constrained poor by giving them free agricultural inputs.

Unfortunately, this programme has been terminated this year following the withdrawal of donor support for it. Targeted nutrition programmes assist only malnourished children and lactating and pregnant mothers. While public works programmes are of interest only to those who are willing to work on creating socio-economic infrastructure.

Against the background of a decline in net aid as a proportion of GDP, the tying of aid to conditionality, and the absence of a consistent scheme for supporting the livelihoods of the poor, Malawi will not attain some of the MDGs, particularly those relating to income poverty, hunger and maternity mortality rates. A percentage of GDP, grants have been much bigger than loans. For example, whereas grants were 19.8% of GDP in 2002, gross private capital inflows and Foreign Direct Investment (FDI) were only 3.2 and 0.3% of GDP, respectively, according to the 2004 World Development Indicators. Loans procured by the government have also been proportionately less than grants. But, in terms of conditionality, there is not much difference between grants and official loans. In contrast, Foreign Direct Investment and other private capital inflows are less influenced by conditionality.

For lack of data, it has not been possible to ascertain trends and progress in the proportion of Official Development Assistance (ODA) received in landlocked countries or small island states as a percentage of the gross national income (GNI) of the members of the Development Assistance Committee (DAC). For a similar reason, it has not been possible to track trends in the proportion of ODA used for building trade capacity in developing countries, the youth unemployment rate and the proportion of people in developing countries with access to affordable, essential drugs.

The attainment of the other targets has depended on the goodwill and resolve of donor countries. There has not been much of either. Consequently, not much progress has been made in developing an open, rule-based, predictable, non-discriminatory trading and financial system.

For members of the DAC as a whole, net ODA as percentage of their GNI remained more or less static between 1997 and 2002, rising slightly from 0.22 percent in the former to 0.23 in the latter year. The proportion of ODA that was untied also rose slightly, from 83.2 percent in 1997 to 84.8 percent in 2002. The average proportion of ODA from all donors allocated to basic social services as percentage of the total was 15.8 percent during 2000-2002.

4.0 Trade and the MDGS

The unfair global trading system, global economic injustice and the lack of diversity in economic production and the heavy dependence on agriculture for most African countries makes them vulnerable to climatic changes, notably floods and droughts, with some regions being particularly drought prone. The market access opportunities for LDCs can only be effective if LDCs are assisted to build their capacities to produce tradable goods of higher value and acceptable quality at competitive cost. MDGs will be difficult to attain for debt-sustaining countries surviving on exports of raw cashew nuts, coffee, tea, cotton, while importing everything else in the form of industrial goods from abroad, using the foreign exchange earned from primary exports.

Subsidies for agricultural products in developed countries pose an impossible challenge to most developing countries' efforts to export farm produce to European markets. It is in this area though, where they have comparative advantage that would enable them to attain MDGs if given an opportunity for fair competition.

4.1. Malawi, WTO and the MDGs

At present, Malawi's participation in international trade is not in its favour and is likely to hinder its attainment of the MDGs by 2015. During the past five years, for example, the trade imbalance deteriorated from a deficit of MK3.2 billion in 2000 to MK23.9 billion in 2004. Over the same time period, the current account imbalance worsened from a deficit of MK11.2 billion to MK39.8 billion. In 2000 and 2002, large capital inflows more than offset these deficits, as a result the country realized overall balance of payments surpluses after debt relief of MK5.4 billion and MK8.1 billion, respectively. In the other years, Malawi's overall balance of payments after debt relief was in deficit. Progressively, gross official reserves measured in months of import cover declined from 4.7 in 2000 to less than 2.0 in 2004.

Malawi's trade policy is aligned to the World Trade Organization (WTO). The country participates in WTO trade negotiations of the Doha Work Programme. As a Least Developed Country, Malawi's concern is to safeguard her interests by focusing on trade-related development issues, such as improved market access, provision of special and differential treatment to poor countries, and review of trade rules. The asymmetries and imbalances in the global trading system, including a number of WTO agreements, constitute serious impediments to the country's growth and development. Malawi continues to face difficulties in implementing the agreements, including adapting national laws and improving its institutional capacity to meet its WTO obligations. Its access to industrial country markets remains restricted in areas where it has comparative advantage, including agricultural products and labour-intensive manufacturing.

