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The Impact Of The Poverty Reduction And Growth Facility On Social Services In Malawi

DRAFT 1
STUDY REPORT

1.0 Introduction

Following the shift in strategy by the IMF from the Enhanced Structural Adjustment Facility (ESAFs) to the Poverty Reduction and Growth Facility (PRGF) in 1999, Malawi produced its own Poverty Reduction Strategy Paper (PRSP) in 2002 which was to form the basis for all Government activities and guide the government's development partners' efforts. The detailed, prioritized and costed actions required resources both from internal and external sources to be implemented. Meanwhile Malawi had gone off track the existing PRGF arrangement after only one review. The current government asked for a Staff Monitored Program by the IMF covering July 2004 to June 2005. Consequent to a successful performance on the staff monitored program (SMP) Malawi government authorities asked for three-year PRGF arrangement to

support their economic program to run from 2005 to 2008. The overarching medium-term objective of this program is to reduce poverty through private sector-led growth while the near term objective is macroeconomic stability.

This paper has as its main objective the assessment of the impact the PRGF has on Social Services in Malawi. The paper pursues this objective cautiously because the first Malawi PRGF was suspended and another one is barely a year old.

2.0 Malawi's Economic Background

Malawi is one of the poorest countries in Africa. According to the 2005 Integrated Household survey about 52.4 percent of the population are poor. As of 2004 the per capita GDP was US\$170.0 against an international benchmark of US\$533.0. For the past five years, Malawi's macroeconomic performance had been fraught with excessive spending, unsustainable budget deficits and inflationary growth of money supply. GDP growth averaged 1.2 percent per year, never exceeding 4.0 percent. This is well below the average for Low Income Countries in Africa and far less than the standard achieved by other countries like Uganda and Mozambique.

Despite efforts to restore macroeconomic stability as a necessary prerequisite for growth, the economy continued to perform badly especially due to increased demand for credit by government as the donor community continued to withhold budgetary support. The fiscal situation therefore became more expansionary with adverse consequences on the economy. The fiscal deficit including grants rose to 12.8 per cent of GDP in the 2002/03 fiscal year. The fiscal deficits for the three years 2001/02 to 2003/04, which amounted to some 27.3% of GDP, were largely financed by short-term borrowing from the domestic banking system mainly using Treasury Bills. The increase in domestic borrowing was catastrophic to the economy. The bank rate ranged between 20 – 35 % and this was among the highest in the world. Commercial lending rates reached as high as 46 percent, thereby affecting investment negatively. Direct investment dropped from US\$59 million in 1999 to US\$6 million in 2002, a trend which obviously hurt prospects for growth and poverty reduction.

Money supply increased by 25.2 per cent in 2002 due to fiscal laxity that left the country with a huge domestic debt burden.

In the external sector, while the current account deficit excluding official transfers remained stable at 10.4 per cent of GDP, gross official reserves declined to the equivalent of 3.7 months of imports of goods and nonfactor services, reflecting the impact of suspension of balance of payments support by donors. As of 2004, the ratio of exports plus imports to GDP (a measure of a country's openness to trade), stood at 68.0 percent. However export earnings have been stagnant at an average of 1.5 percent of growth over the past five years. Export growth on the other hand has been very erratic due to over dependency on primary products.

3.0 Research methodology

The methodology used in this study was mainly *documentary analysis*, particularly arising from the fact that the Malawi PRGF has been off track since 2001 and therefore that no meaningful impact of the PRGF on social services could be captured. Documentary analysis provided

secondary data through literature review, which constitute the background, theoretical and conceptual framework of the study.

4.0 PRGF in Perspective

Up until 1999 the IMF had been using the Enhanced Structural Adjustment Facility (ESAF) as the key instrument for supporting poor countries in implementing approaches to bring about substantive changes in the way countries' programs are formulated. Later in that year the ESAF was replaced by the Poverty Reduction and Growth Facility (PRGF) which places the reduction of poverty as a key objective for IMF concessional lending to low income countries. The PRGF therefore seeks to support programs aimed at fostering lasting growth that culminates in better living standards and reduction of poverty.

The key feature of the PRGF is that it aims at supporting programs from country owned and locally generated Poverty Reduction Strategy Papers (PRSP). Malawi produced its PRSP in the year 2002 whose overall goal is to achieve sustainable poverty reduction through empowerment of the poor. On its part therefore, the Government of Malawi has endeavored to align its policies to the PRGF program with the hope of containing sound macroeconomic policies and growth enhancing reforms which are both pro-poor and pro-growth. The government expects that the application of PRGF principles will help achieve the objectives set out in the MPRSP.

