THE INSTITUTE FOR POLICY INTERACTION

An Analysis of the Malawi Economy

1994-2003

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Background

With a nominal per capita income of $160, Malawi is one of the poorest countries in the world, with dire poverty that is pervasive and deeply rooted. Thirty percent of the population earn incomes that are inadequate to assure basic caloric needs. Life expectancy is at an average of 44 years.

This daunting scenario is further compounded by one of the highest prevalences of HIV/AIDS; in urban areas, the prevalence rate among women visiting prenatal clinics is estimated at over 30 percent. Water and sanitation and rural infrastructure are severely inadequate: over two-thirds of households use pit latrines, and potable water is available to only half the population. Prospects for any material dent in the depth and breadth of poverty are limited as long as population continues to grow at the high rate of 2.7 percent a year, whilst economic growth declines year upon year.

Malawi's location and geography also pose daunting challenges to growth and development. It is a relatively small country (48,000 square miles), landlocked (with the attendant implications of high transport costs), lacks mineral resources, and is among the most densely populated in Sub-Saharan Africa. The pressure of people on land has resulted in serious environmental degradation, which is threatening livelihoods, water supply, and hydro-electricity generation. Malawi is highly vulnerable to periodic drought; it has recently suffered three droughts in four years. The economy is mainly agrarian, with 40 percent of GDP produced by, and 85 percent of the labour force employed within an agriculture sector focused on maize and burley tobacco.

Economic policies in the three decades following independence fostered a dualistic economy with a vertically integrated and inter-locking pattern of ownership by an elite strata – at the expense of the masses. A handful of public and private corporations, and banks dominated the economy. Similarly, the agriculture sector comprised of a few thousand commercially oriented estates, which paid only nominal rent for their lease holdings, and a smallholder sector with nearly 2 million household farmers based mainly on subsistence maize production.

Nevertheless, Malawi enjoyed successful management during the decade following independence. This was largely as a result of investments in estate agriculture and infrastructure, conservative macroeconomic policies, and a disciplined parastatal sector. The economy experienced healthy growth in the first years of independence, with per capita income increasing between 1966 and 1980 at an average annual 3 percent. But in the late 1970s the confluence of favourable factors that supported the growth of the economy ended. Over the following 15 years, Malawi suffered from economic shocks in the form of periodic drought, increases in oil prices and the cost of international borrowing, decreases in tobacco prices, and civil war in its neighbouring country, Mozambique, which disrupted its main transport route.

To cope with the resulting imbalances, the government embarked on a series of adjustment programs that continue to the present, supported by the IMF and World Bank. Success in stabilizing the economy led to two periods of recovery in 1982-85 and 1987-91, interspersed by periods of instability and fiscal crisis. The second period of growth (1987-91) was aborted when huge shocks confronted the economy between 1992 and 1994. Major droughts in 1992 and 1994, and falling tobacco prices led to losses of more than 25 percent of GDP. These shocks were compounded by a disruption in external assistance for 18 months over 1992-94 as donors expressed displeasure over poor governance. Finally, in 1994, a full blown macroeconomic crisis developed in the face of drought, runaway government expenditures in the months preceding the election, steep depreciation in the exchange rate and a deterioration in public revenue and expenditure management.

In 1995, Malawi recovered from the large shocks caused by price movements and droughts of the last few years. There were important successes in stabilizing the economy from the large fiscal deficit, expenditures, and monetary expansion of previous years. GDP recovered by 10 percent, led by the recovery of smallholder production and good growth in the transport and distribution sectors. Investment savings also recovered considerably, mainly stimulated by major cuts in government expenditure. There were important successes in stabilizing the economy from the large fiscal deficit, expenditures, and monetary expansion of previous years. The cash budgeting system for the government proved more effective in controlling expenditures. Revenue collection met budget targets. Consequently, the fiscal deficit for fiscal 1996 (after grants) was about 5 percent of GDP, compared to 15 percent in the previous year.

