

Malawi

Status Index (Democracy: 6.25 / Market economy: 3.54) 4.89		Management Index 4.73	
HDI	0.404	Population	12.3 mn
GDP per capita (\$, PPP)	605	Population growth¹	3.1 %
Unemployment rate	-	Women in Parliament	14.0 %
UN Education Index	0.67	Poverty²	41.7 %
		Gini Index	50.3 (1997)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003).			

A. Executive summary

The positive development of Malawi's immediate post-transformation era could not be sustained, but was turned into regress. Standards of a democratic regime have declined largely. Yet, Malawi has no major problem with stateness. The monopoly on the use of force is basically in place and citizenship is not a political issue.

Democratic general elections have been held regularly since 1994. The elections are usually free, but there are reservations about their "fairness." Access to the media is unequal. The decline in voter participation is remarkable.

The separation of powers is in place, although the executive clearly dominates. The judiciary operates relatively independently; however, its meager resources are overstretched. During the period of review, abuse of office and corruption continued to increase.

Fundamentally, democratic institutions are operating according to the constitution. However, friction losses occur because of a lack of efficiency. Most recently, the political party system was blown apart into a highly fragmented party system. Basically, all parties can form a coalition. According to the Afrobarometer, the majority of the citizens support democracy.

Malawi belongs to a group of the world's the least developed countries. The country is dependent upon external development aid and cannot fight poverty on its own. Its development level is very low, the market and competition are restricted; stability of prices and the local currency is insufficient. The output performance of the national economy is erratic. Major fiscal indiscipline of the government expenditure caused the IMF and some donors to suspend the disbursement of funds. The privatization program was interrupted in 2001, most

likely because of its negative effect on rent-seeking and patronage opportunities. There is no efficient social safety net to compensate for poverty or any other social risks. A rudimentary social safety net is provided for only a small number of people employed in the formal sector of the economy.

The once surprisingly clear strategic reform priorities have been lost almost completely. There is a basic consensus about market economy and democracy. However, the consensus appears not to be very deeply rooted. As soon as private interests and gains are affected, the principle consensus becomes questionable.

At the end of the review period, it was evident that the country's overall socioeconomic development had declined over the last couple of years. Per capita income declined. Development is still marked by a high degree of macroeconomic instability, as indicated by the highly variable growth rates.

International political and financial pressure has prevented the government from turning even more authoritarian. No doubt, this pressure has to be continued. The international promotion of reform concerns both the political and the economic agenda.

B. 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 (1964), the independent government under Hastings Kamuzu Banda followed a pro-Western foreign policy and a market-based development policy. Despite the poor socioeconomic conditions (dominance of the agrarian sector, poor infrastructure) between 1965 and 1979 economic growth rates of 5.5% (per person) was achieved. At the end of the 1970s, thanks to the second oil price shock and declining terms of trade, Malawi experienced a deep economic crisis. Since then, Malawi's economic policy depends upon by the IMF and World Bank's reform concepts. After a fickle development during the 1980s the economic crisis returned by 1990 which contributed to the political transition to democracy.

Banda had established, even by African standards, a very repressive one-party rule based on the Malawi Congress Party (MCP). He used his private economic wealth as well as state resources in a neo-patrimonial way to bolster his absolute position. His secret service and the MCP youth militia prosecuted political opposition that could not be placated by patronage and co-optation.

Under these circumstances, a vital civil society could not emerge; political opposition was hardly able to articulate itself in public. Hence, it was less the activities of an emerging civil society but rather 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 disarming the threatening MCP youth militia by force.

Contrary to Banda's expectations the majority of citizens voted for change in 1993. One year later the first multiparty elections of the country 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 which gained seats in parliament – MCP, UDF, and Alliance for the Restoration of Democracy (AFORD) – won a parliamentary majority. Opposition boycotts of the assembly and switching of alliances became common.

