

BTI 2010 | Malawi Country Report

Status Index	1-10	5.56	# 68 of 128	
Democracy	1-10	6.40	# 49 of 128	➔
Market Economy	1-10	4.71	# 90 of 128	↗
Management Index	1-10	5.66	# 45 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Key Indicators

Population	mn.	13.9	HDI	0.49	GDP p.c.	\$	766
Pop. growth	% p.a.	2.5	HDI rank of 182	160	Gini Index		39.0
Life expectancy	years	48	UN Education Index	0.69	Poverty ²	%	90.4
Urban population	%	18.3	Gender equality ¹	0.54	Aid per capita	\$	52.8

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The democratic gains made following the country's political transition from an authoritarian single-party state to a multiparty state have regressed in recent years, and as a result democratic standards are in decline. The formation of the Democratic Progressive Party (DPP) by President Bingu wa Mutharika and the transfer of a significant number of opposition MPs to this new party have been major sources of constitutional controversy. The relationship between the executive branch and the legislature has deteriorated. As parliament can only meet with the blessing of the president, parliamentary sessions have been erratic and a number of important laws have not been passed. The judiciary has continued to exert its independence, even amid protests from the executive branch, following rulings that were seen as not in the executive's favor.

While political governance seems to falter, Malawi has made some positive economic strides in the period under review. Over the last two years, the output of the national economy has registered modest growth. This is largely attributable to improvements in macroeconomic stability and public finance management; international donors have also acknowledged this fact. The continuation of targeted agricultural input subsidies coupled with favorable weather conditions resulted in the country's food production improving significantly. Prices as well as local currency rates have been relatively stable, with inflation falling to a rate of 8% in 2007 from a rate of 14% in 2006. Authorities remain committed to a market-based economic model, which is also spelled out in the Malawi constitution.

The future of continued gains in the country's socioeconomic development depends not only on the stability of the post-election environment and on donor confidence in the new government, but also on favorable weather conditions for agriculture. It is also not clear how long the country will remain somewhat insulated from the effects of the ongoing worldwide economic recession. In the medium term, it would be desirable for Malawi leadership to continue with reforms as well as improve its political governance.

History and Characteristics of Transformation

Economic transformation preceded the democratic reform process in Malawi. In both transformation processes, external donor conditionality played a crucial role. After decolonization in 1964, the government under President Hastings Kamuzu Banda followed a pro-Western foreign policy and a market-based development policy. Despite poor socioeconomic conditions (dominance of the agrarian sector and poor infrastructure), GDP per capita growth was 5.5% from 1965 to 1979. At the end of the 1970s, due to a second oil price shock and declining terms of trade, Malawi experienced a deep economic crisis. Since then, Malawi's economic policy has been based on IMF- and World Bank-established concepts of reform. After fickle development policies during the 1980s, an economic crisis occurred in 1990, which helped spur a political transition to a democratic system.

President Banda established, even by African standards, a very repressive, one-party rule under the Malawi Congress Party (MCP). He used his private wealth as well as state resources in a neo-patrimonial way to bolster his absolute power. His secret service and the MCP youth militia, the Malawi Young Pioneers (MYP), prosecuted or persecuted any political opposition that could not be domesticated by patronage and co-optation. Under these circumstances, a civil society could not emerge, as political opposition was not able to articulate itself in public because of state repression. A 1992 Pastoral Letter from the Catholic Bishops did add momentum to Malawi's transition, as it was the first public criticism that the Banda regime faced from within. However, it was less the activities of an emerging civil society than the pressure of international donors that forced Banda to agree on a referendum to change the political system. During the transition, the military remained neutral and disarmed the MCP youth militia by force.

Contrary to Banda's expectations, the majority of citizens voted for change in 1993. One year later, the country's first multiparty elections resulted in a change of government. Bakili Muluzi of the United Democratic Front (UDF) ousted Banda from the presidency. However, none of the three regionally based parties that gained seats in parliament, the MCP, the UDF or the Alliance for Democracy (AFORD), won a parliamentary majority. Opposition boycotts of the assembly and switching of alliances became common. While the first elections were evaluated in very positive terms, the second elections in 1999 were poorly organized, although international observers deemed the elections "free and fair." Muluzi won a second term by only a small margin against a candidate fielded jointly by a MCP and AFORD alliance. The parliamentary election results corroborated the three-party system, but the president's party failed to win an absolute majority. As a result, the UDF had to look to independent ministers to build a parliamentary majority, as the total number of alliance members amounted to a plurality of parliament members. Following the elections, there was a general sense of discontent and outrage. In the country's northern region, supporters of AFORD expressed their anger by attacking and burning mosques, which can be seen as symbolizing the Muslim minority to which Muluzi belongs. Popular unrest also indicated a change that had started before the elections. The

reluctance to implement a number of once-promised democratic reforms, intimidation of opposition politicians, civil society activists and a critical press, as well as an increase in corruption among high-ranking elected officials, pointed to deterioration in the transformation process. The post-electoral violence, however, was soon brought under control and the new government was formed while the elections case was still in court.

From 2000, the country experienced many challenges to constitutional governance and democracy as the government initiated a number of controversial amendments to the constitution which included repealing sections governing the senate. Parliament refused to grant Muluzi permission to change the constitution so he could stay on for a third term. The controversy about Muluzi's "open" and (later termed "third-term") bid for the presidency, as well as controversial elections held in May 2004, proved to be explosive issues. It left a highly fragmented party system with nine parties in parliament and a diminished ruling party that came in second behind the former state party, the MCP, which itself was split into two major factions. While there were several contenders for the presidency from the UDF, Muluzi handpicked Bingu wa Mutharika as his successor. The UDF convention merely rubberstamped this decision. This caused frustration and dejection among the party rank and file, and many senior UDF officials left the party to join other parties or form their own. The period prior to the 2004 elections witnessed the fragmentation of two other major parties, the MCP and AFORD, largely on the basis of the stand they took on the third-term issue. As a result, the party system became highly fragmented. In addition, as many as 371 candidates ran for office as independents. Many of the independents were party affiliates who did not accept the outcome of the primary elections. This was particularly the case in the UDF, but also in the MCP, due to the heavy involvement of the party leadership in the nomination process at the constituency level. The 2004 parliamentary elections brought in nine parties and 40 independents. The presidential votes were divided between the five contenders, while Mutharika won with only 35.2% of the votes cast.