As shown in Table 9, Malawi's share of global trade, capital flows and foreign direct investment are very low, with the share of exports and imports falling. Inadequate foreign trade and foreign capital inflows adversely impact on Millennium Development Goals in a number of ways. First, it means that the country is not able to generate sufficient foreign exchange required for importing consumer, capital and intermediate goods required for use by consumers and producers. Secondly, as a direct result of this, it constrains investment and therefore the growth of income, which is required to reduce poverty and attain the other MDGs. Thirdly, the low level of foreign trade constrains the tax base and therefore the ability of government to increase revenue and hence expenditure on activities that are related to the attainment of the MDGs.

Table 9 The Shares of Malawi in Global Trade, Capital Flows and Foreign Direct Investment

Year	Global Exports	Global Imports	Net Private Capital Flows to Low and Middle Income Countries	Total Foreign Direct Investment
1990	0.012	0.016	0.058	0.001
2002	0.007	0.010	0.004	0.001
2003	0.006	0.009	0.012	0.004

Source: World Bank, World Development Indicators 2004 and 2005.

4.2 Trade with EU

It is difficult to conclude that the EU-Malawi trade relations will help Malawi to attain the MDGs. As a former colony of a member state of the EU, Malawi has since 1975 enjoyed non-reciprocal preferential tariff and quota free access to the EU market for most of its exports. But, despite duty and quota free access for its exports to the EU and trade-related provisions, the performance of Malawi's trade with the EU has not been satisfactory. The absolute level of exports to the EU has increased less rapidly than that of some of its neighbours, while the share of exports going to the EU in total exports has declined. The problems with the Lome Convention are that the preferential margin of the tariff over non-ACP exporters is often nil, and the value of the preference is low because of the low response of primary product exports to price changes. Malawi has not been able to diversify her exports towards products with a high preferential margin. Other problems include limited awareness of the existence of Lome preferences, complicated procedures for accessing the provisions, restrictive rules of origin, subsidies to agricultural producers and exporters in the EU, and sanitary and phytosanitary regulations. In addition, the value of Lome preferences has been decreased by the extension in recent years of some near-equivalent preferences to non-ACP developing countries and multilateral trade liberalization.

Box 1: International conventions and initiatives

Government will ensure compatibility of trade agreements and ensure reciprocity in the implementation of regional and bilateral arrangements. The multiplicity of trade agreements offers a challenge in terms of compatibility and implementation. Continuous efforts will be made to expand the market share within the existing as well as new market and non –traditional markets. Regional trade and cross-border investment will be expanded through SADC, COMESA and bilateral agreements.

Government will also focus on maintaining and strengthening preferential non –reciprocal agreements with developed countries such as the Lome Convention and the Generalized System of Preferences, the EU's Everything But Arms (EBA) initiative and the US Africa Growth and Opportunity Act (AGOA). Government recognizes that least developing countries, including Malawi, can make use of the special clauses of the Uruguay Round providing differential and more favourable treatment and implement and benefit from the commitments undertaken. Meanwhile, Government will continue to negotiate with its HIPC and LDC partners for preferential agreements and the removal of barriers and subsidies in developed countries.

Source: National Economic Council, 2002:47

The ACP-EU trade and aid relationship under the Lome Convention will soon be replaced by several Economic Partnership Agreements (EPAs). Essentially, EPAs are reciprocal free trade areas. Malawi participated in the ACP-EU Economic Partnership Agreement (ACP) negotiations, which were launched in September 2002. These negotiations focused on objectives and principles of EPAs and issues of common interest to all ACP states. The second phase of the negotiations, in which Malawi is participating, is dealing with substantive issues at regional level. Malawi is negotiating with the EU because preferential trade allowances under the Everything But Arms (EBA) initiative can be withdrawn at any time, which creates an uncertain environment. Malawi's negotiations are in the context of a wider Eastern and Southern Africa (ESA) Configuration.

The ESA-EU EPA agreement may result in increased investment inflows that could enhance the export capacity of Malawi. Other possible benefits include the following: cheaper imported inputs and consumer goods from the EU; and greater access to the EU market for primary products and labour intensive manufacturing.

But Malawi will face stiff competition from other producers in the EU market and from EU producers in the domestic market, with the result that some producers may be forced to restructure to remain competitive. Subsidies to agricultural producers and exporters in EU countries serve as strong barriers to the agricultural exports of developing countries. Support to agriculture as a percentage of GDP averaged 1.1 percent in developed countries in 2002.

