

Assessing the Impact of the PRGF on Social Services



The Case of Malawi



African Forum and Network
on Debt and Development

Assessing the Impact of the Poverty Reduction and Growth Facility on Social Services
The Case of Malawi

ISBN 0-7974-3173-X

© 2006

All rights reserved to AFRODAD

African Forum and Network on Debt and Development

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

About AFRODAD

AFRODAD Vision

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

AFRODAD Mission

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

AFRODAD Objectives include the following:

- 1 To enhance efficient and effective management and use of resources by African governments;
- 2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
- 3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

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

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

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

Acknowledgements

AFRODAD wishes to acknowledge their great debt of gratitude to Mr. Mavuto N. Bamusi and his research team at the Malawi Economic Justice Network (MEJN) for investing considerable time and effort in the research process of this report. Many thanks also go to those in the Malawian government, civil society, the UN family, international financial institutions, donor community and private sector who contributed to the research outcome through interviews or responding to questionnaires. We also remained indebted to Messrs. Michael Nyirenda and Vitalis Meja for helping in the final edit and proof-reading of this report.

The central support of Norwegian Church Aid's staff was invaluable to the project. The report benefited greatly from the facilitation of Ms. Gwen Berge at the South African Norwegian Church Aid offices and Mr. Tirivangani Mutazu at AFRODAD secretariat. Many thanks to many of our colleagues whom we can not all name but whose input into the national research validation workshop remains vital to this output.

Preface

In order to achieve significant poverty reduction in poor and indebted countries, the International Monetary Fund (IMF) in 1999 introduced a new policy framework called the Poverty Reduction and Growth Facility (PRGF). The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries. The PRGF was supposed to usher in a new era of reduced International Financial Institution (IFI) conditionalities, but in reality this has not been the case. In countries that were implementing ESAF policies, these were simply renamed PRGF and continued with their restrictive conditionalities, which in many cases included the privatisation of public utilities in the various sectors of the economies. Some of the conditions attached to PRGF financing such as user fees for education and health services as well as privatisation of water and energy services have proved to be detrimental to social service delivery.

When signing up to the Millennium Development Goals (MDGs) in 2000 the International Monetary Fund (IMF) made poverty reduction the main objective of its activities in poor countries across the world. The Poverty Reduction and Growth Facility (PRGF) has been portrayed as a key part of this commitment, promising broad participation in the formulation of poverty reduction strategies, more pro-poor growth, greater flexibility in fiscal targets and social impact analysis of major macroeconomic adjustments and structural reforms.

While the PRGF can potentially represent an improvement from the structural adjustment policies of the past, a number of studies, including those of the Independent Evaluation Office (IEO), make us question the merit of the new approach. Although broader participation in the formulation of macroeconomic policies is explicitly stated as one of the key pillars of the PRGF, it is crystal clear that discussions still remain an almost exclusive preserve between the IMF and a few selected government officials. The lacking participation and the limited alignment between PRSPs and PRGFs represent severe limitations to the potential ownership and poverty reduction impact of Fund policies. This is a major reason for concern knowing that the PRGF was supposed to be informed by the Poverty Reduction Strategy Papers (PRSPs), but the opposite is true.

Furthermore, the role of the IMF as a gatekeeper is becoming more problematic as aid flows from the World Bank and the bilateral donors increasingly depend on countries being on-track with Fund programmes such as the PRGF. Malawi experienced a considerable drop in aid flows when it went off-track with the PRGF, with major implications for the poor. It is striking that, while the IMF is committed to create an enabling environment for poor countries to reach the MDGs, its gate keeping role is undermining these efforts by limiting the resources available for poverty reduction.

The advent of PRGF promised a new IMF culture, which can largely be seen as an attempt to improve the program formulation process beyond the levels attained by the PRSP, but in practice things have not turned out better than the PRSP in many respects.

The PRSP was technically expected to be the sourcebook for PRGF programs but in Malawi, there is no evidence that the PRSP fed into the PRGF realistically, neither was it a copy-cat of the PRSP.