Mutharika started his presidency by declaring a policy of "zero tolerance for corruption," in the context of strict economic recovery measures coupled with intensive investigations of politicians and public officers of all ranks who were suspected of corruption, theft, mismanagement or other abuses of power. Within eight months, three former ministers and five senior UDF party officials were arrested on corruption charges. There were indications that this process would continue and that many more officials would be prosecuted for corruption. This caused tension between the UDF and Mutharika in general and between Muluzi and Mutharika in particular. In February 2005, Mutharika resigned from the UDF, taking with him a number of UDF executive members. He subsequently formed a new party, the Democratic Progressive Party (DPP). A significant number of politicians from mainly the UDF which hitherto was a ruling party joined the president's party, thereby relegating the UDF to the status of an opposition party without losing an election while the DPP assumed the status of a ruling party without winning an election.

However, Mutharika was faced with two problems. Even with the support of those MPs who had crossed over to the DPP, the president had no majority in parliament. As a manifestation of this, the president has struggled to get approval for his budget from parliament. At the same time, opposition parties have been calling for the speaker of parliament to evoke Section 65 of the

Malawi constitution, which forbids members of parliament from “floor crossing” or changing parties while in office. The application of Section 65 has been contentious for some time and has been upheld by both the High Court and Supreme Court of Appeal. However, despite these rulings, the actual implementation has continued to face difficulties, as those MPs affected sought a court injunction restraining the speaker from declaring their seats vacant, thereby returning the issue to the courts.

Transformation Status

I. Democracy

The democratic gains made following the country's political transition from a one-party system have regressed in recent years, and as a result democratic standards are in decline. The rule of law and social political integration, particularly regarding good governance, are weak. Adequate standards of stateness still exist when compared to other African states, despite the decline in institutional stability. The formation of the Democratic Progressive Party (DPP) by President Bingu wa Mutharika and the defection of a significant number of opposition MPs to this new party have been major sources of constitutional controversy. The relationship between the executive branch and the legislature has deteriorated, as the latter can only meet with the consent of the state president who, at the same time, has not enjoyed majority support in parliament and has had some of his public appointments and legislative initiatives (including the national budget), either completely shot down or passed with difficulty. These tensions might even affect future elections and the presidency. It is a democratic reversal that local council elections have still not been arranged, after terms expired in 2005. This delay has led to a re-centralization of politics. Under Mutharika, traditional chiefs have been given higher status in the political system, with increases in salaries and elevations in rank.

1 | Stateness

There are no major issues regarding stateness in Malawi. The monopoly on the use of force is for the most part institutionalized and rarely challenged, despite sporadic violent outbreaks resulting from criminality and the abuse of violent tactics by police officers.

Monopoly on the use of force

All citizens have the same constitutional civil rights and there is no serious challenge to the Malawi constitution, despite some religious tensions between Christian and Muslim groups. Ethnic identity in general trumps regional politics.

State identity

The state is largely defined as secular, although religious institutions, particularly Christian churches, remain influential as interest groups can influence politics and policy. This has partly to do with the role the church played in the country's political transformation, and also reflects the nature of Malawi society, which is

No interference of religious dogmas

predominantly religious. In selecting presidential candidates or running mates, for instance, all political parties take into account the individual's religious affiliations in addition to his or her region of origin.

The state's basic infrastructure extends across the entire country. However, its effectiveness is to some extent questionable. This is partly because of the absence of effective local government structures, as elections for local government have not been held since 2005. The public bureaucracy is also affected by political intervention, such as the neo-patrimonial pattern of the bureaucracy and a lack of adequately qualified personnel. Public order and security are, however, generally ensured as the state has enlarged its police forces, both in terms of personnel and resources, with the introduction of rapid response services.

Basic
administration

2 | Political Participation

General elections have been held regularly since 1994 and are accepted in principle as the primary means of filling leadership positions. A fourth election since the country's transition from a one-party state is planned for May 2009. Elections are open, but doubts remain over the fairness of elections. Excluding the 1994 elections, two general elections (1999 and 2004) have been contested by the losing parties. Problems have arisen, as critics question an unlevel political playing field, the accuracy of electoral rolls as well as the tallying of results. Questions too over the independence of the country's electoral management body, the Malawi Electoral Commission (MEC), have been raised to the extent that the body's current composition was challenged in court, on grounds that its formulation did not meet legal requirements. Controversies over the appointment of new commissioners too meant that the MEC had become incapacitated. The MEC could not organize local elections or effectively enforce Section 65, a constitutional clause that forbids MPs from switching party affiliation. Previous election evaluations have called attention to the need for revising constituency boundaries, but ahead of the 2009 elections there has been no movement on this issue. However, as the country prepares for the elections, opposition parties have withdrawn their court case to allow the process to proceed. There was a decrease in voter participation from 92.34% (1999) to 54% during the 2004 elections. Recent studies have shown that this decline is partly due to the frustrations the electorate has with elected representatives when they fail to deliver on their campaign promises.

Free and fair
elections

Furthermore, the procedure for candidate nomination to the presidency and parliament is decided by the parties themselves. However, the problem has been that the rules are unevenly applied, frequently with central involvement in the process even at the local level, which has sparked violence during primaries as well as led to defections from political parties by contestants who feel victimized by the overall process.

