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Malawi and economic conditionality

World Development Movement briefing



The liberalisation, privatisation agenda pushed on Malawi through conditions attached to aid and debt relief has had a devastating impact on attempts to alleviate poverty in Malawi. The UK government, through its own policies and those that it still endorses at the World Bank and International Monetary Fund shares responsibility for this situation and must now live up to its new commitments to end conditionality. The Scottish Executive, to demonstrate its commitment to ending poverty in Malawi, should be calling on Westminster to do this as a matter of urgency.

1. Life and debt in Malawi

Since 1998, Malawi has spent over \$450 million on servicing its debts. In 2003, the last year for which figures are available, Malawi paid \$108.3 million in servicing its debts. This was 30 per cent of government revenue¹ and double what the Malawian government is able to spend on public health services.

In the same time, life expectancy has fallen from 41 years in 1998² to just 38 years now. In 1990³ life expectancy was 48 years.

2. History of donor involvement

Malawi, as with most poor countries, is faced with an international financial landscape where loans, debt relief and aid are all subject to meeting economic policy conditions determined by the IMF, World Bank and individual countries in the developed world by means of bilateral agreements.

To obtain concessional loans from the Bank and Fund, a country has to agree a programme with economic conditions attached. To receive debt relief through the Heavily Indebted Poor Country Initiative (HIPC) countries must have an IMF programme in place, implement further conditions contained in their 'decision point document' (agreed with the Bank and Fund) and create and implement a Poverty Reduction Strategy Paper (PRSP).

The World Bank and the IMF have been trying to restructure the Malawian economy and impose privatisation and liberalisation for over 20 years. In the agriculture sector in particular the policies of the IMF/World Bank, supported by the bilateral aid donors, have failed.

The privatisation of the Agricultural Development and Marketing Corporation (ADMARC) was a key aim of the World Bank, despite evidence that liberalisation in Malawi has caused increased food insecurity, and was also a factor in the food crisis in 2002 (see below). Because of the doubts about the wisdom of these policies, the World Bank agreed to implement a Poverty and Social Impact Analysis (PSIA), which concluded that ADMARC played an important role in supporting the lives of poor women and men, and that this role would be destroyed by privatisation. However, the PSIA's publication was delayed for two

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years, until after the Malawian Parliament had agreed to the reforms and the process of privatisation went ahead⁴.

2002 Food Crisis

World Bank/IMF policies on agriculture led to subsidies for small farmers and the poor being reduced, price controls and regulations being removed and agencies that played a social role, such as ADMARC, being privatised. The results were price rises and increased volatility. For instance, the removal of price controls led to a price increase for maize of 400 per cent between October 2001 and March 2002.

In July 2002 it was reported that the IMF had pressured the Malawian government into selling its grain reserves - following two years of drought and just before the food shortage - to pay off hard currency debts owed to commercial banks. As a result, Malawi's disaster preparedness programme for the vulnerable, a key PRSP component, was non-existent when the food crisis hit. The IMF Managing Director, Horst Köhler acknowledged that "mistakes had been made"⁵ and later approved a \$23 million emergency credit for Malawi in order that the government could finance food imports.

3. Malawi's Poverty Reduction Strategy Paper

Reform of the agriculture sector and the privatisation of ADMARC is just one of the policies set out in Malawi's current PRSP. While PRSPs are claimed by the international financial institutions to be 'country-owned', in practice it is near impossible for the poorest countries to truly determine their own development strategies. Most PRSPs are based on existing World Bank/IMF policies and have to be signed-off by the boards of both.

When the first version of Malawi's PRSP was circulated, the IMF, World Bank and DfID were critical of the lack of a 'sound' macroeconomic framework. A macroeconomic framework had to be agreed that was already in-line with IMF and World Bank conditions⁶, leaving the drafting team with little option but to include the macroeconomic policies already set by the IMF and World Bank.