Finally, research findings in Malawi suggest that IMF policies are still based on rather arbitrary macroeconomic targets, failing to move from short-term stabilization programmes to long-term poverty reduction strategies. While findings suggest that expenditures for education and health have increased relatively within the budgets, stringent inflationary targets, lacking policy space and fiscal flexibility restrict governments from making real progress towards the MDGs. The control of wage ceilings has eroded meaningful wages and in some cases added the rates of unemployment.

This Malawi case study raises a number of concerns. We do hope that both the IMF and the Malawi government will take the findings of this report serious and address concerns aptly.



Charles Mutasa

Executive Director

AFRODAD

List of Abbreviations

AFRODAD	African Forum and Network on Debt and Development
AIDS	Acquired Immune Deficiency Syndrome
ART	Anti-retroviral Treatment
BOP	Balance of Payment
CABS	Common Approach to Budgetary Support
CHAM	Christian Health Association of Malawi
CIDA	Canadian International development Agency
DFID	Department for International Development
EDRC	Emergency Drought Recovery Credit
EHP	Essential Health Package
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FIMTAP	Financial Management and Accountability Project
GDP	Gross Domestic Product
GNP	Gross National Product
GNP	Gross National Product
HIPC	Highly Indebted Poor Country
HIV	Human Immune Virus
I-PRSP	Interim Poverty Reduction Strategy Paper
IDA –	
IEO	Independent Evaluation Office
IFI	International Financial Institution
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MEGS	Malawi Economic Growth Strategy
MEJN	Malawi Economic Justice Network
MK	Malawi Kwacha
MPRSP	Malawi Poverty Reduction Strategy Paper
MTEF	Medium term expenditure framework
NGO	Non governmental organization
NPASPD	National Program of Action for the Survival, Protection and Development of Children
PAP	Poverty Alleviation Programme
PRGF	Poverty Reduction Growth Facility
PRSPs	Poverty Reduction Strategy Papers
PSIPs	Public sector investment programmes
SMP	Staff Monitored Programme
SWAPs	Sector wide approaches
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
USAID	United States Agency for International Development
WB	World Bank

Table of Contents

Acknowledgements	4
Preface	5
1.0 Introduction	8
1.1 Historical Background	9
1.2 Malawi's Economic Background	10
1.3 Research Methodology	11
1.4 Objectives of the Study	11
Specific Objectives	11
2.0 The Relationship between Main Elements of PRGF and Malawi's PRSP	12
2.1 The Macroeconomic Policy Context	12
2.2 The PRGF and MPRSP Linkages and Divergences	12
2.3 PRGF Conditionalities	13
2.4 Malawi's Performance under the PRGF	14
3.0 Prgf Impact and Resource Allocations	16
3.1 Sectoral Allocation of Resources under the PRGF	16
3.2 PRGF Impact on Social Services	16
3.3 Education	17
3.4 Health	17
3.5. Problems in the Health Sector	18
3.5.1 Human Resources Shortages	18
3.5.2 The Problem of Medical Supplies	18
3.5.3 Infrastructural Development Challenges	18
4.0 Policy Consultations and the Implications	19
4.1 Public Debate over PRGF Policies and Objectives	19
4.2 Financial Flows Through the PRGF vis-à-vis Other Sources of Official Finance	19
4.3 Impact of IMF's signaling Role on Aid Disbursements in Malawi	20
5.0 Conclusion and Recommendations	22
5.1 Recommendations	22
6.0 References	24

1.0 Introduction

The PRGF was instituted with the assumption that there would be far-reaching changes in the way the IMF worked to support low-income member countries. First, there would be a change in the content of the IMF-supported programmes in these countries - the programmes would be more pro-poor and pro-growth. Secondly, there would be an increased emphasis on country ownership of PRGF-supported programmes. And thirdly, there would be a better definition of the IMF's role and relationship with other agencies supporting development efforts of low-income countries (Gupta et. al, 2002).