Elected leaders can govern effectively. They are often obstructed by an inefficient and neo-patrimonial administration, as well as by party politics which affects the operations of both the presidency and the legislature. On the one hand, opposition parties have often used their numerical advantage in parliament to frustrate government programs and public appointments partly as a way of expressing their frustration with the president's abandonment of his own party to form a new one. At one point, opposition leaders had fostered a motion of impeachment in parliament, on the grounds that the president had violated the constitution. On the other hand, mainly because the president does not enjoy the confidence of a majority in parliament, he has not been able to give consent to the number of legally required parliamentary sessions, except those dealing with the national budget.

Effective power to govern

It also has to be acknowledged that Malawi's heavy dependence on international donors also limits the extent to which the elected president can choose to deviate significantly from donor expectations.

Freedom of association is generally respected. Civil society organizations and political parties are required to register with the general registrar at the Ministry of Justice. However, in a few instances, police have interfered with political functions organized by opposition parties and resorted to violence to disperse public assemblies. Apart from some church-based organizations, civil society organizations (interest groups) tend to be weak, and maintain few connections to citizens.

Association / assembly rights

Freedom of opinion and the press are generally guaranteed. The dominance of the state-controlled government media, the Malawi Broadcasting Corporation, which tends to be biased toward the government and the ruling party, has been countered by the emergence of private radio stations, such as the Zodiak Broadcasting Station (ZBS), which have extensive coverage throughout the country and enjoy the public's confidence for being independent and balanced in news coverage. A variety of independent newspapers are also available, but these are limited to urban areas and their readership is quite low, mainly because of the country's high illiteracy levels. State intervention over press freedoms has occurred; such as when the radio station Joy FM was closed by the state regulatory body, the Malawi Communications and Regulatory Authority (MACRA), on the grounds that it had violated registration requirements, as it was seen to be owned by former President Bakili Muluzi. Some journalists were also arrested for what was described by state authorities as sensational reporting. However, such interventions have been occasional, and have been challenged in the courts.

Freedom of expression

3 | Rule of Law

The separation of powers between the executive branch and the legislative branch is constitutionally in place; however, the executive branch is far more powerful, and parliament can only meet with the consent of the president. Largely due to the numerical advantage that opposition parties jointly enjoy, the legislature has at the same time strived to demonstrate its independence, and parliamentary committees, especially those concerned with public appointments and public accounts, have effectively exerted checks and balances over the executive.

Separation of powers

The judiciary operates relatively independently, and makes rulings that sometimes do not concur with the interests of the government. Its meager resources are overstretched by a heavy workload. The government occasionally ignores rulings (such as the implementation of Section 65, which prohibits MPs from switching parties), and courts are under constant pressure from legislators and the executive.

Independent judiciary

The administration of President Bingu wa Mutharika has continued its campaign of zero tolerance against corruption. Under his government, the Anti-Corruption Bureau (ACB) has become more effective in its operations. More than 10 prominent figures of the former government have been charged with corruption, some of whom, including two former cabinet ministers and a principle secretary, have successfully been convicted. Even former President Bakili Muluzi faces charges of corruption. Previously dropped charges have since been reinstated, although this action is seen in some quarters as a form of political persecution, following Muluzi's declaration that he intends to contest the presidency in the May 2009 elections. In addition, the rulings of some cases which deal with politicians have remained unclear, further raising doubts as to whether the anticorruption policy represents a serious policy or a ploy to weaken the opposition.

Prosecution of office abuse

Basic civil rights are generally protected. Those whose rights are violated can in principle get redress from the courts. However, due to the deficiencies of the judiciary and coupled with limited public awareness over civil rights, particularly in rural areas, such possibilities are limited. The Office of the Ombudsman effectively complements the role of the courts, but it lacks both the capacity and resources to deal with the overwhelming demand for its services.

Civil rights

4 | Stability of Democratic Institutions

At present, nearly all influential political actors accept the country's democratic institutions and regard them as legitimate. There is, however, much wasted energy due to continued friction between and among state bodies. For instance, because of the unresolved issue surrounding Section 65 of the Malawi constitution (which prohibits MPs from switching parties while in office) and the contested resignation of President Bingu wa Mutharika from the United Democratic Front (UDF) party to form his own party, the Democratic Progressive Party (DPP), parliamentary opposition has often used any parliamentary session as an opportunity to express their misgivings with Mutharika's administration and settle scores accordingly. The protracted debates that have characterized parliamentary discussions have resulted in a number of important bills not being passed; almost all budget sessions have crossed into the new fiscal year without a successfully approved budget. After Vice-President Cassim Chilumpha decided to remain with the UDF, he was sidelined, ignored and ridiculed during cabinet meetings, which he then subsequently stopped attending. On the advice of the attorney general, the president demanded Chilumpha's resignation on the grounds that he had effectively resigned from the government. This move failed, as it had no legal backing, given that the vice-president is directly elected along with the president by the people and therefore has a public mandate and cannot be removed by the president. The corruption charges that were leveled against Chilumpha but later dropped, in addition to current treason charges, are largely seen as politically motivated. Consequently, the country has had a vice-president who has largely been non-functional, as he has spent much of his time defending himself in courts and his movements have been restricted by bail conditions set by the police. The already overstretched judiciary has been inundated with similar political disputes, as political actors have resorted to the courts for redress. The dismissals of some high-ranking civil servants, such as the director of the Anti-Corruption Bureau and the director of public prosecution, have not only been costly for the government but also have certainly contributed to weakening public trust in political institutions.