However this proved to be short lived as the economy has declined steeply since then. Malawi suffered an extreme drought in 2002 and had to import over 200 thousand tonnes for maize to avoid mass starvation. However even this issue proved controversial:

Government subsidised private traders

Stories around the causes of famine in Malawi are making new turns. The Minister of Finance and Economic Planning, Hon Friday Jumbe, has said that Government of Malawi subsidised prices of maize to private traders by over MK I billion, but failed to protect the poor Malawians from the thieving prices of the private traders.

The National Food Reserve Agency (NFRA) had bought maize at MK 7.80 kg in 1999 but sold the same to private traders and Admarc at prices ranging from MK 3/kg - MK 6/kg. The private traders, exercising their free marketing right, sold the maize to starving poor Malawians at prices ranging from Mk 17 - MK42 / kg. Government and most International Financing Institutions refused to subsidise the prices to the local Malawians, because "it is simply a question of demand and supply" and that "Malawi is a free trade area". Later, government ordered that only ADMARC should sell the maize but at a price of K17/kg.

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Numerous IMF delegations have highlighted serious non-compliance with conditionalities and have, thus far, declined to enter into any new agreements until the anomalies have been corrected. This has resulted in little or no Donor Budgetary Support for the last 18 months, thereby forcing the Government to borrow heavily from the domestic financial markets (MK40 billion as at January 2003), which in turn has hiked up interest rates to a level (44%) where local firms can no longer survive. Over 40 firms/industries have closed down or relocated to other countries during the past 12 months. Government expenditure shows no sign of reducing and the budget deficit continues to deepen.

The experience of fiscal year 2001/2002 makes the probability of this year's budget deliverance smaller. Last year, the IMF withheld over MK 3.5 billion (US $47 million) of its PRGF funds after Malawi got 'off-track' its economic management commitments. In the same year, DFID, a bilateral donor, withheld over MK900 million (US $12.5 million). We also saw DANIDA pack up its boots. This left government in a very tight corner. One thing was sure anyway, that from the 'mistakes' of a few, the whole nation was punished.

The situation has not changed much this year. Information from the Ministry of Finance and Economic Planning shows that at the moment government is relying solely on domestic collections because no donor has come yet to support the budget 2002/2003. It is hoped, prayed for, and wished that donor support would come in December 2002 after the IMF board reviews Malawi's performance and compliance to the IMF Poverty Reduction Growth Facility (PRGF) that Malawi signed in December 2000. Unfortunately, most bilateral donors to Malawi would resume their support only if the IMF boards recommended resumption of the PRFG. Domestic revenue in Malawi amounts only to about half the total budget.

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The much vaunted Land Reform Policy has now been adopted as a blueprint by Government, despite serious concerns raised by various sectors. The main concerns are on inclusivity, constitutionality, ownership, compatibility and equitability however these have not elicited any responsiveness from the relevant Ministry. The perceived obduracy has further shaken investor confidence and caused a hiatus in new construction and other ventures that would depend on security of tenure. The Law Commission has invited submissions from the public, prior to drafting new Land legislation that would comply with the framework laid out in the new Land Policy, and consultations are expected to commence sometime in 2003.

The Privatisation Program has also generated much controversy and debate, due to public perceptions of opacity and "insider trading". It is commonly believed that "National Assets" are being disposed off at giveaway prices to profit-driven private entrepreneurs – usually foreign firms because of the lack of financial capacity in local investors, with little or no benefit accruing to the people of Malawi who are, in theory, the ultimate owners of these assets. Indeed, in some cases, these parastatals (such as ADMARC) performed a social safety net function in the absence of a governmental structure, for the poorest sections of Malawian society and it is feared that privatisation of these enterprises would, inevitably lead to the cessation of vital support systems that sustain people who live in dire poverty. The following excerpt from an article published by the Malawi Economic Justice Network (MEJN) highlights the quandary facing the nation:

The Benefits(?) From Privatisation in Malawi

One of the concerns often raised by workers in the parastatals under privatisation is that of loss of jobs and poor welfare of the remaining staff. Most circles of the civil society see privatisation as process where government refuses its responsibility of providing for the basic needs of the people and referring the community to the mercy of profit-oriented private traders. Some critics also see privatisation as a deliberate loss of assets by government since often times the companies are sold at a loss. In Malawi, all these issues are testing themselves in the privatisation process.

