This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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Key Indicators

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<th>Indicator</th>
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<td>Pop. growth</td>
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<td>Poverty</td>
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Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes:
(1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $2 a day.

Executive Summary

The state of democratic governance in Malawi, which was already a source of concern towards the end of Mutharika’s first term (2004 – 2009), deteriorated as he embarked on his second and final term. With the emergence of a dominant governing party that revolved around a powerful president after the May 2009 general elections, parliament could not effectively exercise checks and balances over the executive. A number of pieces of legislation were passed with very little scrutiny. Some of this legislation had the potential to negatively impact democratic governance. Relations with international donors soured not just because of poor governance but also the Mutharika administration’s failure to heed advice on critical economic policy decisions, seen in his refusal to devalue the local currency after it had lost real market value. The IMF declared in 2011 that its program with Malawi was off track and could not continue. This, along with concerns over democratic governance, has caused the majority of international donors to withhold budgetary support, resulting in acute foreign exchange shortages and scarcity of fuel and other essential commodities. Consequently, the gains under Mutharika’s first term (2004 – 2009), made by pursuing market-oriented macroeconomic management and improved socioeconomic conditions, were compromised once the country was faced with these huge economic challenges.

The economy remains fragile, reeling from the continued depreciation of the local currency, rising bank interest rates and high inflation, which had reached around 35% by December 2012. These factors triggered fluctuations in the prices of fuel and other basic goods and services.

The country descended into desperation and panic which culminated in nationwide public demonstrations organized by civil society groups on 20 July 2011, who presented a 20-point ultimatum to then President Mutharika. The drastic loss of public trust and confidence in President Mutharika and his government were evident in the jubilation and relief on social media following Mutharika’s sudden death on 5 April 2012. Since the installation of President Joyce Banda, a number of concerns relating to democratic governance have been resolved. The Banda administration started implementing tough but critical macroeconomic and structural reforms.
aimed at turning the economy round, including devaluation of the local currency by close to 50 percent and subsequently floating it entirely. The donor-dependent economy however remains fragile, reeling from continued depreciation of the local currency, rising bank interest rates and the high inflation, which was around 35% by December 2012. These factors are triggering fluctuations in the prices of fuel and other basic goods and services. It is unlikely that this trend will ease before mid-2013, which will undermine the visible gains from the new government’s economic reforms. With the elections for president, parliament, and local government set for 2014, the next few months are decisive as Joyce Banda will have to strike a delicate balance: sticking to painful economic reforms while also keeping an eye on her candidacy in the presidential election.

History and Characteristics of Transformation

On 14 June 1993, Malawians voted for the reintroduction of multiparty democracy in a historic referendum which marked the end of over thirty years of one-party dictatorship under Dr. Hastings Kamuzu Banda’s Malawi Congress Party (MCP). The general election held in 1994 saw Bakili Muluzi of the opposition United Democratic Front (UDF) win the presidential elections and form a minority government.

However, none of the three regionally-based parties which gained seats in parliament – MCP, UDF, and Alliance for Democracy (AFORD) – achieved a majority. Muluzi won a second term in 1999 by a small margin against a candidate fielded jointly by the Mgwirizano Coalition – an electoral alliance of MCP and AFORD. The parliamentary election results consolidated the three-party system, but the president’s party failed to win an absolute majority.

Since 2000 there have been many challenges to constitutional governance and democracy with the government making controversial amendments to the constitution, including a repeal of sections which provided for the Senate and the constitutional recall of MPs. In a roll-call vote which passed by just three votes, parliament blocked a constitutional amendment which effectively stopped President Muluzi from running for a third term. The controversy around Muluzi’s “open” and (later termed “third term”) bid for the presidency, as well as the controversial elections held subsequently in May 2004, proved to be a divisive factor both within the UDF and at the national level. It left a highly fragmented party system with nine parties in parliament, a contingent of 39 independent MPs 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. This caused frustration and dejection in the party rank and file, and many senior UDF officials leaving 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 their respective leanings on the third term issue. As a result, the party system became highly fragmented.
The presidential votes were divided between the five contenders, with Mutharika winning with just 35.2% of votes cast.