In principle, all relevant political actors accept democracy as a principle. There are no anti-democratic veto powers. In practice, however, some individual democratic institutions of the state are only partially accepted by some political players. For instance, when the Supreme Court of Appeal upheld the ruling of the High Court in re-affirming the constitutional status of Section 65 (which prohibits active MPs from switching political parties), the president counteracted the court ruling with his own public statement, which clearly disrespected the ruling. Some judges who have made rulings not in favor of the government have had their integrity called into question and at times, have been branded as "mercenaries." However, opposition parties have constantly questioned the legitimacy of the Mutharika administration,

Performance of
democratic
institutions

Commitment to
democratic
institutions

referring to how the now ruling Democratic Progressive Party (DPP) was formed. Also largely because of the political fighting between the president's office and the opposition, President Bingu wa Mutharika has used his constitutional powers to allow the legislature to meet only at his discretion. The controversy over appointments to the Malawi Electoral Commission has in fact incapacitated that body from functioning properly. Also, the persistent failure of the government to organize local council elections has contributed to a "democratic deficit."

5 | Political and Social Integration

The party system is fragmented and unstable, and has shallow roots in civil society. Such fragmentation affects not only the ruling party but also opposition parties. The driving force behind this fragmentation is the strong personalization of party politics, the greed of politicians in holding political office, and the promise of private wealth that accompanies a political career. All parties can form coalitions; almost all have in some way or another formed a coalition or collaborated with another party, at least temporarily. Most recently, the political party system was thrown into turmoil when President Bingu wa Mutharika quit the United Democratic Front (UDF) and formed his own party, the Democratic Progressive Party (DPP), with the support of politicians from main opposition parties. Most politicians appear unprincipled and opportunistic, with many switching from one party to another, particularly defecting to the current ruling party, which in turn inspires little support or trust in party politics overall. The DPP, although registered in 2005, did not arrange to hold a national convention until January 2009, and even with this, all office holders in the party continue to be appointed rather than being elected. Presently, seven political parties are represented in parliament, although more than 35 appear on the books of the political party registrar. Almost all parties do not have any clearly identifiable ideological orientation. While the UDF, the Malawi Congress Party (MCP) and the Alliance for Democracy (AFORD) can still claim to have regional strongholds (southern, center and northern regions, respectively), other parties are thinly spread across the country and, except in the case of the DPP, are also not well known in rural areas.

Party system

The number of civic associations, including interest groups, is very small. Trade unions are weak. Among interest groups, Christian churches and associated organizations are predominant. These organizations play an important watchdog role, and despite their limited capacities, some organizations such as the Malawi Economic Justice Network (MEJN) and the Human Rights Consultative Committee (HRCC), are increasingly influential. More interest groups are championing the cause of furthering women's participation in public affairs, an issue that has also received government attention. Occasionally, though civic organizations have been perceived as towing the government line, particularly when they publically

Interest groups

criticized opposition parties for blocking the budget. At the same time, they have not pressured the government to respect constitutional provisions, such as Section 65, which prevents active MPs from switching political parties and which was violated by MPs who are now in the governing party.

A majority of citizens agree with the principles of democracy. An Afrobarometer survey in 2005 established that 55% of the population prefers democracy to any other form of government, while 69% of the population supports having a plurality of political parties. Political protests do not often call the country's constitutional framework into question.

Consent to
democratic norms

The topography of civic organizations is very shallow, even when compared to other African countries. Civic associations are concentrated in a few urban centers, where they serve a crucial monitoring function, though their activities depend to a large degree on foreign funding. Due to organizational weakness, social self-help organizations are unable to create strong social capital.

Associational
activities

II. Market Economy

Malawi belongs to the group of Least-Developed Countries (LDCs). The country is highly dependent on external development aid, which finances over 40% of the government budget. The level of development is very low, and markets and competition are restricted. The opportunities for solid economic transformation do exist, although the economy remains vulnerable to exogenous shocks and changes in climatic conditions, in particular rainfall patterns. In the last two years, the output performance of the national economy has registered a modest growth. This is largely attributable to an improvement in the country's macroeconomic stability and management of public finances. The completion of an IMF Staff Monitoring Program (2004 – 2005) and a satisfactory performance under the Poverty Reduction Growth Facility (PRGF) resulted in unlocking of the flow of aid from donors, which had previously been frozen owing to a major lack of fiscal discipline in government expenditures in the last years of the Muluza administration. Prices and local currency rates have been relatively stable, with inflation falling to a rate of 8% in 2007 from a rate of 14% in 2006. The authorities remain committed to a market-based economic model, a provision which is also enshrined in the Malawi constitution.

6 | Level of Socioeconomic Development

Looking at various socioeconomic indicators, the poverty situation in Malawi remains severe. As of 2005, with an HDI of 0.330, Malawi ranked 164th out of 177 countries in HDI rankings, making it the thirteenth-poorest country (from twentieth in 1994) in the world. The 2004-2005 integrated household survey estimated that the poverty rate in Malawi was 52.4%. Although this shows a significant downward trend when compared to a 1997 – 1998 rate of 65.3%, still the two surveys cannot directly be comparable as the survey instruments and methods of calculation have been revised and improved to meet local and international standards. However, when the 1998 estimates are recalculated using the 2005 methods, the poverty rate as of 1998 is 54%, showing a two percentage-point downward trend in terms of incidences of poverty in 2004 – 2005. The proportion of ultra-poor has been almost constant, with a two percentage point downward trend from 24% in 1998 to 22% in 2003. As of 2006, this rate fell to 17%. Largely due to the HIV/AIDS pandemic, life expectancy as of 2007 in Malawi is 48 years, below the average for Sub-Saharan Africa, which is 51 years. There have been improvements in education; as of 2006 the country's illiteracy level was 35%. The average distance between health facilities was reduced to 5.7 kilometers in 2008 from 10 kilometers in 2003. The mortality rate has been significantly reduced, from 134 per 1,000 live births in 1994 to 79 per 1,000 live births in 2006. Malawi is predominantly rural, with 80% of the population living in rural areas where the majority of citizens depend on rain-irrigated subsistence farming. Thus, in Malawi poverty and socio-exclusion are quantitatively and qualitatively pronounced and to a great degree structurally pronounced.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	2625.2	2855	3163.7	3585.9
Growth of GDP	%	5.7	2.6	8.2	8.6
Inflation (CPI)	%	11.4	15.4	14.0	8.0
Unemployment	%	7.8	-	-	-
Foreign direct investment	% of GDP	4.1	0.9	0.9	1.5
Export growth	%	-22.6	-8.5	-10.8	-1.1
Import growth	%	13.6	-14.8	-13.1	-4.2
Current account balance	\$ mn.	-	-	-	-