From the sale of 42 companies, government raised an amount of MK 1.67 billion (about US $ 20 million). The proceeds from the privatisation are not used for viable investment either. From the sale of the above companies, some money is used to run the Privatisation Commission, restructuring/making the other prospective parastatals 'viable for privatisation,' support payments for retrenchment/redundancies and in funding 'any project within the government development plans'

The privatisation process itself also costs jobs! For example, 322 jobs were lost at Malawi Railways Ltd, 220 at Portland Cement, 130 jobs lost at Malawi Book Service, 45 jobs at the Government Hostel and 25 at Malawi Daily Industries just to mention a few.

This Privatisation behaviour has however been opposed by civil society. The latest case is that of ADMARC. According to figures from the Parliamentary Committee on Agriculture that was conducting hearings on the views of Malawians on whether or not to privatise Admarc, all of the 36 respondents were against ADMARC privatisation. We hope that the findings of the committee will add to the cries of the poor and government and pressurizing donors not to privatise the dear ADMARC but put proper management in place.

Since the establishment of the Privatisation Commission of Malawi, 42 parastatals have been privatised. Government has sworn to privatise 28 more companies.

The following table enlists the number of privatised firms – past, present and future:

Companies Privatised	Parastatals under privatisation now	Parastatals planned To Go
1. Auction Holdings 2. Central Tobacco Properties 3. Chemicals and Marketing Ltd 4. Chillington Agrimal 5. Commercial Bank of Malawi 6. National Bank of Malawi 7. Malawi Daily Industries 8. Malawi Lake Services 9. Malawi Railways Ltd 10. National Insurance Company 11. New Building Society	1. David Whitehead & Sons 2. ESCOM 3. Leopard Match Co 4. Malawi Catering Services 5. Malawi Finance Co 6. Malawi Rural Finance Co 7. Malawi Tea Factory Co 8. Smallholder Coffee Authority 9. Smallholder Tea Authority 10. Kasungu Flue Cured Authority 11. Lifidzi Farm	1. ADMARC 2. Bata Shoe company 3. Shire Bus Lines 4. Blantyre Water Board 5. Lilongwe Water Board 6. Dzalanyama Ranch 7. Malawi Development Corporation 8. Malawi Housing Corporation 9. Lilongwe International

12. Optichem Malawi Ltd 13. Import and Export 14. Portland Cement 15. Smallholder Sugar Authority 16. SUCOMA 17. Dwangwa Sugar Company 18. Malawi Book Service 19. Packaging Industries 20. Government Hostel 21. Encor Products Ltd 22. Finance Corporation Ltd 23. Kaombe Farm 24. Kasungu Inn 25. Ngabu Inn 26. Kuti Ranch 27. Likhubula Lodge 28. Chigumukire Lodge 29. Kachere Lodge 30. Ntchisi Lodge 31. Mangochi Lodge 32. Limbe Rest House 33. Blantyre Rest House 34. Viply Ltd 35. Vipcor 36. Zomba Trout Farm 37. Brick & Tile Company 38. Chiphazi Farm 39. Choma Ranch 40. Mchenga Coal Mine 41. Mining & Investment Development Corporation 42. Mpwepwe Boatyard Company	12. Meru Ranch 13. MPICO Ltd	Airport 10. Government Press 11. Indefund 12. Mzuzu Smallholder Poultry Project 13. Plastic Products Ltd 14. Stockbrokers Malawi Ltd 15. Sunbird Tourism