While the first elections were almost seen as a model, the second elections in 1999 were poorly organized; although international observers deemed the elections “free and fair,” Muluzi won his second term only by a small margin against a joint candidate of the MCP and AFORD alliance. The parliamentary election results corroborated the three-party system, but the president's party failed to win an absolute majority. Hence, the UDF had to rely on independent ministers of parliament to find a majority in parliament, against the greater number of alliance members of parliament.

The post-election violence instigated by frustrated AFORD supporters against the mosques of the Muslim minority, to which Muluzi belongs to, indicated a change that had taken place already 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 of “big corruption” showed that a reversal had taken place. Most indicative was finally Muluzi's failed attempt to get the notorious “third term” that would have required a change to the constitution.

The controversy about the “third term” and the following controversial elections in May 2004 proved to be an explosive issue. It left a highly fragmented party system with ten parties in parliament and a diminished ruling party that came in second behind the former state party, the MCP, which was split into major factions. After the independent-minded new president, Bingu wa Mutharika, was elected with the support of Muluzi, he then started to prosecute the corruption in his predecessor's government. The controversial elections also produced a president without a majority in his own party and relying on opposition parties. He is expected to form his own party mainly out of opposition members of parliament.

C. Assessment

1. Democracy

The political orders achieved in Malawi after the transformation has regressed in recent years and as a result democratic standards are in decline. In the partial regime of participation, one can observe weaknesses regarding rule of law and social political integration, particularly with respects to good and effective governance. Adequate standards of stateness still exist when compared to other African states, despite the decline in institutional stability. The latter is due to a large degree to the controversy surrounding the “third term,” which destabilized political parties as well as the whole party system, and might even effect the elections and the presidency.

1.1. Stateness

There is no major issue regarding stateness in Malawi. The monopoly on the use of force is institutionalized, for the most part. This monopoly is rarely challenged, despite sporadic violent outbreaks, e.g., criminality and overuse of violence by police officers. All citizens have the same civil rights and there is no serious challenge to Malawi’s constitution, despite religious tensions between Christian and Muslim groups. Ethnic identity trumps regional politics. There is separation of church and state. Problems have occurred, however, when political frustration turned violent. This violence was expressed in outbursts and attacks on mosques and Muslims, and in retaliation, Christian churches became the target of militant Muslims. It is worth mentioning that the elites of both major religions are very careful not to escalate any clash between fundamentalists, but to seek out a peaceful solution to any conflict as soon as possible. It is also important to mention the leading role of Christian churches in the anti-third term campaign and that the president has criticized the churches role as interfering in governance and politics.

The administrative structure of the state extends across the entire country. However, its effectiveness is to some extent lacking. This is due partly to scarce resources and incompetence, a partial result of private “political” interventions, such as the neo-patrimonial pattern of the bureaucracy. Public order and security is only partly ensured.

1.2. Political participation

Democratic general elections have been held regularly since 1994. The last election, the third since the transition, was held in May 2004. The elections are open, but there are doubts about the “fairness” of the elections. The government controls the major broadcasting station, Malawi Broadcasting Corporation (MBC), and in rural regions, this is the only radio station available for news. A number of private radio stations are licensed, but it is illegal for them to broadcast political content. The press enjoys only a small circulation and the quality is generally regarded as poor; the major daily papers are owned or co-owned by (opposition) politicians.

During Muluzi's last term, there was an increase in low-level repression against newspaper editors. There are examples of the ruling party using its control of state resources to distribute grain and money at electoral rallies. Problems have occurred with the electoral roll as well; these problems can be blamed in part on bureaucratic inefficiencies. These inefficiencies are sometimes maintained in order to enable opportunities for corruption. The opposition, however, does try to challenge the electoral results through legal means. The same problems occurred during the 1999 elections. There was a decrease in voter participation from 94% to 54% in the 2004 elections, and this decline is attributed to the poor management of the 2004 elections (questionable voter roll, shifting dates) by the Malawi Electoral Commission, which has lost almost all national and international credibility.