		2004	2005	2006	2007
Public debt	\$ mn.	3295.6	3061.8	788.9	807.0
External debt	\$ mn.	3427.3	3183.2	872.4	870.0
Total debt service	% of GNI	2.3	2.7	2.8	0.9
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.2	12.1	11.8	11.5
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	9.6	7.2	8.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.8	1.2	1.2	1.2

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Market competition is limited and operates under a weak institutional framework. The size of the informal sector is significant, though difficult to quantify. Government intervention is relatively high, as suggested by the fact that government spending accounts for some 40% of total GDP and the public sector is the largest employer. Although relevant public institutions are in place, they still suffer from widespread corruption and a weak rule of law, while the slow, and to some extent, costly business registration process poses a barrier to entry. Malawi ranks 134th out of 181 countries in the 2009 World Bank Doing Business Report (and sixteenth out of 46 Sub-Saharan African countries). Ownership in the small, industrial sector is highly concentrated and controlled by the Press Corporation, a legacy of the Banda era, and formerly part of the president's private fortune. After nationalization, the corporation has been controlled by a publicly registered trust, and through that, by the state. It also operates a number of joint ventures with foreign investors, and its revenues account for about 10% of the country's GDP. Multinationals such as Illovo Sugar and Universal Tobacco also hold dominant monopolistic positions in the economy. Transformation of the informal sector and diversification of the agro-based economy are necessary tasks in Malawi's economic transformation.

Market-based
competition

The Competition Policy for Malawi was approved in 1997 and the Competition and Fair Trading Act (CFTA) came into force in 1998 with the aim toward lowering barriers to business entry, reducing restrictive business practices and protecting the consumer. The law forbids anticompetitive business behavior (fixing, collusive tendering or customer allocation and tied sales) aimed at eliminating or reducing competition; unfair business practices aimed at taking unfair advantage of consumers; market structures that permit abuse by a dominant enterprise and discourages government legislation that could affect the freedom of the market. The Malawi Competition and Fair Trade Commission, entrusted with the responsibility to implement this competition law, however, has only been operational since 2005; administration is still weak as the agency struggles to establish itself institutionally. State intervention is still to be observed, particularly in the agricultural sector where the state-owned Agriculture Development and Marketing Corporation (ADMARC) remains a dominant player. In the last two years, the government has also established minimum prices and ceilings for the buying and selling of some strategic agricultural products, such as maize, cotton and tobacco. Targeted agricultural input subsidies have been introduced, although at the chagrin of international financial institutions.

Anti-monopoly
policy

The Malawian economy was liberalized in the wake of structural adjustment programs of the 1980s. Another milestone for the country was the liberalization of the currency exchange rate in May 1999. A high degree of liberalization has been maintained. Import and export licensing is considered fairly liberal, with restrictions largely based on health, safety and national security reasons.

Liberalization of
foreign trade

In general, the banking system is still in its infancy. The number of foreign and privately owned local banks is growing. The latest entrant over the last two years has been Ecobank. The New Building Society has been listed on the Malawi Stock Exchange, joining the National Bank of Malawi, while the former Commercial Bank of Malawi has changed to the Standard Bank to reflect its current shareholding structure, dominated by the Standard Bank Group of South Africa with a 60% share. Standard Bank, together with the largely state-owned National Bank, continues to dominate the banking sector. The banking sector has in the recent past also responded to technological advancements, with the introduction of internet banking and, and for the first time, internationally recognized Visa cards are being issued, although no local banks issue credit cards. Foreign investment in the banking sector is encouraged under the strict supervision of the Reserve Bank of Malawi, which itself has been undergoing reforms to ensure its independence and requisite capacity to undertake its regulatory and supervisory role. This includes the implementation of a risk-based approach to regulation and supervision of the financial sector.

Banking system

8 | Currency and Price Stability

Controlling inflation and instituting an appropriate foreign exchange and pricing policy are recognized government policy goals. In the last two years, owing largely to macroeconomic stability and strict fiscal discipline, inflation has been brought to single digits, to a rate of 8% in 2007 from a rate of 14% in 2006. In 2008, the inflation rate, however, averaged 8.7%, due to pressure arising from high food and fertilizer prices and a surge in oil prices. The local currency, the Malawi kwacha, has remained relatively stable against major foreign currencies, averaging MWK 141.60 to \$1 in 2008. However, the kwacha is looking increasingly overvalued; authorities are now stressing the need to stabilize the nominal exchange rate against the U.S. dollar, given the currency's role as a transmission mechanism in Malawi. This may not be sustainable, however, given Malawi's low foreign exchange reserves and high import demand.

Anti-inflation /
forex policy

Macroeconomic stability continued to improve during the period under review. The IMF supported a three-year Poverty Reduction and Growth Facility (PRGF), which came online in 2005 and was judged a success in the IMF staff final review in July 2007. The success is largely attributed to government's intensified efforts to improve public financial management, which has resulted in improvements in revenue collection and expenditure controls. Budget discipline, inflation management and the kwacha's exchange rate have all improved and international donors have continued their budgetary support.

Macrostability

9 | Private Property

Property rights are legally protected, though the country's weak judicial administration and occasional political interference means that laws are often difficult to enforce. A new land policy was adopted in 2002, which, among other things, plans to commercialize customary (rural) land by granting titles to occupiers and restricting land ownership to Malawians.