4.3. Trade with the US and Sub-regional Groups

Under the African Growth and Opportunity Act (AGOA), Malawi has increased exports of goods and products to the US market, especially textiles and clothing, nuts, beans and tobacco. However, Malawi faces a number of constraints and problems in exporting to that market which will affect its ability to attain the MDGs. The problems include supply-side constraints, high administrative demands by the US government, high cost of credit, lack of diversification, and competition from low-cost producers of textiles and clothing following the decision of the WTO not to subject Chinese exports to quotas. Malawi's agricultural exports face problems related to standards, quality and packaging.

Malawi is a member of the Common Market for Eastern and Southern African States (COMESA) and joined some of the other member states to form a COMESA Free Trade Area in 2000. Soon COMESA will form a customs union. Malawi's trade with COMESA is quite balanced between exports and imports. The country is also a member of the Southern African Development Community (SADC). Like COMESA, SADC adopted a free trade area in 2000, but its formation will not be completed until 2008. Malawi is required to reduce tariffs on intra-SADC trade gradually during the formative period. Its trade with SADC is unbalanced, with imports that are four times higher than exports. Then there is an asymmetrical bilateral agreement with South Africa and a symmetrical one with Zimbabwe. Malawi is in the process of negotiating a similar trade agreement with Mozambique. Later it will also negotiate such trade agreements with Tanzania and Zambia.

On the other hand it must be full-acknowledged that Malawi's industrial policy (especially during Kamuzu Banda's regime) favouring import substitution and a policy of overvalued exchange rates also raised appetite for importation and rapid depletion of foreign exchange. At the same time industrial and exchange policy suppressed expansion of manufactured exports which combined with restrictions on commodity exports to cause foreign exchange shortages. Exchange rate over-valuation also combined with interest rate repression to promote capital flight.

5.0 Stakeholders and MDGs

Here, we shall explain the role of donors, parliament, NGOs and policy advocacy and research institutions in implementing the MDGs in Malawi. Many bilateral and multilateral donors are lending support to Malawi in its efforts to achieve the MDGs. For lack of space, we shall discuss the role of only three of them, NGOs, Donors and parliament.

“The deficiencies in democratic accountability and public administration have left gaps, some of which have been filled by NGOs”¹²

5.1. The Role of Parliament

Parliament plays a key role in the loan contracting process since the Public Finance and Management Act mandates it to approve each loan. But once the loan has been procured, it plays no role in the management process. With respect to grants, it plays an even smaller role. In approving the budget, Parliament approves the total grant figure. It does not consider and approve individual grants. Nor does it monitor how individual grants are used. Civil society comments on individual loans and grants, and monitors their use to ensure that they are used for the intended purpose, especially that of reducing poverty. In this connection, the activities of civil society have impacted positively on budget management.

5.2 The Role of Civil Society

While NGOs in the past have concentrated on service delivery. Many more are now engaged in social mobilization and advocacy. Many have been serving as a bridge between local communities and government. Most donors have begun to regard them as alternative effective ways of reaching the poor and a mechanism of channeling a sizeable percentage of donor funds.

Civil society has been very active in campaigning for debt cancellation, mainly through the activities of the Church. Locally, the Church has lobbied donors for debt cancellation. In this respect, the Malawi Economic Justice Network has also been quite active. It is realized that debt overhang discourages foreign capital inflows and investors who perceive that the country might increase taxation to raise the resources for servicing foreign debt.

As at the end of March 2005, Malawi had 189 NGOs, distributed as follows: 40 international NGOs registered with the Council for Non-Governmental Organizations in Malawi (CONGOMA), 53 registered Malawian NGOs, 48 unregistered NGOs of all nationalities and 48 others that had asked CONGOMA to be registered. These NGOs are involved in implementing projects and projects that impact on all the MDGs, except the eighth goal. The small NGOs have a limited mandate, with few activities. But the big ones help local communities with the development of a wide range of activities in agriculture, health, education, water, sanitation, small-scale industries, micro-finance, etc., and offer relief when there are natural disasters. The work of Action Aid International is typical of what the big NGOs do in the county. Action Aid International is committed to assisting the poor and marginalized in order to eradicate poverty by addressing inequalities and injustices that cause poverty. Food security is its main theme. It has a five(5) year strategy focusing on food security, education, HIV/AIDS, gender and women’s rights and governance beginning in the year 2005. It helps in building capacity for communities for subsistence and commercial agriculture, small- scale irrigation, community grain banks, and soil and water conservation.