Usage	MK (Million)
Funding the Privatisation Commission	135.7
Restructuring public enterprises ready for privatisation	67.3
Retrenchment costs & settlement of debt	200
Construction of 8 Day Secondary Schools (Kagulama, Jalasi, Walemera, Madzanja, Nansomba, Chingale, Mpira & Wenya Day Sec Schools)	257.7
Road maintenance	83.9
Purchase of Dawa House (government house)	15.5
Privatisation Special fund	21.5
Boreholes	57.3
Youth Credit Scheme	34
Retained by ADMARC and MDC	818.54
As at 30th June 2001, there was a balance of MK133 million in the privatisation revenue account	

(Sources: MEJN, Ministry of Finance and Economic Planning and the Privatisation Commission).

The following table illustrates Malawi’s economic meander from 1997 to 2002

Malawi Data Profile

	1997	2000	2001
People			
Population, total	9.7 million	10.3 million	10.5 million
Population growth (annual %)	2.2	2.1	2.0
National poverty rate (% of population)	..	..	..
Life expectancy (years)	40.7	38.8	38.2
Fertility rate (births per woman)	6.4	6.3	6.2
Infant mortality rate (per 1,000 live births)	126.6	117.0	114.0
Under 5 mortality rate (per 1,000 children)	..	188.0	183.0
Births attended by skilled health staff (% of total)	..	55.6	..
Child malnutrition, weight for age (% of under 5)	..	25.0	..
Child immunization, measles (% of under 12 mos)	87.0	83.0	82.0
Prevalence of HIV (female, % ages 15-24)	..	..	14.9
Illiteracy total (% age 15 and above)	42.4	39.9	39.0
Illiteracy female (% of age 15 and above)	56.7	53.5	52.4
Primary completion rate, total (% age group)	..	..	..
Primary completion rate, female (% age group)	..	..	..
Net primary enrolment (% relevant age group)	..	100.6	..
Net secondary enrolment (% relevant age group)	..	24.9	..
Environment			
Surface area (sq. km)	118.5 thou	118.5 thou	118.5 thou
Forests (1,000 sq. km)	..	26,010.0	..
Deforestation (average annual % 1990-2000)	..	2.4	..
Water use (% of total resources)	..	1,668.0	..
CO2 emissions (metric tons per capita)	0.1	..	..
Access to improved water source (% of total pop.)	..	57.0	..
Access to improved sanitation (% of urban pop.)	..	96.0	..
Economy			
GNI, Atlas method (current US$)	2.1 billion	1.7 billion	1.7 billion
GNI per capita, Atlas method (current US$)	220.0	170.0	160.0
GDP (current $)	2.5 billion	1.7 billion	1.7 billion
GDP growth (annual %)	3.8	1.7	-1.5
GDP implicit price deflator (annual % growth)	7.8	25.2	26.1
Value added in agriculture (% of GDP)	33.7	36.5	34.0
Value added in industry (% of GDP)	18.8	17.4	17.9
Value added in services (% of GDP)	47.5	46.0	48.1
Exports of goods and services (% of GDP)	22.5	26.4	26.0
Imports of goods and services (% of GDP)	35.3	38.5	38.0
Gross capital formation (% of GDP)	12.2	12.5	10.9
Current revenue, excluding grants (% of GDP)	..	..	..
Overall budget balance, including grants (% of GDP)	..	..	..
Technology and infrastructure			
Fixed lines and mobile telephones (per 1,000 people)	4.4	9.1	10.6
Telephone average cost of local call (US$ per three minutes)	0.0	0.0	0.0

All the above factors point to a pressing need for urgent positive remedial measures to be applied to curb Malawi's seemingly inexorable economic decline. This can only be accomplished with public co-operation and support that can only be engendered by inclusivity and transparency within the process. Unless the imbalances are rapidly corrected, the continued economic decline will inflict ever increasing hardship upon the already suffering masses, and this, in turn, would impact negatively upon the inculcation, consolidation, and evolution of Democracy in Malawi.