Property rights

The government authorities recognize the private sector as a backbone of the economy; a policy and legal framework for a functional private sector does exist. Formerly state owned companies are being slowly privatized. Yet controversies over privatization have arisen, as the public has expressed concerns over opacity in the process and "insider trading." It is commonly believed that some businesses considered "national assets" are being disposed of at very low prices and often to private entrepreneurs (often foreign firms) because of the lack of local financial investment capacity. Job losses were also a crucial issue in the debate. The privatization of Malawi Telecommunications Limited, a fixed wireless telephone provider, was for instance delayed while some former members of the company's

Private enterprise

board of directors argued in court that the company was highly undervalued. The privatization of the Agricultural Development and Marketing Corporation (ADMARC) was suspended, as the company is seen to be central to the administration's goal of ensuring security in food production; meanwhile, the government appears to be determined to go ahead with the privatization of Air Malawi, the wholly state-owned airline. Despite the slow pace and various controversies, there are no indications that the government plans to reverse its policy of increasing the role of the private sector by, among other things, privatizing a majority of state-owned companies.

10 | Welfare Regime

There is no efficient social safety net to compensate for poverty or other social risks. Only a small percentage of the population employed in the economic sector enjoys the benefits of a rudimentary social safety net that has been set up by the state, to guard against issues associated with old age, illness, disability or unemployment. The government over the last three years has started subsidizing agricultural supplies such as fertilizer and seed, but these subsidies are targeted for the very poor and are overall inadequate. There are no mandatory public medical insurance schemes. The state provides free or highly subsidized medical and health services; yet as of 2007, the government's total expenditure on an essential health package the equivalent of \$20 per capita was still far below the \$34 per capita recommended by the World Health Organization. With funding from development partners, the government is currently piloting a social cash-transfer scheme, targeting the ultra-poor in a select few districts, but it is not clear as to whether this will be implemented in the near future. A ministry dealing with elderly concerns has been created, but it is too early to assess its real impact. With the HIV/AIDS pandemic taking its toll on the country's productive age group, the role of families and relatives as a safety net has been tremendously reduced. Although fighting poverty remains an overarching goal of the current administration, the country cannot fight poverty on its own, and is dependent on international aid.

Social safety nets

Society is highly segmented, and no institutions exist to compensate for gross social differences. NGOs can mitigate social differences to some extent, although their resources are too limited to cope with issues of large-scale poverty. Although the Malawi constitution is clear on and supportive of equal opportunities and non-discrimination, there are no deliberate policies or legislation to put words to action. In 2008, the government's attempt to re-introduce a district-based quota system of admission into the state-owned University of Malawi sparked controversy and was later dropped. The share of women in wage-earning employment has increased from 15% in 1998 to 31.1% in 2005. Similarly, the participation of women in politics, as measured by the number of elected female members of parliament, has also seen a

Equal opportunity

very gradual positive change. In 1994, only 5.6% of parliament members were women. This increased to 9.3% in the 1999 general elections, and to 14% following the 2004 elections. A 50-50 campaign advocating for more participation by women in the May 2009 election is underway, but it is too early to see whether this campaign will be effective.

11 | Economic Performance

The continuation of credit disbursement under the IMF-sponsored PRGF, debt relief and increased government investment coupled with increased agricultural productivity (a result of subsidies and favorable weather conditions) led to an improvement in the country's economic performance. During the period under review, the economic growth rate, measured in terms of GDP, jumped from 2.2% in 2005, to 8.2% in 2006 and fell slightly to 7.9% in 2007. The overall real GDP growth for 2008, projected at 7.4%, was expected to climb to 8.7%, making Malawi one of the fastest-growing economies in the sub-region. GDP per capita, however, still remains low, at \$255 in 2007, a slight improvement from the 2006 level of \$233. The economy is expected to benefit from an expansion in the mining sector, as uranium mining begins in 2009 in the northern part of the country. Malawi still remains vulnerable to external economic shocks, particularly fluctuations in the oil price and changes in weather patterns. The current administration has intensified irrigation farming projects, but concrete results will take some time to observe.

Output strength

12 | Sustainability

Ecological awareness is quite low, despite a prevalence of densely populated areas in which the sustainability of the surrounding agricultural environment is endangered. The few ecological development projects that do exist are operated and financed by foreign development organizations.

Environmental policy

Malawi's illiteracy rate at 35% is still high, but some improvements have been witnessed during the last decade as a result of increased government spending on education, especially at the primary school level. Facilities for higher education, training and research are available, but their capacity and quality is still very low.

Education policy / R&D

Transformation Management

I. Level of Difficulty

There are a number of structural constraints that have made effective governance extremely difficult, since both Malawi's location and geography pose challenges to growth and development. Measuring 48,000 square miles, the country is relatively small, densely populated and landlocked, with limited mineral resources. Additional constraints include a very low level of socioeconomic development, low educational levels (even in comparison to other African countries), a high degree of social inequality, an inefficient state administration prone to political interference due to its neo-patrimonial structure, weak market economy structures, a barely modern infrastructure, dependence on agriculture (which is highly susceptible to drought) and a high HIV/AIDS infection rate.

Structural
constraints

The weakness of civic associations is noteworthy, though this can be partly explained by the combination of structural constraints, an uninterrupted history of authoritarianism and a ruthless dictatorship that until 1994 served to inhibit the development of civil society traditions.

Civil society
traditions

Ethnic, religious and social cleavages are present, and tensions linked to political issues occasionally arise, particularly during election periods, but these are not irreconcilable. In the period under review, it is in particular the souring of the relationship between President Bingu wa Mutharika and his former mentor and Malawi former President Bakili Muluzi that has been a source of anxiety between supporters of the two politicians. Regional politics exist, although it has not translated into any kind of regional conflict. Key political actors recognize the societal cleavages that exist and take necessary measures to appeal to citizens across the board.