5.0 Relationship Between Main Elements of PRGF and Malawi's PRSP

Linkages between MPRS and PRGF

The MPRS was built around four strategic pillars which are the main components grouping the various activities and policies into a coherent framework for poverty reduction. Firstly the PRSP aims at promoting rapid sustainable pro-poor economic growth and structural transformation which is regarded as a prerequisite for income distribution and for generating employment. Secondly it recognizes human capital development as a key to poverty reduction by ensuring that human capital of the whole population is developed to fully participate in social economic development of the country. The overall goal of the third pillar is to ensure that the quality of life of the most vulnerable is improved and maintained at an acceptable level by providing moderate support to the transient poor and substantial transfers to the chronically poor. Finally, it aims at ensuring that public institutions and systems protect and benefit the poor under the promotion of good governance. The MPRS also mainstreams key cross cutting issues such as HIV/AIDS, gender, environment, and science and technology.

The IMF has drawn up the PRGF program in an effort to ensure that the PRGF objectives are in line with the PRSP goals. Firstly, the PRGF emphasizes poverty reduction interventions through the various policies that have been outlined. At the Macro level, the government has committed to enhancing the macro economic environment both on the fiscal and monetary side by among others enhancing public expenditure management, including the implementation of the Integrated Financial Management System (IFMIS) and the budget. The Malawi government agrees with the PRGF that a stable macroeconomic environment will be essential for private sector development.

The most fundamental challenge for the pillar is to offer the poor an opportunity to generate their own incomes, whilst providing the medium and large-scale private sector an enabling environment for investment. The government also intends to reduce its absorption of domestic resources while allowing for increases in pro poor and pro growth spending. It is expected that this is going to allow resources to be shifted to education, health and physical infrastructure and reduce spending on non-priority areas.

The program further targets to reduce inflation to the 5.0% by 2008 in order to enhance macroeconomic stability which is one of the key factors that contribute to an environment that is conducive to pro poor growth. It envisages continued and predictable donor support like the multiyear commitment to the health sector. This will provide a guarantee for sustained quality of life and human capital development. In addition to this, the civil service wage policy will continue to strengthen incentives for key professionals especially in the health sector. This element seeks to adequately remunerate the health service executioners. However the policy lacks in that it ignores the teaching profession which for a long time has provided service to the nation in human capital development.

The three year program also intends to increase subvention of higher education institutions. Even though this is in line with the Human Capital Development it should be ensured that the primary education sector is not ignored as this may lead to failure to achieve one of the Millenium Development Goals, that of universal primary education.

It can therefore be concluded that to a large extent, most of the policies in the current PRGF have been drawn from the PRSP and the MEGS since most of them are inline with the objectives of the MPRSP and the MEGS.

6.0 PRGF conditionalities

In order to make sure that funds released under the PRGF are used for the right purpose, the IMF came up with conditionalities attached to the arrangement. The conditionalities are just like assessment tools to check whether Malawi is indeed committed to achieving the above goals and also to monitor its performance in order to establish whether the country is in the right track towards the achievement to the above outlined goals.

The conditionalities are 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:

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

- 1) The floor on net foreign assets of the monetary authorities
- 2) Ceiling on net domestic assets of the monetary authorities
- 3) Ceiling on reserve money

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

- 1) Ceiling on central government's net domestic borrowing
- 2) Ceiling on central government wages and salaries

- 3) Ceiling on central government discretionary expenditures

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

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

6.1 Structural Performance Conditionality

The following are Structural Performance Criteria, and Benchmarks:

- 1) Cabinet approval of arrears policy and begin implementation by end September 2005
- 2) Compile new database of all public employees on the basis of DHRMD data forms by end September 2005
- 3) Make budget ceilings module in payment system fully operational by December 2005
- 4) Develop and implement new travel policy, which includes mechanisms for monitoring adherence by March 2006.