Under the PRGF, the IMF had committed itself to providing external assistance consistent with the goals of growth and poverty reduction¹. The PRGF now functions as the principal instrument for supporting low-income countries in implementing their poverty reduction strategies (PRSPs). Key social and sectoral programmes and structural reforms aimed at poverty reduction would be identified, assigned priorities, and given cost estimates from the country's I-PRSP/PRSP², which are produced in a transparent process involving broad participation from government, non-government organizations (NGOs), civil society, and donors (Gupta et. al, 2002).

A few general conditions apply across the board for PRGF beneficiary countries:

- Eligibility is based on GNP per capita (US\$895).
- Loans carry an annual interest rate of 0.5 percent.
- Repayments are made twice a year, beginning 5½ years and ending 10 years after initial disbursement.
- Borrowing is up to a maximum of 140 percent of country's IMF quota³ under a three-year arrangement
- Borrowing ceiling may be increased to 185 percent of quota in exceptional circumstances.

In each case, the amount that could be borrowed depends on the country's balance of payment needs, the strength of its adjustment program, and its previous and outstanding use of IMF credit. Concessional lending under the PRGF is administered by the IMF through the PRGF and PRGF-HIPC Trusts. The PRGF Trust borrows resources from central banks, governments, and official institutions generally at market-related interest rates, and lends them on a pass-through basis to PRGF-eligible countries. The difference between the market-related interest rate paid to PRGF Trust lenders and the rate of interest of 0.5 percent per year paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources.

In addition to the eligibility conditions stated above, PRGF-supported programs have a number of features, largely building on the PRSP experience.

Box 1 Key Features of the PRGF-supported programs

1. **Broad Participation and greater ownership**
2. **Embedding the PRGF in the overall strategy for growth and poverty reduction.**
3. **Budgets that are more pro-poor and pro-growth.**
4. **Ensuring appropriate flexibility in fiscal targets.**
5. **More selective structural conditionality.**
6. **Emphasis on measures to improve public resources management/accountability.**
7. **Social impact analysis of major macroeconomic adjustments and structural reforms.**

¹ The PRGF takes as its point of departure the conviction that a concerted international effort was needed to reduce poverty and thus should be a fundamental element of assistance by the IMF for low-income countries. Rapid, sustainable growth has been the objective and thrust of Fund supported programs in reducing poverty in poor countries

² Some countries have moved on with life beyond the PRSP.

³ <http://www.imf.org/external/np/exr/facts/quotas.htm>

The above list of key features should be perceived as an attempt to improve on the gains from the PRSP processes. It should be noted however, that some features of the PRGF show substantial continuities with those supporting ESAFs and this reflects the extent to which the key features represent a codification of best previous practice rather than a radical departure from it.

The IMF established the Poverty Reduction and Growth Facility (PRGF) to make the objectives of poverty reduction and growth more central to lending operations⁴ to its poorest member countries. This marked a further step in the IMF response to public criticism following the introduction of the HIPC initiative. Reviews of the PRGF⁵ IMF staff in 2002 and by the Independent Evaluation Office (IEO) of the IMF in 2004 confirmed that the design of the programmes supported by PRGF lending had become more accommodating to higher public expenditure, in particular social spending on pro-poor services. Field data from Malawi supported this development in health and education.

PRGF-supported programs are essentially the macroeconomic framework for achieving growth and poverty reduction. In order to ensure that PRGF programs do not lose focus on poverty reduction, they are supposed to be framed around a country's Poverty Reduction Strategy Paper (PRSP). Targets and policy conditions in a PRGF-supported program are supposed to be drawn from a country's PRSP. This report examines the core and principal elements of the PRGF and the extent to which its promise has been kept by its architects: the IMF and its client - the government of Malawi. The paper pursues this objective cautiously because the first Malawi PRGF was suspended and another one is barely a year old.

1.1. Historical Background

Malawi attained independence in 1964 and became a republic in 1966. The ruling party manoeuvred to create a one-party state, banning opposition and establishing one of Africa's longest serving dictatorships. 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; the supporters of the opposition parties losing contracts and other economic opportunities to government supporters; and the Islamization of the country with foreign aid⁶. Though such perceptions may not always be supported by objective facts, their existence influences 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.⁷

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.