Conflict intensity

II. Management Performance

14 | Steering Capability

During the period under review, the political leadership has demonstrated a commitment to pursuing long-term aims. In 2006, a five-year (2006 – 2011) Malawi Growth and Development Strategy (MGDS) was launched, replacing the Malawi Economic Growth Strategy (MEGS). The MGDS identifies six key priorities areas: agriculture and food security; irrigation and water development; transport infrastructure development; energy generation and supply; integrated rural development and prevention and management of nutrition disasters; HIV and AIDS prevention. These areas are meant to accelerate the attainment of the Millennium Development Goals set by the United Nations. Development partners are expected to align country strategies along these priority areas. While the commitment by the authorities toward a socially responsible market-based system is not questionable, there are indications that some basic democratic tenets have been compromised during the past few years. Local government elections, which would enhance citizens' participation in the system, have not been held since 2005. The president has also shown some reluctance to allow the legislature to meet as regularly as it should. This particular aspect has to be understood within the context of the poor relations between the executive branch and the legislature, which is dominated by opposition parties. The fact that the influence of foreign aid on Malawi's economy is still strong makes it hard for authorities to pursue their own policy goals with a great deal of consistency. However, over the last three years, it has been observed that the Mutharika administration has been able to defy the dictates of some donors in pursuing his government's policy. This was particularly the case with the government's fertilizer subsidy program, which despite resistance from some donors, was still introduced.

Prioritization

The government has made some progress in macroeconomic reforms, which have spurred an improvement in many economic indicators. The government's fight against corruption has, however, been marred by the perceived targeting of those affiliated with opposition parties. Over the past two years a nationwide constitutional review process was started to address many constitutional loopholes and citizens' concerns regarding controversial provisions such as the repealing of the senate, politicians' ability to "cross the floor" or join other parties and clarity on term limits for the president. The future of this process, however, is in limbo as the cabinet has not submitted to parliament a report from the Special Law Commission on their review of the constitution.

Implementation

Since 2004, the current government has made significant and successful efforts to return to its original priorities despite its lack of support in parliament. The five-year Malawi Growth and Development Strategy (MGDS) builds on lessons learned from previous policies, namely the Malawi Poverty Reduction Strategy Program (MPRSP) and the Malawi Economic Growth Strategy. The halting of the privatization of the Agriculture Development and Marketing Corporation (ADMARC) is also a reflection of the government's need to take into account the social dimension in structural reform programs. In some instances, however, the political leadership has remained stuck in a routine, despite the challenges that implementation of some of its policies have faced. One example is the government's agricultural subsidy program. Despite the program's positive impact, the use of coupons has in some instances fuelled corruption and abuse of the program.

Policy learning

15 | Resource Efficiency

Prior to 2004, limits to the system of public finance left the country burdened with a high domestic debt of more than 9% of GDP (2003 – 2004). Although the public finance management system was based on a sound legal framework, it was characterized by non-compliance with rules and regulations, a lack of enforcement sanctions and general political interference in processes and procedures. There have been some remarkable improvements since mid-2004 in the use of public resources. Between 2004 and 2005, the government developed a budget within the framework agreed upon with the IMF Staff Monitoring Program (SMP) and the Poverty Reduction Growth Facility (PRGF) that was completed in 2008 with an IMF-sanctioned satisfactory performance. The country's current fiscal policy is geared at reducing the weight of domestic debt while at the same time increasing allocations in pro-poor and pro-growth expenditures. The implementation of the Integrated Financial Management Information System (IFMIS) is leading to some improvements in expenditure control and timely financial reporting, which the IMF considers to be an impressive achievement, particularly when looked at in the light of other countries that are implementing the same system.

Efficient use of assets

Despite these improvements, there are still some weak areas that require attention. The public wage bill is still high. Recently, it was reported in the press that a number of "ghost workers" exist in some ministries and departments, indicating a weak capacity in external and internal audits. With the passing of the public finance management act and the establishment of the Office of the Director of Public Procurement (ODPP), procurement has improved, although there are still some concerns about specific processes. While the level of domestic revenue has increased to around 24% of GDP as of 2006, there is still a structural imbalance between domestic revenue and expenditure, which is at approximately 15% of GDP (also as of 2006).

With the launch of the five-year Malawi Growth and Development Strategy (MGDS) covering 2006 to 2011, the government is trying to coordinate sometimes conflicting objectives and interests. The debt and aid coordination department, located within the Ministry of Finance, has been strengthened, while the department of economic planning and development, formerly within the Ministry of Finance, has been turned into a full ministry and now oversees the implementation the MGDS. However, in general, capacity is still a problem.

Policy
coordination

President Bingu wa Mutharika made fighting corruption one of the cornerstones of his administration and to this effect, several prominent members of the former government, even former President Bakili Muluzi, are now facing charges of corruption; a few senior civil service officials and some former cabinet ministers are serving jail sentences. Measures have also been taken to improve the public procurement processes with the establishment of the Office of the Director of Public Procurement (ODPP). However, measured in terms of Transparency International's Corruption Perception Index (CPI), corruption in Malawi is still perceived as rampant. The country's rank has moved almost imperceptibly from 2.7 in 2007 to 2.8 in 2008. Although there is a law requiring senior elected representatives, including the president, to declare their assets, the effectiveness of this law has been described as deficient as it does not spell out any punitive measures in case of non-compliance. While the constitution provides public funding for political parties with at least 10% of representation in parliament, there are no mechanisms over how these public funds can be accounted for. In addition, there is no law governing private financing of political parties or processes of general disclosure of funding sources. In principle, citizens and the media have the right to access information, but structural constraints, ranging from the legacy of a culture of secrecy and the non-responsiveness of some public officers, are some of the limiting factors. There have been calls for the enactment of an "Access to Information Act," but this call has not received the kind of urgency that civil society organizations and the media had anticipated, largely since parliamentary sessions over the last five years have been erratic.