Malawi PRSP

(Accepted August 2002. Applies 2002-2005)

Strict monetary policy	Monetary policy to pursue low and non-volatile inflation. Interest rates should be able to fall if fiscal deficits cut.
Strict fiscal policy	When planning and implementing budget, deficit levels should be decided by inflation targets.
Privatisation	Accelerate privatisation, particularly in telecommunications, power and water. Fully privatise the two dominant commercial banks. Privatised all micro-finance institutions. Implement action plan for privatisation of ADMARC.
Water privatisation	Accelerate privatisation in water.
Financial liberalisation	Fully privatise the two dominant commercial banks. Privatised all micro-finance institutions.
Agricultural liberalisation	Implement action plan for privatisation of ADMARC.

The result is a PRSP, which contains many potentially damaging liberalisation and privatisation policies. Among these, water privatisation stands out as particularly problematic. Where water privatisation has taken place in poor countries the results have typically been major profit-led price rises, people having their water supply cut, no extension of water networks to the poor and a lack of investment.

4. UK Involvement

The UK, as a bilateral donor and through its involvement in the World Bank and IMF, has played a significant part in pressing these damaging liberalisation, privatisation policies on Malawi.

The UK government holds positions of influence within the WB/IMF. Gordon Brown has been Chairman of the International Monetary and Financial Committee (IMFC) of the IMF since 1999. The IMFC meets to decide on overall strategic direction for the IMF. According to the UK Government, It is “*the main forum for discussing IMF policies at the Ministerial level*”.⁷ He is also the UK’s Governor on the IMF’s Board of Governors. Each member state has one Governor each. The Board ultimately holds all decision-making power at the Fund. With 4.96 per cent of the votes, the UK Chancellor has the joint 4th highest number of votes of any Governor.

In March this year, though, the UK’s Department for International Development (DfID) made a significant step forward by abandoning one of the key means by which it imposes free market economic policies on developing countries. In a review of aid policy DfID announced that it would no longer make trade liberalisation and privatisation of key utilities and public services a condition of poor countries receiving UK aid.

However, UK bilateral aid is increasingly spent in support of PRSPs. The UK government argues that all this aid is therefore country-owned and is, therefore, not conditional. However, the claim that poor countries do have ownership of their PRSPs is highly disingenuous: PRSPs are widely seen to be IMF and World Bank imposed, and this is certainly the case with respect to macroeconomic policies. Such UK aid, therefore, actually increases UK ties to World Bank and IMF neo-liberal conditions. DfID currently disburses money on the basis of a PRSP in Malawi

5. Conclusion

The UK government should, both in its bilateral agreements and through its influence at the World Bank/IMF, be working to end forced privatisation and liberalisation in Malawi and other poor countries.

Having admitted that it is wrong in principle to force privatisation and trade liberalization on developing countries in relation to its own aid payments the UK government must end its support for these failed policies in other areas of UK policy. It would be hypocritical to break the link between its own aid and privatisation but continue to make UK aid and debt relief conditional on countries meeting demands for privatisation and liberalisation by the IMF and World Bank.

The Scottish Executive, as a partner of Malawi, should be using its influence and commitment to ending poverty in Malawi to put pressure on the UK government to make these necessary changes and put an end to the policies that have had such devastating effects on the people of Malawi.

¹ <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/HIPCStatUpdate200504042.pdf>

² UNDP Human Development Report 1998

³ UNDP Human Development Report 1990

⁴ Catholic Relief Services. (2001). *Review of the Poverty Reduction Strategy Initiative*. Catholic Relief Services, Baltimore, December 2001.

⁵ “IMF boss blames World Bank and EU for Malawi blunder” – Jubilee Research, 4th of July 2002.

⁶ IMF. (2002). *Request for a three-year arrangement under the Poverty Reduction and Growth Facility*. IMF. Washington DC. 28/08/02.

⁷ HM Treasury. (2004). *Growth for all: Towards a stable and fairer world. The UK and the IMF 2003*. London. HM Treasury. March 2004.