Structural Benchmarks:

- 1) Develop detailed schedule of wage adjustments by grade for 2005/2006 by end September 2005
- 2) Publish monthly fiscal reports with one month lag by December 2005
- 3) Prepare quarterly reports (with one month lag) on status of arrears by December 2005
- 4) Strengthen cash management and expenditure monitoring procedures by preparing reports by March 2006
- 5) Complete impact analysis of tighter credit quality classifications on commercial bank balance sheets by end March 2006

6.2 Conditionality on Disbursement of Funds

There are also conditionalities that have been attached to disbursements of the remaining SDR38.17 million. The following are conditionalities attached to disbursements.

Amount (millions of SDRs)	Date	Conditions for Disbursement
5.4190	Jul 2005	Executive Board Approval of PRGF arrangement
4.9245	Feb 2006	Completion of review 1 and observance of Sep 2005 Performance
4.9245	May 2006	Completion of review 2 and observance of December 2005 performance

6.6800	Nov 2006	Completion of review 3 and observance of Mar and June 2006 performance
6.6800	May 2007	Completion of review 4 and observance of December 2006 performance
4.7710	Nov 2007	Completion of review 5 and observance of June 2007 performance
4.7710	May 2008	Completion of review 6 and observance of December 2007 performance

7.0 Notable Areas of Economic Changes in the Economic Reform program under the PRGF

Some notable areas of achievement include:

- Government spent within the budget approved by parliament for the first time since 1994
- Government met all but one target agreed within the SMP of the IMF, and the target which was missed was the wage bill which was expanded to accommodate allowances into salaries.
- Demonstrated political will towards fiscal discipline
- Improved revenue performance leading to an increase in tax/GDP ratio
- Reduction in domestic interest bill
- Reduction in Bank Rate from 35% to 25% in June 2004

It is clear that the economic changes under the PRGF has been crucial in bringing the country back on the path to growth and private sector activity. For example, the reduction in interest rates resulted into substantial increase in private sector borrowing from commercial banks from MK10.5 billion in June 2004 to MK16.5 billion in June 2005, representing a 57% increase.

Notable areas of improvement vis-à-vis the IMF targets and the 2005/06 Budget include:

- Reclaiming the lost credibility with donors to support the budget
- Meaningful steps taken to curb corruption and free resources to fight poverty
- Enhanced competence in managing the budget evident through resumption of aid.
- Increased control by the Government over the budget due to increased discretionary domestic expenditure mainly attributable to reduced debt servicing bill.

Following these and other notable trends from the IMF SMP, in August 2005, the fund approved a 3 year arrangement for Malawi under the PRGF in an amount equivalent of US\$55.9 million to support government's program of economic reform and poverty reduction through private sector led growth.

8.0 Sectoral Allocation of Resources Disbursed under the PRGF and the Fund's Appreciation of different Country Circumstances

8.1 Allocations To Pro Poor Expenditures (PPEs)

Research shows that funds that come under the PRGF window come to the government's consolidated fund as budgetary support for the program. It can only be isolated through the budget allocations to the Protected Pro Poor Expenditures (PPEs). These are expenditures that are incurred on activities that have a direct and immediate impact on the reduction of poverty as outlined in the Malawi Poverty reduction Strategy paper. These expenditures are protected from any cuts in the event of cash flow problems in the course of budget implementation.

The table below shows the allocation for the financial years 2004/05 and 2005/06 to the protected pro poor expenditures.

	FY2004/05	FY2005/06
TOTAL EXPENDITURE (MK'000)	14,864,875	18,543,929
Agriculture	1,392,963	1,615,318
Water	49,337	51,077
Natural Resources	110,381	114,383
Trade/Private Sector Development	70,760	81,284
Tourism	130,674	182,010
Youth, Sports & Culture	29,373	32,125
Education	8,562,475	9,158,659
Health	3,531,609	5,772,830
Gender	91,024	61,854
Labour	243,166	275,262
Police	653,093	850,766
ACB	-	114,334
Ombudsman	-	18,431
Justice	-	39,710
DPP& State Advocate	-	62,292
Legal Aid	-	21,678
Law Commission	-	88,668
Industry, Science & Technology	-	46,152

9.0 Linkages between PRGF and Core Social Services

A healthy and educated people will always contribute more to national development than an illiterate and sick one. Ensuring that the most vulnerable have access to the basic rights of education and health will pave the way for the people to move themselves out of poverty in the long run.