Anti-corruption
policy

16 | Consensus-Building

There is a basic consensus around adherence to the principles of democracy and a market-based economy. However, sometimes the consensus appears to be superficial. As soon as private interests or personal gain come into play, the consensus is drawn into question.

Consensus on goals

Anti-democratic veto powers do not exist in Malawi, although there is the potential among some political actors that without checks, they could regress and adopt anti-democratic practices. During the former administration under Bakili Muluzi, this was manifested in the president's third-term campaign. In the recent past, President

Anti-democratic
veto actors

Bingu wa Mutharika has demonstrated that he has the potential to compromise over some basic democratic principles, such as respecting the rule of law and the separation of powers for the sake of his own political survival.

The political leadership has prevented cleavage-based conflicts from escalating. This has been shown particularly in the way the resignation of President Bingu wa Mutharika from the United Democratic Front (UDF) to form his own party has been handled. While this development shook an already weak political system, political actors were able to contain their “conflicts” within parliament and in the courts. There was no violence. However, this should not mean that there is no potential for cleavage-based conflicts to escalate into violence. The 1999 elections, for instance, were marred by violent acts; despite mosques being burned in the northern part of the country, the situation was quickly brought under control.

Cleavage /
conflict
management

The country’s political leadership does little to promote social capital or civic engagement and solidarity. The latter is supported to a large degree by non-political organizations, such as religious institutions and civic associations linked to them. While lip service is paid to the crucial role of civil society activities by the government, in reality these activities are viewed with some amusement and are not taken seriously. In the case that a civic association is consulted by the government, this is mostly due to pressure from international organizations or as required by the World Bank for the formulation of the Poverty Reduction Strategy Paper (PRSP). Left to its own guidance, the government frequently ignores civil society actors.

Civil society
participation

The government recognized the necessity of dealing with victims of the former Banda regime, but the reconciliation effort is regarded as a failure. Only 600 out of an estimated 22,500 eligible applications for compensation by victims of the Banda dictatorship have been finalized. While 7,000 individuals received an advance payment, as of 2003, available funds were deemed insufficient to compensate all applicants. As a result, the national compensation tribunal was discontinued in 2004; the lion’s share of compensation went to political actors or those with political clout.

Reconciliation

17 | International Cooperation

The government works closely with bilateral and multilateral donors in support of democratic institutions and a free market economy. It tries to make use of international development assistance for its domestic reform agenda. The 2007 review of the Common Approach to Budget Support (CABS), which includes Norway, Britain, the European Union, the African Development Bank and Germany (recently joined), noted with satisfaction the extent to which the government had utilized aid within the context of the Performance Assessment Framework (PAF). With the adoption of the Malawi Growth and Development

Effective use of
support

Strategy (MGDS), the government has been trying to ensure that donor support is in line with its own priorities. Some systemic weakness within public bureaucracy can still be noted, but there are efforts to address them. The strengthening of the debt and aid management group within the Ministry of Finance is partly an attempt toward effective utilization and harmonization of international development assistance.

The Mutharika government has successfully regained some of the trust of international donors which former President Bakili Malawi had received during his first years. The international community has partly become a political ally of the president vis-à-vis a strong opposition in parliament. However, the ambivalent position that the government has taken in the ongoing crisis in Zimbabwe, the uncertainty surrounding local elections and the government decentralization process are areas of concern within the donor community.

Credibility

The political leadership actively cooperates with many neighboring states and complies with rules set by regional and international organizations. The country has deployed a small consignment of soldiers to the Democratic Republic of Congo and the Darfur region in Sudan as part of the African Union peacekeeping initiative.

Regional
cooperation

Strategic Outlook

The positive strides made by the administration of President Bingu wa Mutharika in macroeconomic management have helped to raise hope and optimism, while the president's apparent contempt of some basic democratic norms and values have become a great cause of concern in Malawi. It is difficult to maintain a clear strategic outlook as the country enters an election season expected to be heavily contested by the three major parties, the United Democratic Front (UDF), the Malawi Congress Party (MCP) and the Democratic Progressive Party (DPP). The atmosphere is already tense, as the stakes for all the main parties are high. The UDF still feels cheated after its winning candidate, Mutharika, abandoned the party and went ahead to form the DPP. The return of former President Bakili Muluzi into active politics needs to be understood against this background. The MCP has been in opposition far too long (15 years) and given the nature of African politics, where there is a close connection between being in government and having access to public resources, it is obvious that the party considers another five years in opposition as too many. The DPP is looking to consolidate its power, having started on a shaky foundation, and it can effectively do so were it to emerge victorious from the upcoming elections. For some potential candidates, age is also a factor that could make these elections the last that they are able to participate in actively. Depending on how the election is managed, the potential for civic unrest cannot be ruled out and, if it occurs, may have an impact on the transformation of the country.

Regardless of which party wins, one thing is clear. No party will be able to reverse IMF-supported pro-market reforms, partly due to the country's level of aid dependency. However, because the party system is highly fragmented (due to personality-driven parties, lack of intra-party democracy and lack of adherence to party constitutions), the authorities' commitment to democracy will still have to be looked at with some guarded optimism.

The future for the gains recently made in the area of socioeconomic development depend not only on the environment prevailing in the immediate post-election period and the confidence donors will have in the new government but also on favorable weather conditions for agriculture. It is also not clear as to how long the country will remain somewhat insulated from the effects of the ongoing worldwide economic recession.

In the medium term, it would be desirable for the Malawi leadership to continue with ongoing reforms as well as improve political governance. Key areas requiring attention include the continuation with parliamentary reform programs that aim to strengthen the independence of the legislature, the implementation of resolutions contained in a special commission report over the country's constitution, which addresses a number of gray areas that have been the source of litigation and controversy, and a clear commitment toward local government and decentralization by holding long-overdue local government elections and strengthening local authorities. While there is no question over the need for continued international development assistance, donors will at the same time have to pay attention to the governance situation to ensure that gains made in the socioeconomic sector are matched with improved governance.