The effectiveness of NGOs is limited by lack of a working relationship among them, with most NGOs working on their own, and between the NGO sector and other complementary institutions, such as government, quasi-government and private entities. Their effectiveness is also constrained by emphasis on experimenting with ideas, and lack of a collaborative approach among developmental organizations (Simukonda, 1992). On their part, small NGOs also suffer from lack of adequate resources.

¹² SAAPE (2003) Civil Society perspectives : Poverty in South Asia 2003 , Kathmandu, Nepal p41

Participation by advocacy and research institutions is exemplified by the work of

1. Malawi Economic Justice Network (MEJN)

- a) MEJN recognizes MDGs through work in MPRS, which contains steps towards achieving MDGs. For example, halving poverty is overall theme of the MPRS.
- b) MEJN has taken MDGs in its three (3) year new programme from 2005, which include wide dissemination of MDGs, comprehensive monitoring and implementation of all MDGs.
- c) MEJN ensures policy adherence, specifically which government sticks to four pillars of MPRS through monitoring implementation of MPRS, and provides civic education on MPRS so that people should take part in reducing their own poverty.

2. Economics Association of Malawi (ECAMA)

- a. ECAMA's mandate is to promote proactive debate and dialogue on current topical economic issues, through conferences, town talks, workshops, magazine, website, resource centre etc.
- b. ECAMA is involved in MPRS specifically on budget. Involvement in MPRS means taking part in implementing MDGs. For example, ECAMA held a workshop on impact of Pro Poor Expenditures on poverty reduction sponsored by UNICEF

5.3 The Donor Community

The UNDP is the lead international institution because the MDGs were conceived under the auspices of the UN. The local UNDP office advocates the implementation of MDG activities and co-ordinates the assistance of all donors in the country, although it is not the largest source of assistance. More specifically, the local UNDP office:

- Assists in determining what government can do and what it wants to achieve.
- Helps to integrate the MDGs into all aspects of the UN system's work in response to the priorities identified by the Malawi Government.
- Is working closely with a steadily expanding circle of partners supporting Malawi with practical advice and assistance to design policies and programmes, build capacity and test innovations as the country maps out its own path to reach the goals.

The International Monetary Fund (IMF) also plays a number of roles by:

- Looks at budget expenditure to achieve MDGs by ensuring that there are enough funds for education and health.
- Advocates the Poverty Reduction and Growth Facility under which there is provision for concessional loans for low income countries to achieve MDGs and also provides debt relief under HIPC.
- Helps the Malawi Government to formulate economic policies, particularly policies to achieve MDGs.

The World Bank goes beyond giving advice on the budget and policies, and giving debt relief. It also funds a number of projects and programmes for achieving the MDGs.

6.0 Recommendations

Donors, civil society and members of parliament are agreed that Malawi's level of foreign debt is relatively too high, that the burden of servicing this debt is constraining the ability of the country to pursue the MDGs, and therefore that the country requires debt cancellation. They are also agreed that Malawi's level of foreign trade is too low, and therefore that developed countries should do more to improve access of Malawi's exports to their markets. Members of parliament and civil society are also calling for more ODA.

6.1 Government

- Macro-economic policies must be consistent, pro-development and people driven. There should be separation between government and the ruling political party's resources. Many times in developing countries such as Malawi state development resources have been misused to finance ruling party activities.
- To provide more grants than ODA loans for poverty reduction spending;
- To provide additional grant funds to help the Government of Malawi respond to external shocks so as to ensure that Malawi's debt remains sustainable.
- Protecting the rights of citizens must be at the core of the policy making process at national level. It is imperative that if trade liberalization continues to lead to impoverishment, deprivation, job losses, marginalization and pauperization, it must come to a halt.
- Governments should avoid internal bickering on the use and management of donor funds for this creates lack of faith in their work by the international community¹³. There should be respect for clear institutional and constitutional provisions of loan management and approvals.
- The promises that have been given to the citizens demanding an end to corruption must be kept. Otherwise it will be another episode of mere rhetoric and the democratic rights of the people will be endangered even further.
- Governments in consultations with their citizens should set their own priorities and agendas regarding how they intend to use donor resources.
- There should be agreed international means and conventions of dealing with governments that misuse donor funds

6.2 Civil Society Organizations

- CSOs are crucial for the protection and promotion of the Malawian people's rights and to this end they must continue to lobby and advocate for economic justice and debt cancellation in order to free up resources for Malawi's Development.
- NGOs must continue to influence government budget allocation, sector prioritization and production of sound macroeconomic policies.
- Popular education and public sensitization on the issues of aid, debt and trade is key to NGO mass mobilization for development. Information repackaging and dissemination with the aim of achieving people-centered and driven development is crucial for Malawi's sustainable development.
- Civil society must create a strong culture of information sharing and networking. This requires that civil society leaders improve internal governance and management so as to facilitate free flow of information.