The elected leaders can govern effectively, and they are only obstructed by an inefficient and neo-patrimonial administration. The military does not have a strong presence in government. Civic organizations can organize freely, but are very weak in comparison to other African countries. Despite their apparent weakness, there is evidence that politicians of the ruling party feel intimidated by the activities of these civic organizations. In principle, political parties are allowed to register and organize freely. In reality, opposition parties are at times forbidden to hold public rallies when the ruling party UDF decides to hold a rally in the same place.

The youth organization of UDF (Young Democrats) has been known to disrupt opposition rallies by force. During the controversy surrounding the third term, President Muluzi banned demonstrations that were organized around this issue. Freedom of opinion is in principle guaranteed, but dissenting journalists remain intimidated by the violent tendencies of the Young Democrats as well as by real threats by government officials. This applies to critical and outspoken academics as well. Together this creates an atmosphere of uncertainty and fear, which is not conducive for democratic participation. This political atmosphere of angst lingering below the public surface is the legacy left by the Banda regime, and has

become a central feature of the political culture of the country – even different from formally more authoritarian countries in Africa.

1.3. Rule of law

The separation of powers between the executive branch and the legislative branch is in place; the executive branch is by far the more powerful. The independence of the parliament was demonstrated when the members of parliament refused to grant the president permission to make a change in the constitution that would allow a third term. Additionally, the president tried to bribe members of parliament to vote for the constitutional amendment. The judiciary operates relatively independently, and does make rulings that are in opposition to the interests of the government; however, its meager resources are overstretched by the workload. The government occasionally ignores High Court rulings (such as the deportation of alleged al-Qaida suspects), and courts are under constant pressure from the legislature. The attacks on journalists or demonstrators at opposition rallies by the Young Democrats are not persecuted.

Despite pressure from donors and the IMF, the government refused to improve the Corrupt Practices Act (2003) and to strengthen the powers and independence of the ineffective Anti-Corruption Bureau (ACB). The government's lax attitude toward corruption has led to a suspension in lending by the IMF. Under the IMF's Poverty Reduction and Growth Facility (PRGF) there is increasing concerns of corruption and fiscal management. Only allowed under the new Mutharika government, the ACB has recently become more effective in its fight against the political corruption under the Mutharika government. (It is too early to say whether this will be a serious attempt to fight the endemic corruption or only a political ploy to consolidate power).

Basic civil rights are still being violated, and because of the deficiencies of the judiciary, it is difficult to get these violations effectively dealt with in court.

1.4. Stability of democratic institutions

Democratic institutions operate according to the constitution. However, tensions occur due to the constant shift in parliament, the boycotts of parliament, a lack of efficiency of the judiciary, and the administration more generally. More than 100 changes in the constitution since 1994 contribute to a state of uncertainty regarding the interpretation of the constitution.

In principle, all relevant political actors accept democracy. There are no anti-democratic veto powers. In practice, however, some of the political actors on the

side of the government do not accept the independent status of the judiciary or the legislature. The unrestrained adherence to democratic principles on the side of the opposition cannot be assured (the indirect call to burn mosques came from leaders of former AFORD, which was in government until the middle of 2004).

1.5. Political and social integration

Until the third-term issue became a problem, a solid three-party system seemed to be in place, and it is largely based on the three administrative regions each with their regional identity. There was no major difference between the three parties. The temporal polarization of the party system, not in terms of ideological distance but in terms of behavioral relations, centered on the transition conflict and clearly lost its relevance in the last couple of years. In 2004, the system broke down into a highly fragmented party system with ten parties in parliament, of which some were alliances of several smaller parties. Affected by the fragmentation were not only the ruling party but opposition parties as well.