⁴<http://www.imf.org/external/np/exr/facts/howlend.htm>

⁵<http://www.imf.org/external/np/sec/pn/2002/pn0230.htm>

⁶Chirwa, 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.

⁷Fozzard, 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 166.

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 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 MPRS, which looks at generating pro poor growth. 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.

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.

1.2. 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. The government expects that the application of PRGF principles will help achieve the objectives set out in the MPRSP.

1.3. Research Methodology

The study is based on the PRGF experience in Malawi. It is restricted to the reading of documentary evidence supplemented by discussions with key stakeholders-staff from the Government of Malawi ministries responsible for education, health and social services. Interviews were also carried out with members of civil society groups working in the areas of poverty reduction, the UNDP and other members of the donor community. No field studies were undertaken, and given the importance attached by the PRGF facility to issues of ownership and participation; this is a major weakness of the study.

1.4 Objectives of the Study

The broad objective of the study was to carry out an analysis of the PRGF in Malawi paying special attention to its impact on the social service delivery system.

Specific Objectives were:

- To establish the extent to which the main elements of the PRGF have been drawn from a country's PRSP
- To quantify financial flows disbursed through the PRGF window compared to other sources of official finance. Does the PRGF provide guidance on how best to re-orient government spending towards activities that benefit the poor and to what extent did it seek commitments of higher aid flows and build these into the programme?
- To what extent has IMF's signalling role affected aid disbursements in the country, in particular resources targeted for social services and the MDGs?
- What has been the sector allocation of resources disbursed under the PRGF paying attention to the amounts allocated to social services and to finance the MDGs. The extent to which the PRGF programmes in the country reflect the Fund's appreciation of the different circumstances facing them and that structural conditionality is applied selectively. Have PRGF-related staff reports highlighted flexibility in country choices?
- What are the conditionalities attached to the PRGF and analyse which of them are detrimental to poverty reduction and to meeting the targets for the MDGs?
- To what extent do the PRGFs in practice differ from the ESAF programmes in the country? To what extent have efforts been made to ensure that PRGF fiscal policies and objectives are open to public debate?
- What are the poverty impacts of the PRGF in the country? To what extent does the PRGF demonstrate that distributional effects of substantial macro-adjustments or structural reforms have been considered?

2.0 The Relationship between Main Elements of PRGF and Malawi's PRSP

2.1 The Macroeconomic Policy Context

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 Millennium Development Goals, that of universal primary education.

2.1 The PRGF and MPRS Linkages and Divergences

While there has been limited participation on the part of the PRSP, there was virtually been no participation on the part of PRGF/PSAC-1- process, which has a bearing on the success of PRSP. The PRGF stipulates the conditionalities imposed on the Government by its development partners, principally the IMF and World Bank. In this regard, because the PRSP is linked to the PRGF, civil society has been tempted to step back and question the value added from its participation in consultations over these strategies because it appears it is just called upon to rubber stamp faire accompli agreements. In particular, civil society is concerned that "informal" discussions with civil society representatives took place after the formal meeting. There is virtually no evidence that the MPRS has no informed the Malawian PRGF. Targets and policy conditions in a PRGF-supported program are supposed to be drawn from a country's PRSP. But in practice there was little evidence to suggest that the PRGF was PRSP driven.

Malawi had disbanded the PRSP altogether and was creating a new national development policy framework by the time negotiations went underway for a new PRGF program.

The IMF and World Bank make a sweeping assumption in the PRSP Review that there are no fundamental disagreements about inflation, privatization or trade liberalization when in fact these are hotly contested in many countries. A major reason for the lack of change is that while growth remains the main engine of poverty reduction, there is no real analysis in PRSPs or PRGFs of how those who are marginalized and impoverished will benefit. Rather than recognise this as a fundamental flaw which must be urgently addressed, it is remarkable that the PRGF Review contains only a vague statement about the need to increase the 'focus on the sources of growth in PRGF programmes'. In Malawi due to policy slippages and macroeconomic instability, the IMF seemed to have been left without a choice in its PRGF exempt reverting to the ESAF conditionalities.

