

Malawi

Status Index 4.0 (Democracy: 2.6 / Market economy: 1.4)		Management Index 2.7	
System of government	Presidential democracy	Population	11.3 mill.
Voter turnout	92.3 % (1999)	GDP p. c. (\$, PPP)	615
Women in Parliament	9.3 % (1999)	Unemployment rate	n. a.
Population growth^a	3.1 %	HDI	0.400
Largest ethnic minority	n. a.	UN Education Index	0.65
		Gini Index	40.0
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.			

1. Introduction

In October 2002, to prevent President Bakili Muluzi of the United Democratic Front (UDF) from running for a third term, which is not permitted under the country's current constitution, the leading civic groups of Malawi founded the Forum for the Defense of the Constitution (FDC). This step marked growing resistance against the increasingly authoritarian power of Muluzi and the UDF since his reelection in June 1999. Muluzi became the first democratically elected president of the country in 1994 following the transition government.

This report on the status of transformation toward democracy and a market economy during the last five years (1998-2003) concludes that from a political standpoint there has been a significant setback, and that Malawi can be described at best as a "defective democracy" or a hybrid regime. The trend toward a market economy has likewise been reversed, with the privatization program being temporarily interrupted. Corruption and poor crisis management were the primary reasons for serious bottlenecks in food distribution leading to famine in 2001 and 2002.

Lack of budgetary discipline has significantly disrupted relationships with the IMF and the World Bank since early 2001. Although it had a difficult start and notable early successes (1994-1998), the government cannot claim any success in managing transformation for the subsequent years. Its efforts at reform are increasingly taking a back seat to its interest in retaining power.

2. History and characteristics of transformation

The transformation to a market economy preceded democratic reforms in Malawi. Conditions set by international financial institutions played a central role in both of these areas.

After gaining independence from British colonial rule in 1964, the regime under Hastings Kamuzu Banda immediately began to orientate itself toward a market economy in accordance with its pro-western foreign policy. Private enterprise was encouraged, although Banda, through his own economic activities and in an effort to maintain power, retained control of economic developments. Despite having an initially low level of development (dominant agricultural sector, poor infrastructure), the country was able to achieve positive economic growth from 1965-1979. In this period, actual average growth in per capita income was 5.5 % with relatively low inflation.

Malawi's reputation as a development policy showcase waned, however, toward the end of the 1970s due to the impact of the second international oil crisis. At that time, declining terms of trade for Malawi's key export commodities combined with a drought to create an economic crisis. The crisis necessitated one of the first structural adjustment programs imposed by the IMF and the World Bank. The economic conditions they laid down have influenced subsequent reform efforts.

After achieving varying levels of development success during the 1980s, Malawi once again entered into a period of severe economic turbulence in the early 1990s, this time also with political consequences. With the help of his Malawi Congress Party (MCP), Banda had created an extremely authoritarian single-party regime based upon a cult of personality ("Kamuzu knows best") tailored to his own needs. Within the framework of neo-patrimonial practices (patronage, cronyism), he used his own and the government's economic activities to solidify his position of unrestricted power. Political opposition that could not be co-opted was suppressed with the help of the secret service and the MCP's paramilitary youth organization.

In 1993, Banda was forced to agree to a referendum about the political regime. The demand came not so much from a powerful civil society as from growing pressure from Western funding agencies upon whom Malawi was dependent, given the ongoing seriousness of development problems. Contrary to Banda's expectations, a clear majority of Malawi's population voted to introduce a multiparty system.

The first competitive elections in 1994 resulted in the power switch mentioned in the introduction. Changing coalitions within the regionally based three-party system, however, simply led to temporary, if clear, majorities of the UDF in the

Parliament. In the 1999 elections won by Muluzi under chaotic organizational conditions, the UDF (southern region) was able to defeat the coalition of the Alliance for Democracy (AFORD, northern region) and the MCP (central region), at first only with the help of independent members of parliament.

The years since the elections have been characterized by violent clashes incited by one of the opposition parties (AFORD), tendencies toward divisions, primarily among opposition parties, increasing repression of the media and opposition politicians (as before the elections), and the controversial debate about Muluzi's desire for a third presidential term.