The driving force behind this fragmentation was the strong personalization of party politics, the greed for political office, and the promise of private wealth that accompanies a political career. All parties could form a coalition; almost all have in some way or the other formed a coalition or collaborated with another party at least temporarily. Most recently, the political party system was put in turmoil when opposition parties formed a majority placing the president and his party in the position of running a minority government. Most politicians appear unprincipled and opportunistic and this leaves little support or trust in party politics. At the same time, leading members of the ruling party's faction ("Fast Track"), controlled by former president Muluzi, claim that President Mutharika is no longer a member of the UDF. In fact, the new president seems to be looking to create a new party.

According to the Afrobarometer, the majority of citizens (66% in 2002, moderate to high), are in agreement with democratic principles and support democracy; 65% say the current regime is "better" or "much better" than the previous one (it is to be noted that the figure is an average based on a number of responses that include social as well as political issues of which the latter get a much better rating). Sixty-two percent think that they live in a democracy (complete democracy or with minor exceptions), and 57% are satisfied with democracy. Political protests do not call the government or its constitution into question.

The topography of civic organizations is very thin. Trade unions are weak, and the number of other types of civic associations is very small (even compared to other African countries). Amongst these Christian churches and associated organizations are predominant, and more so due to the recent campaign against

the “third term.” Civic associations are concentrated in the few urban centers, where they observe a crucial monitoring function, but their activities depend to a large degree on foreign funding.

2. Market economy

Malawi belongs to the group of Least Developed Countries (LDCs). The country is highly dependent on external development aid. The development level is very low, and markets and competition is restricted; stability of prices and the local currency is insufficient. The output performance of the national economy is erratic, but over the last two years a moderate growth in constant factor costs was achieved. Major fiscal indiscipline of the government expenditure caused the IMF and some donors to suspend the disbursement of funds. Positive developments, however, can be seen in the health and education sector.

2.1. Level of socioeconomic development

Crucial development indicators show an extremely low level of development. Within the HDI Malawi is ranked 165 (2002) among 177 countries. Social exclusions are quantitatively and qualitatively extensive and structurally deep-rooted. The proportion of the population living in absolute poverty (65.3% below the national poverty line) has increased during the last couple of years, and the relative deprivation of women (Malawi ranks 134 of 144 in the GDI) implies that not even a minimum security for the freedom of choice is guaranteed. According to HDI statistics the gap in the distribution of income has increased since the late 1990s. A small improvement took place among the indicators for education and health.

2.2. Organization of the market and competition

Market competition is limited, and it operates under a weak institutional framework. The size of the informal sector is significant, albeit difficult to quantify. Government intervention is high. Government parastatals employ 500,000 people and account for about 20% of the GDP. The fight against monopolies has no priority. The weighted average tariff rate was increased to 12.5% (2001), which suggests a high level of protectionism. The import and export licensing is considered fairly liberal with restrictions largely based on health, safety and national security reasons. The banking system is highly controlled by the government, although the number of foreign banks has increased. The banking system is still in its infancy. An increasingly small presence of foreign banks is allowed. According to the assessment of the Index of

Economic Freedom, Malawi is categorized “mostly unfree”; the score for 2005 (covering the previous year) was lower than that in 2004.

2.3. Currency and price stability

Controlling inflation and an appropriate foreign exchange policy and prices is a recognized goal of government policy under direction of the IMF and the donor community. However, the actual policy is inconsistent, and shows slow progress in reducing the once high inflation rate and a decline of the exchange rate of the Kwacha against the major foreign currencies, such as the dollar and euro. However, fiscal indiscipline is only one factor that has contributed to the weak Kwacha; others are increased oil prices and unbalanced, unfavorable international terms of trade. There are significant problems with the macroeconomic stability. Although there are regular agreements with the IMF regarding budget controls, fiscal indiscipline is frequent due to political interference. Fiscal discipline was loosened before the elections in May 2004, and the IMF has withheld disbursement of funds several times during the last couple of years. The new government has expressed interest in making an effort to comply with IMF rules. Because of the fiscal laxity the debt reduction of the HIPC-initiative cannot come into operation before 2006 (completion point).

2.4. Private property

Law protects property rights. However, due to the weak administration of the courts, and occasionally due to political interference, it is often difficult to enforce the laws.