9.1 Education

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. Hence 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. (addition needed)

9.2 Health

The sector wide approach of the Health sector is one of the strategies that will positively impact on the reduction of poverty.. According to the PRSP, the health of an individual is directly related to economic and social well-being. The improved health of an individual will increase the ability of an individual to lift themselves out of poverty and will lead to a general increase in productivity. However health indicators in Malawi have remained poor especially due to lack of qualified and adequately compensated medical staff. The Malawi's health situation based on the health indicators such as maternal mortality rate, child mortality rate, child and maternal malnutrition, life expectancy; access to health facilities is very unsatisfactory. The percentage of healthcare facilities able to deliver the EHP has diminished especially due to understaffing resulting from brain drain. This brain has also affected the roll out of Anti-Retroviral Treatment (ART) and other HIV/AIDS related servoces and continues to take place despite rapid increase in demand for health services.

The PRGF supported programme accommodates a sizeable increase in health expenditures in order to address some of the challenges in the health sector. In 2004/05, while the country was still under the SMP, resources for the health sector increased sharply. Malawi's development partners began to scale up their multiyear commitments towards the health sector. Currently government has two initiatives namely the Health Sector Wide Approach (SWAp) and the Malawi Global fund. The health SWAp uses pooled resources from donors in order to help recruit and maintain health workers in addition to funding existing programmes. The global fund is aimed at scaling up prevention and treatments of HIV/AIDS, Malaria and TB through NAC administration. In terms of the actual resources, both the health SWAp and the Global fund have been allocated 40million dollars each in the year 2005/06. In total there is an increase from 3 percent of GDP to 4.9 percent of GDP in planned non-wage health expenditures only, representing an increase of almost 2 percent of GDP.

In its PRGF-supported program, the Malawi Government indicates that significant progress has already been made in strengthening health policies through the SWAp. It befits the purposes of this paper to explore more the elements of this approach in further detail. This approach has six main programme areas that are to address the major challenges facing the Ministry of Health both in its (public run) facilities and those of the Christian Health Association of Malawi (CHAM) namely the Human Resources Development, Pharmaceuticals and Medical Supplies, Essential Equipment and Assets Procurement, Infrastructure Development, Support to service delivery at the Operational Level and Systems Support and Development.

The SWAp has the potential to bring consistency between national plans, external support, sustainability and commitment of the government and collaborating partners to the delivery of an Essential Health Package(EHP)

9.3 Problems in the health sector

First, there still exists a critical shortage of human resources that has resulted from the inadequate capacity of training institutions to produce the numbers of health workers required to deliver the EHP. The shortage in staff denies the poor population of timely services and may lead to death from otherwise curable diseases or aggravation of controllable conditions. On the economic front what this entails is that the poor will have to opt for rather expensive health service outlets as compared to the public or grant aided CHAM facilities. Under the PRGF tough fiscal discipline, recruitment of new staff and retention to reverse the trend is virtually impossible for fear of missing the budget deficit targets. Addressing the human resource component could reduce the cost of health services to the desperate poor patients or their guardians who pay for services at high charging outlets. It will further allow guardians time to go back to their productive activities for income generation. It should be noted that the inadequacy in staff in the health sector affects women and children to a different extent. It is usually mothers who take the sick, more often than not children, to hospitals where they wait long periods only to go back home and find men waiting for the women to fend for them. Thus the increase in number of health personnel at the service delivery points in

particular will also improve the well being of the households who depend either entirely or to a great extent on the women for their survival.

Second, the health sector is challenged by the shortage of drugs and other essential supplies such as medical and laboratory supplies for the EHP and related services. There is quite a large number of public health facilities where patients are sent away because there are no drugs. Those poorest people who cannot afford alternative health service providers are disadvantaged more than the better off. Also critical is the hygiene hazards that continue to be witnessed arising from repetitive use of the equipment on different patients. In a country where HIV/AIDS pandemic has been declared a national disaster this trend is worrisome as the time frame within which the next patient is served as time for sterilization for example gets increased. However efforts to acquire new equipments and to improve storage measures are hampered by the government's commitment to fiscal discipline as set up in the PRGF.

Third, the Infrastructure component of the health sector shows the capacity constraints in training institutions due to lack of hospital wards this has hampered efforts to reduce congestion in hospitals which leads to re-infections and transmission of airborne diseases in most inpatient facilities that are publicly run.