It should be noted that under the first pillar of the MPRSP, Sustainable Pro-Poor Growth, stakeholders noted that the strategies and actions were insufficient to achieve sustained annual economic growth of at least 6 per cent and thus contribute to poverty reduction. Further, the 2002/03 MPRS review revealed that some issues were not properly prioritized, specifically housing and land policy issues, and that the MPRS did not articulate a strategy for broad based growth. While it did identify certain sectors in terms of their growth potential, it did not focus on eliminating obstacles to growth on an economy-wide basis, nor did it sufficiently articulate the role of the private sector. Therefore, in July 2004, the Government of Malawi launched the Malawi Economic Growth Strategy (MEGS) in close cooperation with the private sector. The MEGS was not designed as an alternative to the MPRS, but rather as a complement to strengthen pillar one through investments that would directly impact economic growth.

MEGS' main objective was to generate high and sustainable broad based economic growth of at least 6 per cent per annum over the medium term. The strategy sought to stimulate economic growth through promotion of trade and investment, highlighting the constraints to growth, trade and investment and corrective actions. It focused on strategies and actions that did not require substantial additional spending by Government, but could be achieved through refocusing existing resources and by developing a more conducive set of policies to stimulate the private sector investment, trade and increased employment in the immediate future.

2.3 PRGF Conditionalities

"We are poor yes but we are a sovereign state and nobody should teach me how to run this country,"- Bakili Muluzi, Malawian president, 2002.⁸

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:

A) 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

⁸Raphael Tenthani (2002) 'Malawi corruption' halts Danish aid' Thursday, 31 January 2002, BBC News

B) 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

C) 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

D) 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

E) 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.

2.2 Malawi's Performance 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

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	May 2007	Completion of review 3 and observance of Mar and June 2006 performance
6.6800	Nov 2006	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

It is clear that the economic changes under the PRGF have 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.

3.0 PRGF Impact and Resource Allocations

3.1 Sectoral Allocation of Resources under the PRGF

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

Overall external debt stock declined over the past couple of years while domestic debt stock rose as a result of problematic relations with the IMF. Some of the proceeds from IMF lending have been used to retire domestic debt. Consequently, domestic debt targets have been set to move from 25% of GDP to >15% by 2008 and progress has been made towards achieving this. In the national budget of 2003/4 27.5% compared to 16.3% in 2005/06 was spent on interest payments alone. Excessive government borrowing on the domestic market is never looked at very positively by the IMF.

3.2 PRGF Impact on 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.

Overall the PRGF was perceived rather negatively in terms of its effects on the delivery of social services to the poorest. This was caused by emphasis on liberalization, stabilization and privatization policies. However, it must hastily be noted that it is rather difficult to establish causality or attribute trends obtaining to the PRGF alone in most cases. Hence, the irresistible temptation to lump overlapping effects of various IMF programs on social services ranging from the ruminants of the ESAF.

The single most pronounced PRGF policy instrument has been privatization. This has caused agricultural commodity markets to collapse due to the withdrawal of the state from commodity marketing, removal of farm subsidies (Nyirenda and Botha, 2005) and selling of pro-poor banks.

The Malawi Commercial Bank was sold and it immediately raised the bank balance closing many small accounts in the process throwing hundreds out of the formal financial markets. The bank largely used to service farmers and was specifically setup to provide easy access to loans for Malawian farmers.

Under the IMF restructuring demands-including PRGF, it has been argued that those that are left working after privatization get better salaries and wages. What are often not talked about are the multiplier effects on African society. In essence this would easily translate into the promotion of a society of haves (salaried elite) and have-nots. Currently, many foreign firms enjoy export subsidies from their governments and thus have been able to dump or sell their products cheaply in Malawi thus wiping out their local competitors. Most of the reforms claiming that they are in the interest of private sector development are actually in the interest of obliterating local entrepreneurs from the economic landscape, and they have huge economic and social costs to the local people as reflected in high levels of unemployment and poverty due to collapsed companies occasioned by trade liberalization, privatization and stiff competition from foreign firms (Nyirenda and Botha, 2005)

Assuming that poverty is basically determined by the level of income and the linkages that exist in African economies between the employed and their relations, the multiplier effect of job losses resulting from privatization could be enormous. Once the breadwinner loses income, the family and its extended relations all loose out in the African setting. And in the absence of social security, PRGF policies need to look at what happens to the poor households that loose jobs. PRGF appeared to fail to recognize the endemic, pervasive and multidimensional nature of poverty and the interplay of economic linkages in African society which the PRSP did.