A privatization program was started in 1994 with the aim to dismantle the high proportion of state ownership in the economy, a legacy of the Banda era. Since the start of the program, 42 parastatals have been privatized, 13 are currently undergoing privatization, and 15 more are planned. The privatization program was interrupted in 2001, due to its negative effect on rent seeking and patronage opportunities. The program was restarted, but progress has been slow and recently it was once again informally interrupted. The new government does not mention it as a policy issue.

2.5. Welfare regime

There is no efficient social safety net to compensate for poverty or any other social risks. Only a small percentage of the population employed in the economic sector enjoy the benefits of a rudimentary social safety net (old age, illness,

disability, and unemployment) set up by the state. The few rudimentary safety mechanisms that were available, which provided the rural population with some subsidized inputs, were dismantled due to privatization and commercialization of parastatals.

The country cannot fight poverty on its own, and is dependent on international aid. There were a number of improvements in public spending on education and health, which started during the Banda era under pressure by the World Bank. The democratically elected government made the reduction of poverty a major goal, yet there was no major impact. A new attempt to combat poverty was initiated with the Poverty Reduction Strategy Paper (PRSP) in 2002. The implementation of the program, however, is regarded as deficient. The government seems to be committed to the program, yet members of the government and high-ranking state officials were involved in a fraud concerning the sale of the strategic maize reserve of the country that capitalized on prosperous maize prices. This scandal resulted in enhancing the dire consequences of a famine that indiscriminately hit the rural poor the hardest. The society is highly segmented; there are no institutions to compensate for gross social differences. Women have only limited access to education or public offices.

2.6. Economic performance

The economy recovered from a sharp decline in 2001 to a moderate growth rate of 4% in 2004 (estimated). That brings the economy back to its previous level but does not suggest any real growth. Income per capita is very low, \$580 (PPP) and is still below the level in 2000 (\$615). The continuation of credit disbursement under PRGF by the IMF might help to improve economic performance, but has not yet been implemented. There is only limited price stability; the current account balance is structurally negative. The economic potential of the country is low, due primarily to the predominance of the agrarian sector, which is highly susceptible to changing weather conditions.

2.7. Sustainability

The ecological awareness is quite low, despite densely populated areas in which the sustainability of the agricultural environment is endangered. The few ecological development projects that do exist are operated and financed by foreign development organizations. The illiteracy rate is still very high, but during the last decades some improvements have been achieved due to 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 very low.

3. Management

3.1. Level of difficulty

There are a number of structural constraints that have made effective governance extremely difficult. These restraints include: a very low level of socioeconomic development; a very low educational level (in comparison to other African countries); a high degree of social inequality; an inefficient state administration prone to political interference (neo-patrimonial structure); weak structures of a market economy and only the skeletal of a modern infrastructure; dependency on agriculture which is highly susceptible to the weather (drought); and a high infection rate of HIV and AIDS. The weakness of civic associations is noteworthy, yet this can be partly explained by the combination of structural constraints and an uninterrupted history of authoritarianism and most ruthless dictatorship (until 1994) that served to inhibit the development of a civil society tradition.

Ethnic, religious and social cleavages are present, and tensions linked to political issues arise occasionally between the two major religious groups, Christians and Muslims.

Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	1
System of government:	<i>Presidential</i>	Latest parliamentary election:	01.05.2004
		Effective number of parties:	5.6
1. Head of State:	<i>Bakili Muluzi</i>	Cabinet duration:	01/03-03/03
2. Head of State:	<i>Bingu wa Mutharika</i>	Cabinet duration:	04/03-05/04
3. Head of State:		Cabinet duration:	05/04-12/04
Type of government:	<i>unified government</i>	Parties in government:	5
		Number of ministries:	20
		Number of ministers:	28

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i . Number of ministries/ ministers denotes the situation on 1 January 2005