Growing corruption and above all a lack of budgetary discipline have led to continuing difficulties with the IMF and the World Bank. No additional funds have been released for the Poverty Reduction and Growth Facility (PRGF) since the beginning of 2001. Although the country gained approval for the Malawi Poverty Reduction Strategy Papers in April 2002, this does call into question the country's eligibility for debt relief within the scope of the Heavily Indebted Poor Countries Initiative (HIPC) created by the international financial institutions. The famine caused by the drought in southern Africa illustrates the continuing shortcomings in the political and economic leadership of the Malawian government.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Malawi has suffered setbacks in the transformation of its political regime. The minimum standards of democracy are no longer being met. There are growing problems, particularly in the areas of political participation, rule of law, political and social integration, and good and/or effective government leadership. Relatively positive standards have been maintained in regard to state identity and institutional stability. The outcome of the conflict over the third presidential term may further endanger the level of transformation achieved thus far.

3.1.1 Political organization

(1) Stateness: Malawi is confronted with relatively few problems related to state identity. The state's monopoly on the use of force is largely intact throughout the country. This power is impaired only by violent crime and spontaneous outbreaks of violence, or overreactions by the police during demonstrations. The definition of citizenship and national belonging is not a politically relevant issue, despite ethno-regional identities being encouraged by party politics. There are no secessionist tendencies.

The separation of church and state is largely guaranteed. Problems do arise as a result of rare, blatantly politically motivated clashes between Christians and the Muslim minority (approximately 20 %), to which President Muluzi also belongs. The religious elite is largely in favor of a peaceful resolution to conflicts. The state is represented by an administrative infrastructure throughout the entire nation, although it functions poorly in many areas. Public safety and order are guaranteed only to a limited extent.

(2) *Political participation*: Government representatives are elected in universal, relatively free and fair elections, with the last national elections having been held in 1999. These elections were fair, albeit with certain restrictions. The reasons for this assessment include: totally unequal access to the media due to a *de facto* governmental monopoly on radio and limited dissemination of information to the qualitatively weak press; questionable definition of constituencies; unresolved claims of electoral fraud; and severe problems in the organization of elections. Moreover, the municipal elections were conducted after a delay of several years (2000 instead of 1995).

The elected representatives, however, have almost complete power to govern. The military plays a subdued role. Independent political and civic groups, which are extremely weak even by African standards, can be freely formed. However, they are occasionally restricted by undemocratic infringements on freedom of assembly (harsh treatment by security forces), repressive measures against opposition politicians (arrests, accusations), and threats by gangs of thugs from the UDF youth organization. Freedom of opinion is guaranteed in principle, although media that criticize the government are subjected to government harassment (intimidation, destruction of editorial offices, advertising bans). All of these factors together create a climate of uncertainty that has a negative effect on the participatory behavior of critical and opposition forces.

(3) *Rule of law*: The division of power between the executive and the legislative branch is guaranteed in principle, even though the executive branch has excessive power. As a result of by-elections and changes in party allegiances (including crossovers by independents), the UDF has a slight parliamentary majority. It recently also gained support from the opposition through the MCP split. The fact that Parliament is independent was demonstrated by its rejection of a constitutional amendment in July 2002 that would have allowed Muluzi a third term.

The judicial branch is relatively independent, although it suffers from an extreme lack of resources and an excessive workload. In 2000 it ruled in favor of the government on the opposition's challenge to the elections, although this does not signify any general partisanship. At the end of 2001, the parliamentary majority attempted to dismiss three judges on charges of incompetence and abuse of office

after they had issued rulings unfavorable to the government. The president referred the case to the Judicial Service Commission.

Abuse of office and corruption are significant and growing problems in Malawi (Corruption Perception Index 2001: 3.2 of 10; 1998: 4.1, with a lower rating signifying greater corruption), most recently seen in conjunction with the famine. Earnings from the sale of strategic wheat reserves went into the pockets of government politicians and high government officials. The Anti-Corruption Bureau, which was set up during the transition process with the task of fighting corruption, has remained largely ineffective and is only able to launch investigations with the intervention of external funding agencies or donor countries.

Cabinet reshufflings and dismissals for corruption can almost always be attributed to significant pressure by these agencies. Occasional charges of corruption are used primarily to eliminate political rivals. Civil liberties are occasionally violated (primarily freedom of opinion and freedom of assembly or in the treatment of prisoners). Given the aforementioned administrative shortcomings in the judicial system, effective prosecution for violations of fundamental freedoms is limited.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Democratic institutions with clearly defined functions do essentially work. Inefficiencies result from unstable or changing parliamentary majorities, parliamentary boycotts by sections of the opposition, and inefficiencies in the judiciary and the administrative apparatus. In addition, unresolved issues regarding constitutional provisions have led to more than 100 amendments to the constitution by Parliament since the transition in 1994. In principle, all influential actors accept the democratic institutions, and there are no powerful, decidedly anti-democratic vetoing actors. Nevertheless, acceptance is limited. The government's commitment to the independence of the judicial and legislative branches does not appear to be stable. Relatively frequent parliamentary boycotts by the opposition are an indication of these shortcomings.