¹³ See INRIN on 1st September 2005. *Defiant Mutharika's Loan Scheme Provokes Opposition* where President Bingu wa Mutharika vowed to go ahead with the distribution of loans to the country's poor from the Malawi Rural Development Fund (Mardef) despite objections raised by Parliamentarians.

6.3 The Donor Community

- To provide more grants than ODA loans for poverty reduction spending;
- To provide additional grant funds to help the Government of Malawi respond to external shocks so as to ensure that Malawi's debt remains sustainable.
- Although food aid for emergencies will remain important for Malawi, importing food aid commodities from overseas should only be considered when food crises are regional in nature.
- Aid to developing countries such as Malawi should be made fully predictable, reliable and untied. Donors must give aid timeously without conditionalities attached. Donors should not meddle in the internal affairs of recipient countries. Withdrawal of aid from poor countries should not be based on the fact that politicians have messed up with donors at the expense of people's livelihood.
- There is need for national fora where donors and recipients can review progress on an equal footing; overseen by the UN Designate on Aid¹⁴ A new UN Commissioner on aid should be created to provide impartial oversight of whether donors and recipients are meeting their commitments. This post could report directly to the UN Secretary General.
- Donors must fully implement the Rome Declaration on Harmonisation and Alignment, and there should be binding targets with regular monitoring processes set up for reviewing progress.

¹⁴ see also recommendations by Action Aid International (2005) Real Aid An Agenda for Making for Making Aid Work, Action Aid, UK p46

7.0 Conclusion

Malawi has prospects of attaining the MDGs provided issues of Debt, Aid and Trade are dealt with in a way that is cognizant of the people's rights to basic human rights such as food, water, shelter, health and education. International trade must be rooted in the principles of ensuring equity in terms of social and economic relations, ecological sustainability and improved livelihoods for all the citizens of the world including those in Malawi.

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9.0 Appendix

MDG 8 Targets and Indicators on ODA, Debt and Trade

Targets	Indicators*
<p>Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading system</p>	<p>Official Development Assistance indicators:</p> <p>Indicator 33: Net ODA, total and to LDCs, as percentage of OECD/DAC donors' gross national income</p> <p>Indicator 34: Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)</p> <p>Indicator 35: Proportion of bilateral ODA of OECD/DAC donors that is untied</p>
<p>Target 13: Address the special needs of LDCs. Includes: tariff and quota free access for LDC exports</p>	<p>Indicator 38: Proportion of developed country imports (by value and excluding arms) admitted free of duties and quotas from developing countries and LDCs</p> <p>Indicator 39: Average tariffs on agricultural products and textiles and clothing from developing countries</p> <p>Indicator 40: Agricultural support estimates for OECD countries as a percentage of their GDP</p> <p>Indicator 41: Proportion of ODA provided to help build trade capacity</p>
<p>Target 14: Address the special needs of land-locked Countries and small island developing states through The Programme of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions</p>	<p>Indicator 36: ODA received in landlocked countries as Proportion of their GNIs</p> <p>Indicator 37: ODA received in small island developing states as proportion of their GNIs</p>
<p>Target 15: Deal comprehensively with the debt Problems of developing countries through national and international measures in order to make debt sustainable in the long term</p>	<p>Indicator 42: Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)</p> <p>Indicator 43: Debt relief committed under HIPC initiative, US\$</p> <p>Indicator 44: Debt service as a percentage of exports of goods and services</p>

**NB the numbering and the description of the indicators has changed over time. These are taken from UN2004 and are not exhaustive.*

Source: Commonwealth Foundation (2005) *Breaking with Business as Usual : Perspectives from Civil Society in the Commonwealth on the Millennium Development Goals*, Commonwealth Foundation, London.

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 to enable 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 to protect the interests of the weaker nations.

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.

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