At the operational level transport services in the form of ambulances and service vehicles are poorly maintained. Other services like food and other provisions for patients, consumables for institutions, planning budgeting and monitoring and other routine activities for MoH are inadequately supplied. Most rural area health facilities have no access to ambulances for quick transportation of the sick to higher-level facilities. They therefore either have to dig deep into their pockets to source vehicles or their sick relations die from ailments that would have been cured had there been ready socially provided transport.

10. Public Debate Over PRGF Policies and Objectives

As stated in previous sections, the MPRS is a product of a highly consultative process that involved a very broad range of stakeholders and represents a consensus about how Malawians

can develop and achieve its core objective of poverty reduction. Much as most of the PRGF policies have influenced the MPRSP, they have not been the subject of any public debate. Participation in the formulation of the PRGF program has remained limited to IMF Staff, and officials from the Ministry of Finance, Reserve Bank of Malawi and selected private sector players. On its part the government has not yet institutionalized a culture of consultation with other stakeholders like Civil Society Organizations on the policies set out in the program before they are sent for consideration and approval by the IMF.

Local assemblies and communities are also marginalized in any discussions around the PRGF. Since these units form the core of decentralization in Malawi, the subsequent low levels of ownership threatens to make any interaction with the IMF a one way process. Communities will always view the IMF and other donors as mere sources of funding and not as development partners, a perception which also has serious corroding effect on levels of policy ownership. Increased debate and dialogue is more necessary now that local assemblies are fully responsible for managing public resources and are accounting directly to the Ministry of Finance and Accountant General's department.

In addition to that, government mandated the ministry of finance to be posting all pro poor expenditures on its website such that the general public can have access to it. However, limited knowledge and access to the internet by a majority of Malawian population entails a combination of different approaches to disseminate PRGF related materials. This is a way of opening up for comments and debate over the program activities. The PRGF approach risks undermining country ownership of the program due to the heavy handedness with which IMF staff approach Government (especially Ministry of Finance) pertaining the program. Government is forced to suit the IMF requirements and stick to IMF targets sometimes at the expense of fulfilling important national social obligations. It is almost evident that the Government of Malawi is inclined to listen to the IMF more than to its own people partly because of undue influence exerted by the IMF staff.

11.0 Financial Flows Through the PRGF vis-à-vis Other Sources of Official Finance

Since 1995, Malawi has accessed a total of SDR 63.84 million from the Fund's PRGF. On 18 October 1995 a PRGF arrangement was approved for SDR50.96 million which expired on 16 December 1999. All the facility approved was drawn. In the year 2000, on December 21, SDR45.11 million (US\$58 million) was approved under a PRGF arrangement. It however expired on 20 December 2004 after only one review and after Malawi had only drawn SDR12.88 million.

Immediately after the approval of the current facility amounting to SDR38.17 million, Malawi received part of it that amounted SDR5.4 million. The remaining balance is going to be accessed over a period of three years.

Apart from the foregoing PRGF arrangement funds, Malawi has also accessed various sources of official finance in terms of HIPC debt relief from various donors. The total amount of debt relief assistance total is equivalent to around US\$643.0 million in Net present value terms. Debt relief will be delivered between 2001 and 2020.

In addition to that, the World Bank has disbursed to Malawi as at May 2005 a total of US\$2.146 million in loans and its net commitment to projects in Malawi is US\$ 376.0 million with the

following sectoral breakdown: Rural 9%, Transport 8%, Social Sectors 51%, Public and private sector Development and Finance 32%. Currently, there is an un-disbursed balance of US\$234 million. The World Bank made available to Malawi the following finances (non PRGF source of official finance):

The staff of the IMF prepared Malawi: Decision point for enhanced heavily indebted poor Countries (HIPC) Initiative which was presented to the Board in 2000 and Malawi's total debt relief was determined to be disbursed from 2001 to 2020.

The Bank has also taken an initiative in the improvement of public expenditure through the Fiscal Management and Accelerating Growth (FIMAG US\$50million) whereby US\$25million was already released in September 2004. It also has led in The Financial Management and Accountability Project (FIMTAP) under which US\$24 million was approved during the 2003 fiscal year.

The Emergency Drought Recovery Credit (EDRC US\$50million with US\$21 IDA grant) was approved by the World Bank in Financial year 2003 and closed in 2004. The IMF Board approved Emergency Assistance of US\$23million in September 2002 to support balance of payments in a severe drought. Malawi has however enjoyed support under the facility in the periods 1995 to 1999 and from 2000 to 2004.