(2) *Political and social integration*: Building on a regional basis, something approximating a three-party system has been developed since 1994. There are no apparent differences in political agendas. Personalized leadership struggles and resistance against party leaders, however, have led to divisive tendencies, primarily in the UDF and the MCP. Political polarization between the parties is intense at times, although all parties are capable of forming coalitions in principle and have in fact formed coalitions in the past. Nevertheless, these coalitions have always been volatile. Violent clashes occurred between party supporters before and after the 1999 elections, and there were repressive measures against

opposition politicians as well as parliamentary boycotts. The topography of the interest groups has thinned out.

Unions are weak. Civic groups, of which there are relatively few even by African standards and among which Christian churches and church-related organizations play a prominent role, are concentrated in the urban centers, where they perform an important monitoring function. The majority of the population supports democratic norms and procedures. In 1998, 56 % of the population believed that democracy was the preferred form of government; at the end of 1999 the figure was 65 % (various sources, differently formulated questions indicate greater support for democracy). At the end of 1999, 57 % were satisfied with what they regarded as “real” democracy in Malawi. Self-help organization within civil society has socioeconomic and cultural limitations (2000: 28.1 NGOs per million inhabitants). Churches in particular have a constructive influence on political culture, primarily in regard to democracy and peaceful resolution of conflicts. Because of a lack of funds and personnel, compensation for victims of the Banda dictatorship has proceeded only slowly.

3.2 Market economy

Malawi is one of the least-developed countries in the world, and is dependent upon external aid. It is very under-developed, markets and competition are limited, and the stability of currency and prices is insufficient. Economic output is variable and was most recently declining. Shortcomings in budgetary policy have led to severe difficulties with donors. There are positive trends in the educational and healthcare systems and an improved transportation system.

3.2.1 Level of socioeconomic development

The main development indicators show an extraordinarily low level of development. In terms of HDI, Malawi ranked 163 out of 173 countries assessed in 2000. Social exclusions are quantitatively and qualitatively high and are embedded in the social structure. The proportion of the population suffering from absolute poverty (54 % below the national poverty line) and the relative deprivation of women (GDI rank: 137 out of 146) indicate that there is not even a minimal chance of social mobility. Inequalities in income (Gini coefficient 1997/98: 40) are somewhat less pronounced, however, particularly in rural areas (Gini: 37). Having started from a very low level, slight improvements can be observed in some development indicators such as education and healthcare.

3.2.2 Market structures and competition

The foundations for free market competition are limited in real terms. The informal sector constitutes a significant, although difficult to quantify, portion of economic activities. The prevention of monopolies is not among the priorities of the Malawian economic regime, but is also not a conspicuous problem. Import duties averaging 11.5 % (1998) indicate a high level of protectionism. Because of the economic conditions laid down by donor countries and international financial institutions, certain liberalization in foreign trade has been achieved in recent years. Malawi's banking system is still in its infancy, but is developing positively. So far, however, there is little competition and there are relatively strong state restrictions. The private-investment market is extremely small. Overall, the Malawian economy rates as "mostly unfree" according to the Index of Economic Freedom.

3.2.3 Stability of currency and prices

The policy on currency and price stability is performing poorly. Monetary policy is controlled by the Reserve Bank of Malawi (RBM), which is in turn strongly influenced by the IMF. The RBM's efforts at fighting inflation have had little success, and have resulted in high inflation rates (greater than 25 %) during the period studied. Only in 2001 did the situation improve, when the inflation rate (not including consumables) went down to about 10 % in the first half of the year.

There are significant problems with fiscal and debt policy. Progress in budgetary policy, which is characterized by a low level of spending discipline, would be a prerequisite for the resumption of loans within the scope of the PRGF. Unless tensions are reduced in Malawi's relations with the IMF and the World Bank, the country's eligibility for urgently needed debt relief as part of the HIPC initiative is also at risk. The national debt was 155.1 % of GDP in 1999.