3.2. Steering capability

At the beginning of the transformation there was a surprisingly clear and strategic determination in implementing far-reaching reforms whose priorities, since then, in were lost almost completely – at least for the second term of the Muluzi government (until May 2004). To a large degree the government was kept on the

reform track (or what was left of it) by the dependency on foreign aid and the pressure of the international donor community. Since 2000, and even more so during 2003, the government was preoccupied with the third term issue and efforts to get the constitution amended accordingly; some other controversial constitutional amendments were meant to curtail the activities of civic organizations. The unity of the ruling UDF, the government itself, opposition parties, and of society at large was put at risk for the sake of President Muluzi's third term ambitions. Violence between members of various party factions as well as between members of different parties has intensified. As a result, the party system, which seemed to be on a path to consolidation to some degree after two elections, broke down and can now be characterized as highly fragmented.

At the same time the management of the economy was affected adversely as well; fiscal indiscipline of the government increased, most likely in parallel to the increasing necessity of patronage to buy support for the third term and later on to attempt to win the elections. Due to the poor performance of the government, the IMF and the donor community resumed with the disbursement of PRGF funds for only a couple of months. It is important to note that the IMF took the decision to resume the disbursement not so much because of an improved performance, but rather to avert a more serious disaster for the economy of the country.

The government's preoccupation with maintaining power has had costly implications for the country. Because of this mismanagement the Poverty Reduction Strategy could not be implemented, and the qualification for a substantial debts relief was postponed to 2006 or later.

The new government (since June 2004) made significant efforts to return to the original priorities. It promised a better fiscal management and to fight corruption in the administration and government. It was rewarded with the release of PRGF funds by the IMF and renewed disbursement of funds by bilateral donors. The government clearly enhanced the anti-corruption drive at least against members of the previous government. However, this can only be regarded as a promising sign, since it is still unclear whether this change in anti-corruption attitude will have an effect on the current government and administration as well. It could be a political ploy to struggle against the former ruling clique. The new government has to struggle for a new power base recruited from the members of parliament from the opposition parties who will expect to be rewarded for their support. To obtain a new power base usually becomes costly due to the expected patronage and/or the opportunity for enrichment. The question remains whether the new government will learn from the mistakes of its predecessor.

3.3. Resource efficiency

Due to pressure put on the government by the IMF and international donors, government expenditure has been based on the medium term expenditure framework (MTEF) since 1998 and gives each ministry a three-year resource to be spent according to medium-term strategies. Ministers are responsible for the spending and allocation in the intended areas, and all budgets have introduced expenditure controls. This has not, however, had any major effect on fiscal discipline. Expenditure regularly exceeded the agreed target. On the income side, tax collection was hampered by administrative failures. In early 2004, just a few months before the elections, a supplementary budget was announced that was to cover wage and salary increases and various other, non-disclosed “items” – most likely to be used as pre-election inducement of the electorate. Hence the government was not able to reconcile its interest of securing its re-election with the declared aim of macroeconomic stability and poverty reduction. Even its monetary policy got out of hand; while reduction of inflation was a major aim, fiscal laxity increased the money supply by the Reserve Bank of Malawi. The loss of IMF disbursement of credits caused the government to increase domestic borrowing.

The Muluzi government made very little effort to curb corruption; even worse, despite strong pressure from the international donor community it blocked the legislation in parliament, which would have enhanced the capacity of the Anti-Corruption Bureau (ACB). Essentially, the ACB was completely powerless institution because it could not start any prosecution of its own. Its effectiveness is dependent on the Director of Public Prosecution (DPP), who is directly nominated by the president. During Muluzi's term hardly any senior politician was ever prosecuted. Therefore, abuse of office and corruption continued to heighten; the corruption perception index score worsened, down from 4.1 (2000) to 2.9 (2002) and 2.8 (2004).

When Mutharika became president a new DPP was appointed, the new director started with the prosecution of fraud and corruption from the previous government, and several former cabinet members were subsequently arrested. As a result the government frequently failed to coordinate its own conflicting policies and interests.