3.3 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. As a result the PRGF has put education as the centerpiece for poverty reduction. In Malawi, budget constraints limited the government's ability to train and recruit qualified teachers to the extent that this was considered to be a priority poverty expenditure issue. Hence, primary school teachers were recruited and paid using the initial HIPC debt relief resources (GoM, 2003).

Prior to the introduction of the PRGF Malawi was already implementing free primary education. The principle of cost sharing that was reinforced by the PRGF has been confined to tertiary education and even here its implementation has been half-hearted and parsimonious.

3.4 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 them 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 services 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)

3.5 Problems in the Health Sector

3.5.1 Human Resources Shortages:

First, there still exist critical shortages 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 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.

3.5.2 The problem of Medical Supplies

As financial resources dwindle under the PRGF, 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 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. Efforts to acquire new equipment and to improve storage measures are hampered by the government's commitment to fiscal discipline as set up in the PRGF.

3.5.3 Infrastructural Development Challenges

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 in patient facility 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 the Ministry of Health are inadequately supplied. Most rural area health facilities have no access to ambulances for quick transportation of the sick to higher-level facilities. Most rural dwellers have the choice of either having 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.

4.0 Policy Consultations and the Implications

4.1 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 MPRS, 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.

4.2 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 for the next move-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.

4.3 Impact of IMF's signaling Role on Aid Disbursements in Malawi

Here the IMF has played a critical role as it considered that Malawi was not complying with IMF requirements. 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.

A number of aid programs depend on IMF ratings in order to be sure that their resources will be put to good use and not diverted elsewhere in a given country. This has been particularly critical in cases where budget support was involved. Thus, the IMF's approval of countries' macroeconomic policies functions as a type of international credit rating, and serves as an important signal or "green light" that opens the doors to millions of dollars in foreign aid from other bilateral and multilateral donors and creditors around the world, as well as to private foreign direct investment. - Jubilee USA, 2005 (a Discussion Paper): Diminish or Close the IMF's PRGF To Partially Finance Debt Cancellation, Posted on www.jubileeusa.org on 15th April 2005.

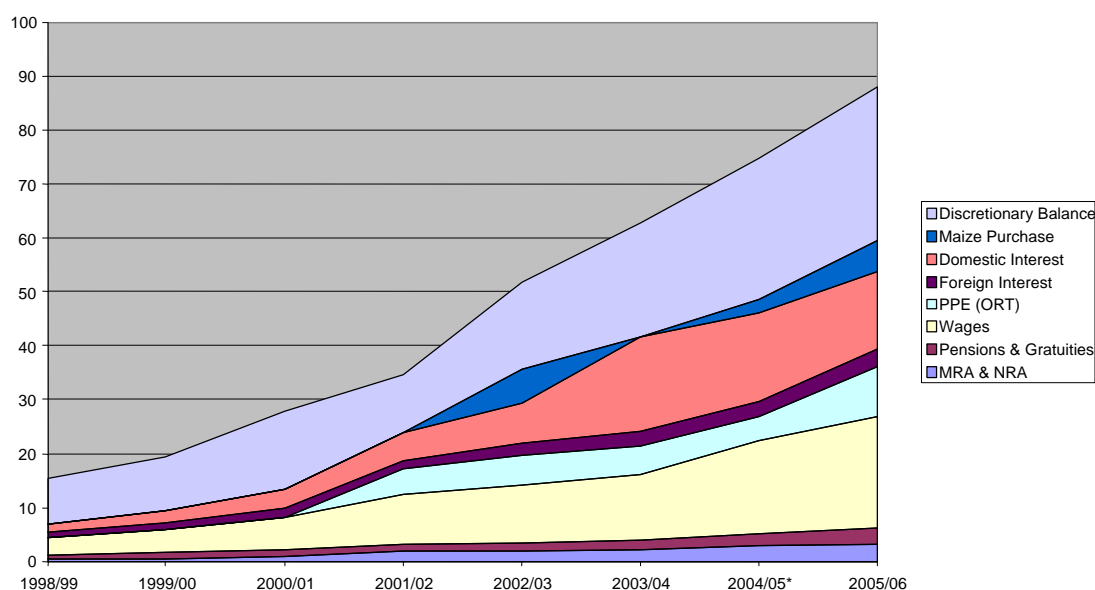
A similar development happened in Malawi, where the absence of an IMF program meant that donors developed cold feet to releasing resources particularly meant for budget support and non-humanitarian assistance. All this turned around once the IMF signaled that the country was now making serious moves to commit to the IMF requirements. The IMF basically determines how much a government can spend based on their view of what constitutes an acceptable set of macroeconomic policies for a poor country. In Malawi budget ceilings had first to obtain a nod from IMF before being discussing them with any other stakeholders including parliament.