3.2.4 Private property

In principle property rights and acquisition of property are guaranteed by law, although enforcement of these laws is limited due to the administrative inefficiencies of (and some political influence on) the judiciary. Because of the high degree of state ownership under Banda, a privatization program was initiated in 1995 (also due to external pressure) but suspended in July 2001 and restarted only in October 2001.

3.2.5 Welfare system

In general, lack of finances and administrative inefficiencies mean that there is no efficient government social-welfare network to combat poverty. Nonetheless, social benefits paid by the government (health-care, education) have increased significantly under the democratically elected government, although pressure from the World Bank had previously forced Banda to begin increasing expenditures on education. The informal sector and traditional structures have provided some relief in this area, although this is difficult to quantify. New efforts are planned within the scope of the PRGF.

A Poverty Reduction Strategy Paper (PRSP) was submitted in April 2002, but has not yet been implemented satisfactorily. This is one of the conditions for debt relief, however, as are the on-schedule implementation of PRGF measures (primarily, improved budgetary policy), and, especially, strengthened measures to safeguard the poor and a more robust health-care policy. Overall, the society is fairly heavily segmented, and no institutions exist that could equalize the marked social distinctions. Women have relatively little access to public office.

3.2.6 Strength of the economy

GDP growth fell almost continuously from 1998 to 2002, from 3.3 to the current estimate of -1.3 % in 2002. The suspension, still in force, of loans from the PRGF will further damage the economy. Basically, Malawi remains dependent upon external assistance. Price stability is not guaranteed. The current account balance is structurally negative. The potential of the overall economy is relatively low, due in part to climatic conditions and the dominance of agriculture, for which there appears to be no economic alternatives. However, the potential of this is also not fully realized because of bad and often corrupt governance (see example of famine above).

3.2.7 Sustainability

There is little environmental awareness in Malawi, despite relatively high population density. Nevertheless, there are a small number of active environmental NGOs, which have Western support. Although illiteracy rates are very high (1998: 56 % of women and 27 % of men over 15 years of age), Malawi has made progress in education in recent years, particularly in primary education. This is also reflected by the performance of educational institutions (1997-1998: 18.6 percent of GDP). High-quality cultural, educational, and research and development institutions do not exist. There are only rudimentary physical infrastructures. A transportation corridor via Mozambique was restored in 1998 and is extremely important for the interior of Malawi.

4. Trend

(1) *Democracy*: Malawi has suffered a significant setback in its political transformation. This applies to the areas of political participation (particularly election organization, freedom of opinion, and freedom of association), the rule of law (battle against corruption), and social and political integration (polarization and centrifugal tendencies). Assets in these areas continue to be the relative independence of the overburdened judiciary, the relatively well functioning separation of powers, and the monitoring function played by the churches. Previously achieved standards have also been basically maintained in the areas of state identity and institutional stability.

(2) *Market economy*: The following conclusions can be drawn regarding the transformation to a market economy for the areas that were assessed: The level of development has not changed materially in recent years. Nevertheless, slight improvements can be seen in main indicators, although these remain at a low level.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN Education Index	Political representation of women	GDP per capita (\$, PPP)
1998	0.385	0.375	0.28	0.40	0.64	5.6 (1994)	523
2000	0.400	0.389	0.30	n. a.	0.65	9.3 (1999)	615

Sources: Human Development Report 2000, 2002.

The foundations for a free market and free competition continue to be insufficient, and have in fact deteriorated slightly. The Index of Economic Freedom remained at 3.65 (“mostly unfree”) from 1999 to 2003, although it decreased over the last two years after having improved before that. Shortcomings in budgetary policy are responsible for the significant problem with currency and price stability, and have also led to the aforementioned difficulties with donors. Output has therefore also decreased. There continue to be positive trends in the educational system.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998 ^a	1999 ^a	2000 ^a	2001 ^b	2002 ^b
Growth of GDP in %	3.3	4.0	1.7	-1.5	-1.3x
Exports (\$ millions)	538.6	447.0	405.5	406.8 ^o	424.3
Imports (\$ millions)	579.3	673.0	563.2 ^a	582.2 ^a	634.6
Inflation in %	29.8	44.8	29.6	27.2 ^a	16.7
Debt in \$ millions	2.4	2.8	2.7	2.7	2.9
Debt service ratio	14.3	13.8	12.7	13.7	13.2
Budget deficit as % of GDP ^c	7.3	3.8	4.8	0.5	1.9 ^d
Current account balance in \$ millions	-43.6	-150.3	-89.0	-127.7 ^a	-170.2

Source: EIU Country Report January 2003; African Development Report 2000; 2002, a) Actual, b) EIU-Estimates; c) each fiscal year 1997–1998 etc., “including grants”; d) Official estimates.