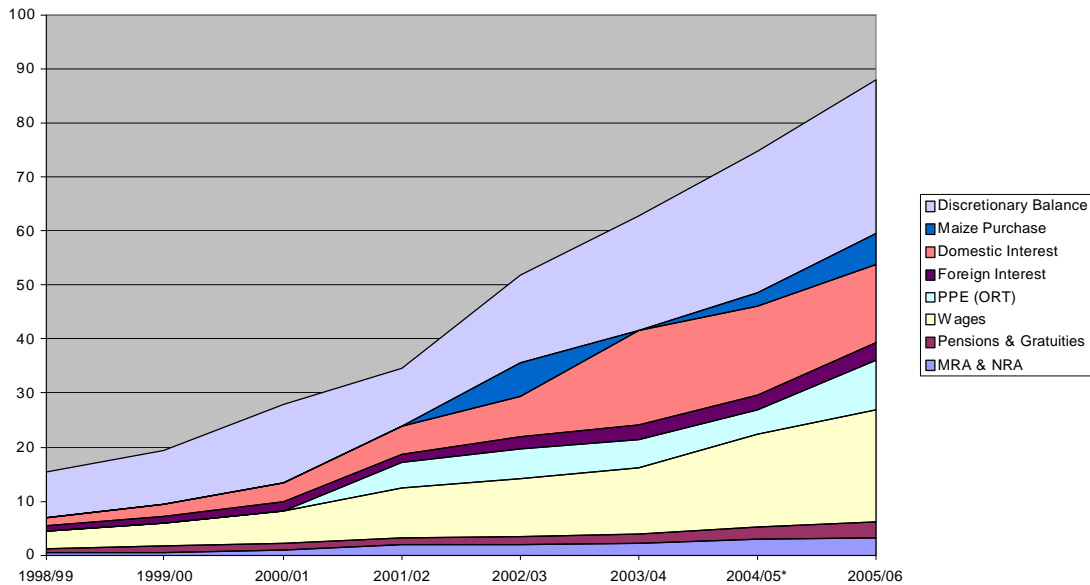
The Fund's PRGF provides guidance for the reorientation of government's spending towards activities that benefit the poor. This has been demonstrated by the increase in the expenditure allocated for protected pro poor activities. In the financial year 2004/05 the total allocation for protected pro-poor was K14.9 billion while it rose to K18.5 billion in 2005/06. According to the review of the MPRSP that took place in 2004, it was confirmed that activities designated as high priority and protected were indeed crucial to poverty reduction and as such they needed to continue being protected.

12.0 Impact of IMF's Signaling Role on Aid Disbursements in Malawi

Since December 2000, Malawi has been implementing an economic programme with support from the IMF under the Poverty Reduction Growth Facility (PRGF) aimed at restoring macroeconomic stability, which is a prerequisite for sustainable poverty reduction. Every year from 1994, the budget ran into over expenditures and did not meet targets agreed with the IMF. However, some progress was made which saw the IMF approving Malawi's first PRGF in 2000. However, the programme went off track in November 2001 due to fiscal slippages that prompted donors to withhold budgetary support. Donors under the Common Approach to Budgetary Support (CABS) made their support conditional upon Government remaining on track with the IMF. Following an apparent improvement in fiscal management in 2003, Malawi got back 'on track' with the IMF PRGF in October 2003 and CABS donors resumed disbursements of budget support. However, this rebound was not long-lasting as Government performed badly in the run-up to the May 2004 elections. This resulted into a yawning deficit of -7.8% and the abandonment of the PRGF. This led Government to rely on domestic borrowing to finance the budget deficit.

The donor pull-out also exerted undue pressure on domestic expenditures and weakened Government control over the budget due to the small discretionary expenditures. This is illustrated in figure 3 below.

Breakdown of Total Domestic Expenditure (Kwacha billion)



Due to the fiscal crisis and apparent inability to fulfill policy commitments, the authorities subsequently requested for a Staff Monitored Program (SMP) covering July – 2004 to June – 2005 to build a performance track record. Malawi's macro-economic performance has improved since mid 2004 under the program monitored by the Fund staff. After several years of economic deterioration, significant progress has been made in restoring macroeconomic stability, strengthening prospects for economic growth, and stabilizing the government's domestic debt.