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.

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 macroeconomic 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.

Breakdown of Total Domestic Expenditure (Kwacha billion)



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.

It should however be noted that recently the EU, Nordic countries and DFID resumed aid support that was suspended to the Malawi government prior to the IMF formally declaring that it was safe to give money to the Malawi government. This may suggest that donor agencies are sometimes taking their own steps to determine whether a country deserves their support or not. Nonetheless, under normal circumstances when the IMF raises the 'red card' (disapproval) a country loses out donor money meant for direct budget support, delayed debt relief, decline in other donor support, and increased domestic borrowing to bridge the financing gap.

5.0 Conclusion and Recommendations

There is adequate evidence to suggest that Malawi in pursuing the PRGF has some economic gains in terms of economic growth and macroeconomic stability, although this growth did not necessarily benefit the poor. On the other hand, much of the impact of the Malawi PRGF on the social services can not be easily measured. Nevertheless, the research findings of this paper indicated there has been adverse effects of the suspension and recent resumption of the PRGF programme. It is also clear that The PRGF was never derived from the MPRSP and in addition to that there are divergences between the MPRSP and PRGF. Conditionalities imbedded in the PRGF resemble those of the ESAF which have continued to do more damage than good to Malawi's social services. While it can be true that 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. The IMF seems to have dealt harshly with Malawi in that it had policy slippages which possibly necessitated a 'cracking the ESAF whip' than handling it with kids' gloves. 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.

5.1 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.

6.0 References

Gupta S. et. al (2002), Is the PRGF Living Up to Expectations? An Assessment of Program Design, IMF, Washington DC
International Monetary Fund (2005), IMF Country Report No. 05/285, International Monetary Publication Services, Washington.

International Monetary Fund (2000), IMF Press Release No.00/79, December 21, 2000, Washington.

Malawi Government (2005), Draft Estimates of Expenditure on Recurrent and Capital Accounts for Fiscal Year 2005/06, Ministry of Finance, Lilongwe.

Malawi Government (2004), Joint Programme of Work for a Health

Sector Wide Approach 2004 - 2010, Ministry of Health and Population, Lilongwe.

Malawi Government (2003), 2003/2004 Annual Progress Report Main Report, Ministry of Economic Planning and Development, Lilongwe.

Malawi Government (2002), Malawi Poverty Reduction Strategy Paper, Lilongwe.

Michael Nyirenda and Blessings Botha (2005) Survival of the Fittest: Trade Liberalization and the Smallholder in Malawi. Report submitted to Malawi Economic Justice Network.

Mitra, Sabyasachi (2002) Food Crisis in Malawi: Who is to Blame? http://www.networkideas.org/news/jun2002/news07_Food_Crisis_Malawi.htm

USAID, Economic Performance Assessment, Malawi

World Health Organization (2004), Poverty Reduction Strategy Papers, Their Significance for Health: Second Synthesis Report,