A market economy exists only in the most rudimentary terms. On the whole, the findings regarding the country’s economic development are mixed, although they tend to be negative in comparison to previous years.

5. Transformation management

5.1 Level of difficulty

Malawi presented extremely difficult conditions for continuing the transformation at the beginning of the assessment period. Reasons included the extremely low level of economic and social development, the very weak foundations for a market economy, the very low level of education among the population even by African standards, a high degree of social inequality (although there is an absence of any aggravated ethnic, religious, and social conflict), a barely existent civic tradition, inefficient government administration, and a very weak rule of law. Despite the fundamental structural difficulties, the beginning of the transformation process was characterized by astoundingly clear strategic priorities and there were surprising successes, although these are no longer influencing the country’s policies.

5.2 Reliable pursuit of goals

It is impossible to determine whether the government is continuing to move toward its strategic reform objectives. Promised reforms, such as decentralization and the municipal elections necessary to bring this about (2000), which occurred after many years of delays, are implemented only under political pressure from donor countries and international financial institutions, and then with significantly slowed progress. Other reforms, such as the creation of a second parliamentary chamber (a senate consisting of traditional authorities and representatives of district assemblies), were ultimately not implemented by parliamentary resolution. The privatization program was also broken off, and the official justification was a fear of superior foreign buyers.

Without the external influence of the donor countries, not only would the economic and political reform program most likely be discontinued, it would probably also be reversed to an even greater degree than has already occurred. The government's actions are primarily focused on maintaining power, and political responsibility is given a lower tactical priority. Thus, the expectations of reliability from key social and economic decision-makers are extremely low.

The ongoing dispute over the third presidential term, which would have necessitated a constitutional amendment, is indicative of this. To prevent this from happening, the UDF and Muluzi mobilized enormous financial resources and engaged in a strategy of intimidation against opposition parties, civil society, and the external pressure of donor countries. They were, however, unable to achieve the majority needed for parliamentary approval. Even many members of Muluzi's party failed to stand by him. Nevertheless, Muluzi continues to publicly address the topic, thereby creating further uncertainty.

5.3 Effective use of resources

The government does not effectively use available personnel and organizational resources for its transformation policies. On the contrary, it permits a significant amount of waste of extremely precarious public utilities. As a rule, the government lacks sufficiently qualified personnel to make effective use of economic and political resources. Corruption has also increased again during the reporting period, and the government has not given sufficient political support to the anti-corruption bureau it has established. Investigations of corruption are instituted primarily to eliminate political opponents or competitors, and the appropriate legal and organizational instruments are otherwise largely ineffective.

The government does not exercise any effective control over the use of official budget resources. There is no effective financial management system. There is not even any effective administration of strategic food reserves, which are subject to

government control. Here also, the political elite is allowed to enrich itself at the cost of the public. For these reasons, international donors have had to withhold promised funds a number of times (PRGF as well as bilateral and multilateral budget assistance), which has further restricted the government's already limited options.

There is no indication that cultural legacies are being targeted as a resource for reform. It is doubtful whether there are any such resources that could be productively used in an overwhelmingly agrarian society. In a negative sense, one cultural legacy has survived from the Banda dictatorship: a level of obsequiousness to authority (politicians, officials) that is more extreme than almost anywhere else in Africa. The behavior of the government does more to promote than to overcome this universal and pronounced spirit of subservience, which constitutes a further obstacle to development.

5.4 Governance capability

The government's organizational capability has deteriorated significantly. It lacks the will to continue efforts toward reform because its primary interest is in retaining power. The beginning of the transformation was clearly marked by a very high, almost exemplary, level of preparedness for innovation, above all in the political and social arenas. Prior to 1998, many reforms were quickly implemented, put into motion, or further developed within a short period of time. Thus the authority to implement additional political reforms is available, but it is deliberately not being used. The inappropriate allocation of economic resources is not only unhindered, indeed it is sometimes intentionally permitted through an administrative and political leeway that makes this possible.