3.4. Consensus-building

There is a basic consensus to adhere to the principles of democracy and the market economy. However, the consensus appears to be superficial. As soon as private interests and gains are concerned, the consensus becomes questionable. Almost all major political actors, at least on the part of the political parties, tend to

forget about public interests and the principles of political and economic freedom as soon as their own personal interests come into play. This does not suggest a return to an authoritarian regime, but if not challenged and checked by other counter-forces, and above all, by the influence of the international donor community, a return to undemocratic and non-market behavior seems to be a common phenomenon. In this respect, there is no difference between the political and economic elite of the country.

As is observed from the conflict surrounding the third term, the idea remains that the government does its part in escalating conflicts. This can be explained, at least in part, by two facts of the power constellation: first, the military as the only veto power remains neutral and sticks to the constitution, and second, the danger of donor sanctions.

The political leadership of the country is mainly concerned with power and personal enrichment, and 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.

Lip service is paid to the crucial role of the civil society activities, and in fact these activities are viewed with amusement and are not taken seriously. In the case a civic association is consulted, 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. The government frequently ignores civil society actors.

The government recognized the necessity to deal with the victims of the Banda regime, but the reconciliation effort is regarded as a failure. Only 600 out of an estimated eligible 22,500 applications of victims of the Banda dictatorship for compensation have been finalized, and 7,000 have received an advance payment (as of 2003); the available funds will not be sufficient to compensate all, and by 2004 the national compensation tribunal will discontinue its function.

3.5. International cooperation

The government works closely with bi- and multilateral donors to support of democratic institutions and a free market economy. It tries to make use of international development assistance, but if in conflict with the prescribed policies, the government leadership is known to have taken an occasional suspension of aid into account. However, because of the dependency on international assistance (per capita ODA in 2002 \$35), the government has little alternative other than to comply with international donor pressure. The international donor community was very skeptical of the Muluzi government, and

as a result the Muluzi government was no longer regarded as a reliable partner. The Mutharika government is trying to regain the trust and reliability the government of Malawi had received during the first years after the transformation.

Regarding international collaboration, the government has tried to rebuild international relations after the period of isolation during the Banda era. Muluzi acted as a co-mediator in several conflicts on the continent (Sudan, Zimbabwe), and the country deployed a small consignment of soldiers to the Republic of Congo as part of the African Union peacekeeping initiative. Muluzi also drew Malawi closer to the Islamic states.

4. Trend of development

4.1. Democratic development

The period under observation should be divided into Muluzi and Mutharika eras.

Under the period under review, political participation and the rule of law did not change significantly. Stateness remained consistently unstable over the evaluation period, while the overall development for political participation and the rule of law show a significant decline during Muluzi's presidency. On the one hand, the third term issue generated a mobilization of civil society activities, and at the same time caused an increase in violence and repression on the side of the government. Participation in elections declined dramatically, from an unusual high turnout. This could be viewed as an indication of the frustration around how democracy is being exercised, but it could also be a sign of "normalization" (it should be pointed out that the high level of participation in the 1999 elections was unusual compared to any democratic government).

Directly related to the third term issue is the fragmentation of the party system experienced in the aftermath of the debate, and can be understood as a far-reaching effect of de-institutionalization, which is not conducive to further democratic development. It has a significant effect on the presidency, as the central ruling institution, because the officeholder was not in a position to command a majority of his own party in parliament. Moreover, he was about to form his own new party based on the fragments of the ruling party and some opposition parties.

This indicates a significant loss in headway of the process of democratic consolidation, especially regarding stability. Yet, the social integration does not seem to be influenced by the disintegration of the party system.

4.2. Market economy development

The country's overall socioeconomic development declined over the last couple of years as indicated by the HDI (1995: 0.408; 2000: 0.395; 2002: 0.3888). Although the GDP experienced a moderate growth during the last two years, this was coupled only with a very small increase of the GDP per capita. The figure for 2002 was still below the figure for 2000.