Following, the IMF's commendation of the authorities' performance under the Staff monitored program, multilateral institutions have come forth for Balance of Payments Support in grants for Financial Year 2005/06 (In millions of US Dollars). So far there have been commitments from the European Union to the tune of 18.8 million dollars which is expected in the second quarter of the year. The IDA has given a commitment of up to 30 million dollars in grants. In addition there have been commitments for Balance of Payment (BOP) support from Norway and the African Development Bank.

However, the most disturbing aspect is the impact of this signaling role on the welfare of the poor in Malawi. Being a gate keeper, as the role is also called, means that all donors that align themselves to the IMF look up to decisions made by the IMF to determine whether they disburse budgetary support and when. When Malawi went off track the IMF PRGF in November 2001, many other donors pulled out budgetary commitments and this was more evident among donors in the Common Approach to Budget Support (CABS). Most CABS budget support was conditional upon Government of Malawi remaining on track and was suspended. This represented 23% of budgeted revenue in 2001/02. Much as many donors continued to provide project support through project grants, the impact of withdrawal of budgetary support was negatively overwhelming on the poor who later on, and even today, are being denied quality education, health and economic empowerment because more resources are being used to settle an unsustainable domestic interest bill as illustrated in figure 2.

13.0 Conclusion and Recommendations

Much as the impact of the Malawi PRGF on the social services can not be meaningfully measured due to suspension and recent resumption of the programme, it is worth noting that the PRGF has to some extent reflected policies from the MPRSP. However, the fiscal projections until 2008 are obviously covering a period in which the Malawi PRS will have evolved into a different strategy and this may create uncertainty on prospects for more debt relief for the country. In addition, while conditionalities attached are essentially assessment tools for any slippages that might occur on the part of government, other conditionalities have the potential of reversing the very gains expected to be achieved under the MDGs or any poverty reduction strategies. There is need therefore for IMF and other donor partners who subscribe to the fiscal position of the Fund to begin considering the Malawi government as an equal partner whose views and models must also be taken into serious consideration by eliminating any "bulldozing effect". This would enhance ownership of the PRGF and of any policies related to the PRGF.

14.0 Recommendations

The Malawi government needs to be committed to the path of economic reforms in order to promote growth and reduce poverty reduction. This includes proper debt management so that resources are freed for the social sectors. The government still needs to follow through on recent efforts to strengthen macroeconomic management.

Timely disbursement of donor funds is essential as it will prevent the government from resorting to domestic borrowing which results in macroeconomic imbalances.

The Civil Society and the general public have a role to play in ensuring that poverty reduction program remains on track. There is need for commitment to monitoring the budget especially the pro-poor expenditures to ensure that the budget and the program have an impact on poverty reduction. Any arrangement that the IMF makes with the Government of Malawi must be clear on debt cancellation. Malawi needs 100 percent debt cancellation to achieve the MDGs and make a dent on poverty reduction. Considering the role of IMF in aid disbursements it is strongly recommended that principles of ownership should be upheld and that therefore Aid should support the programs and policies developed by the recipient community. In this regard, Aid should be provided in a manner that promotes production, and not consumption of external products.

The emphasis by the IMF through the PRGF on private sector led growth should be considered as a way of empowering local producers and entrepreneurs as a matter of priority. However, since building the capacity of domestic private sector is a process, the IMF and other cooperating partners should ensure that the state plays its rightful role in delivering social services. The Government and the IMF should not subject the poor and the vulnerable into a state of lack of social protection through agreement on privatization of essential services and parastatals that of strategic social interest to poor people on Malawi. Whilst it may be argued that privatization of state enterprises will increase their efficiency and ultimately provide revenue to the government, it should be noted also that there are serious social implications as people are rendered unemployed by such exercises. The parastatals with very important social functions ought to be saved as their closure will have negative effect on the reduction of poverty and the general quality of life for most Malawians. One such parastatal that must not be privatized is ADMARC.

Any IMF programme with the Government must not use ambiguous terms like “restructuring” and “commercialization” where the express intention is to talk about “privatization, or to use terms like “civil service reform” where the intention is to talk about reducing the number of civil servants.

The PRGF and indeed any other donor arrangements must ensure that aid which enables working with local communities and social organizations: Better aid supports local communities, community-based organizations and social organizations particularly in building political empowerment; the capacity of people to articulate their views; implementation of their own development models; and meaningful participation in development processes. This is very important as communities are the most reliable, sustainable and unquestioned monitors of development and checks of accountability.

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