5.5 Consensus-building

None of the key political decision-makers will admit that he wishes to eliminate democracy. Publicly, all are committed to building a free market democracy. That said, they obviously have a different idea of what this democracy should look like. In fact, to maintain power the government more or less consciously accepts that its policies and laws (law on association, law on changes of allegiance for members of parliament) will weaken democratic institutions. The same also applies to leading opposition politicians, even those who have risen up through the ranks of the democratic movement, when they call for violence following election defeats and otherwise demonstrate high-handed, authoritarian behavior.

The commitment to democracy of opposition factions from the former ruling party also appears to be questionable. Nevertheless, it can be noted that the government never allows conflicts with the opposition and civil society to go

beyond the point where compromise is no longer possible. Thus far there have been sufficiently strong forces in all political camps to enable consensual conflict resolution. There are two reasons for this. First, the military acts in a neutral or constitutional fashion as sole vetoing power, and second, there is the threat of sanctions by donor countries.

5.6 International cooperation

In principle, the government is prepared to cooperate with bilateral and international donors to achieve the transformation to democracy and a market economy. Nevertheless, willingness to enter into cooperation was significantly higher during the mid-1990s than during the reporting period. Because of its dependency on bilateral and international financial transfers, the government and all other political actors have had no option but to accept international cooperation. Expectations among international donors, which were higher at first, have dropped and been replaced by a significant degree of mistrust and increased monitoring. This applies not only to the government, but also some of the civic organizations. Following many years of isolation under the Banda dictatorship, the government now has peaceful and cooperative relationships with neighboring countries. It is also actively participating in international regional organizations and international peace efforts (Democratic Republic of Congo).

6. Overall evaluation

In view of the originating conditions, the current status and evolution achieved, as well as the actors' political achievements, this assessment concludes with the following evaluations:

(1) Originating conditions: The originating conditions were negative overall, characterized by extreme poverty and the lack of any tradition of a rule of law, civil society, and democratic behavior. Education and health-care systems were oriented toward the elite; for the rest of the population they were completely underdeveloped even by African standards. Only the national government was administratively functional in its core areas, albeit to a limited extent and primarily in the area of security. National identity and unity were not an issue, despite multi-ethnicity and regionalism.

Free market structures existed only in their embryonic stages, with the state-controlled economy characterized by semi-state and monopolistic companies. There was a lack of decisiveness about transformation, and so transformation could be achieved only through international pressure. Despite these negative conditions, transformation was implemented in close collaboration with international actors, at first relatively quickly, steadily, and peacefully.

(2) *Status and evolution*: Steps toward democratic transformation have not progressed very far. During the reporting period, the political decision-makers were not able to continue the momentum toward creating democratic conditions. On the contrary, there have been significant setbacks. Repressive measures by the state are once again on the increase and promised institutional reforms have been delayed or reversed, while the government's effectiveness has been reduced and corruption has grown, particularly among the political elite. What remains of the formal democratic infrastructure does not appear to be fundamentally endangered, because none of the political actors has sufficient veto power, and in any case there is a fear of international sanctions.

The evolution of the transformation to a market economy has likewise been short-lived. The political decision-makers could not stabilize macroeconomic development. The downward economic trend could not be turned around and, instead, was somewhat exacerbated by mismanagement and corruption. The move toward a market economy also did not proceed beyond the initial stages. Economic indicators show no improvement and are at extremely low levels. Individual social indicators signal slight progress.

(3) *Management*. The primary decision-makers have shown relatively little organizational capability. The economic transformation process has suffered significant losses during the reporting period in terms of reliability in achieving goals, speed, and prospects for success. Even more clearly, the democratic transformation process, which had previously been pursued in a comparatively decisive manner, has not only lost focus, but in some cases reversed previously achieved successes: in political participation, corruption, political freedoms, the rule of law, cooperation with external actors, and the party system.

7. Outlook

The social forces for reform have lost their once surprising organizational strength. No independent, serious efforts at further political reforms can be expected from the political parties. Instead one can expect at best a return to the status of 1998. The forces within civil society will be too weak to achieve a continuation of the reform policy on their own.

The political interventions and financial sanctions of international donors are the primary factors in preventing a further reversal of transformation and achieving a return to a policy of reform. These donors will continue to meet with resistance from the government for the foreseeable future, regardless of which party is in power. Reform is still required in all areas of the political and economic system. The top priorities must be to restore an atmosphere free of political repression, to secure the rule of law, and to achieve institutional efficiency in government and public institutions.