The institutional framework for the economy has not changed in a significant way during the period under review. Due to the conflict with the IMF around the fiscal performance of the government until the middle of 2004, the policy framework was not conducive for increasing investments, and in 2004, inflation picked up again, due to high food prices. However, measures taken by the new government seem to be improving the general conditions; money supply has been reduced during the second half of 2004, and tax collection has improved as well.

Overall there was only a moderate growth of 1.2% between 1999 and 2003. Because of a higher population growth of about 2%, the per capita income has been declining over this period. As indicated by the highly variable growth rates, which were even shakier during the decade before, the development is still marked by a high degree of macroeconomic instability.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004*
Growth of GDP in %	0.2	-4.0	1.8	4.4	4.0
Export growth in %	-10.1	6.1	-1.3	8.2	4.0
Import growth in %	-19.6	2.2	21.3	-11.8	6.0
Inflation in % (CPI)	25.1	20.4	13.9	9.1	11.5
Investment in % of GDP					
Tax Revenue in % of GDP					
Unemployment in %					
Budget deficit in % of GDP					
Current account balance in million \$	-73.4	-59.9	-200.7	-62.5	-84.0
* EIU estimates					

Source: Economist Intelligence Unit, *Country Profile Malawi*, 2005; *Country Report Malawi*, Jan. 2005; Jan. 2004; own calculations for ex- and import

D. Strategic perspective

Reform-minded political forces have lost influence in Malawi. Because the party system has fallen apart and is highly fragmented, a new reform drive cannot be expected to come from political parties. Their leaders are mainly concerned with power struggles in order to gain a cabinet post and access to personal wealth and patronage. None of the political parties has a clear vision about the future. Civil society is structurally too weak to substitute for political parties' deficiencies.

As of this writing, the country is in an unprecedented and very difficult situation. The elected president has no party in or outside parliament to rely on; there is only a faction of the former ruling party, the UDF. Very likely he is going to form his own party out of the shambles of the UDF and some smaller opposition parties. Whether he will achieve a majority or form a coalition has yet to be seen. According to previous experience, building a new party and forming a government based on a parliamentary coalition will, most likely, become expensive. The major actors to be included in the new political party or party coalition need to be rewarded which means that they expect the opportunity to enrich themselves and get access to patronage in order to bolster their power base.

This, of course, will be hard to reconcile with Mutharika's declared policy to fight corruption. Perhaps it might be possible to strike a balance between the two contradicting interests, to build and strengthen his own power base and to comply with the necessity, strongly demanded by donors, of an active anti-corruption policy. International support hinges on good governance performance. From this point of view the future prospect seems to be gloomy rather than sunny. Most likely, the regime will continue with its hybrid character, observing some formal democratic rules but violating others from time to time without changing the whole system in a democratic or authoritarian direction.

Finally the whole situation concerning a politically weak president and no clear-cut majority in parliament might suggest a situation for a coup d'état. However, the strong formal position of the presidency, as well as the neutral stand of the military and more importantly the international context which is not in favor of authoritarian rule, will most likely block any violent military takeover.

The prospects for socioeconomic development are even worse. The World Bank estimates a growth rate of 6% is necessary in order to reduce the level of poverty. It is hardly to be expected that such a growth rate can be achieved under the current economic conditions of the country, especially since agriculture is highly volatile and dependent on weather conditions year to year. In the past, much higher growth rates were achieved, but due to the weather conditions this could not be sustained for a longer period, which would have been necessary to overcome the prevailing level of poverty.

As in the past it is international political, as well as financial, pressure that has, most likely, prevented the government from turning even more authoritarian. No doubt this pressure has to be continued. The international promotion of reform concerns both the political and the economic agenda. Most importantly, the basics need to be supported: a public sphere without repression, a more active civil society, government accountability, and efficient and effective governance and administration. Altogether this is a precondition for a more effective fight against increasing poverty. This implies that the task is still the same, but more attention should be given to political issues.