Mutharika launched a “zero tolerance for corruption” campaign which brought him into direct confrontation with his own electoral party, the UDF in general, and his predecessor, Muluzi, in particular. In February 2005, Mutharika resigned from the UDF and subsequently formed a new party, the Democratic Progressive Party (DPP). A significant number of politicians from the UDF, hitherto a ruling party, joined the DPP thereby relegating the UDF to the status of an opposition party without losing an election; the DPP conversely assumed the status of a ruling party without an election victory. However, Cassim Chilumpha, Mutharika’s vice president, refused to cross over to the DPP and remained a member of the UDF. The two were unable to work harmoniously together and Chilumpha was a non-functioning vice president for the rest of the legislative period. He faced various criminal charges, including treason, which were thought to be politically motivated. The tensions between Mutharika’s DPP and the UDF spilled over to the MCP and other opposition parties in Parliament who sought to invoke the constitution’s anti-floor-crossing clause, Section 65, as the DPP was surviving on the support of former opposition MPs, and threatened Mutharika with impeachment. Despite grave tensions during the 2005 – 2009 period, three factors helped Mutharika’s administration survive: increased public trust in the administration following a significant improvement in the socioeconomic conditions, especially food security; continued donor support following good macroeconomic management, and the judiciary’s veto power which, despite ruling on the constitutionality and validity of Section 65, maintained an injunction requiring the Speaker of Parliament to implement it as petitioned by the opposition UDF and MCP.

By the time Malawi held its fourth general elections in May 2009, the DPP had gained a substantial political foothold. The election itself was judged as free but not fair especially with regard to abuse of the incumbency. Mutharika won the presidency with 66.1% of valid votes cast. The parliamentary results showed that for the first time, regional politics had nearly disappeared as the DPP won 112 out of 193 seats spread across the entire country. The former ruling party, the UDF, ended up with just 17 seats, concentrated mainly in the districts of Mangochi and Machinga in the south. MCP still maintained its presence, especially in the center, but only with 28 seats, while AFORD was on the verge of extinction with just one single seat. Independent MPs, largely a product of unresolved internal party conflicts, continued to be a dominant element with 32 seats in parliament. A majority of these independent MPs would later cross over to the DPP, giving the governing party an absolute majority.

With President Mutharika in his final term, the DPP was soon engulfed in succession wrangles. President Mutharika’s decision to groom his brother, Peter, for the 2014 presidency led to a split within DPP resulting in the removal of the vice president Joyce Banda and other key personalities from the party in December 2010. The office of vice president was effectively non-existent. Joyce Banda later formed her own People’s Party (PP) with a few sympathizers, some of whom were DPP legislators. The opposition parties were also subject to splits and succession struggles, further fragmenting and weakening the party system. Mutharika’s second term was characterized by four key problems. First was a powerful executive trying to restrict political and civil rights and undermine the institutions and agents of democratic accountability. Second was the further
weakening of civil society organizations which had previously acted as an opposition in restraining executive authority. Third was the lack of opportunities for citizens to effectively engage with the government in order to acquire services and hold duty bearers accountable. The final problem was the souring of relations between the Mutharika administration and international donors led to the suspension of financial support.

In April 2012, President Mutharika died without warning. This unprecedented development brought a marked change in Malawi’s political and economic trajectory. Joyce Banda, an outsider since her dismissal by the DPP for refusing to endorse Peter Mutharika as a successor to Bingu wa Mutharika, assumed the presidency as mandated by the Malawi Constitution. Some DPP leaders attempted to block her succession but failed. President Banda’s first “inclusive” cabinet was largely dominated by members of Mutharika’s old cabinet. She also included all major opposition parties in her cabinet. This move resulted in overwhelming support in parliament from the opposition. Her PP did not have an MP elected under the party’s ticket, but they were either fired from DPP or chose to support her when she became president. In parliament, Joyce Banda’s move sparked debate on crossing the floor, mainly from the aggrieved DPP, generating a great deal of instability within the legislature and further weakening the party system as the DPP petitioned the speaker to invoke Section 65 against all its MPs, who were now supporting government business in parliament. The next elections due in May 2014 will, for the first time, be tripartite (presidential, parliamentary and local government elections held jointly).
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

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. The borders are porous as they are in most African states.

The overwhelming majority of the population accepts the nation-state as legitimate. All individuals and groups enjoy the right to acquire citizenship without discrimination, although dual citizenship is not allowed. Members of the Malawian diaspora are faced with tough choices, forced to decide on future of their citizenship status if they happen to qualify for naturalization in another country.

The state is largely defined as secular although religious institutions, particularly the Christian churches, remain influential as interest groups in influencing politics and policy. This is partly to do with the role the church played in political transition and national policy debates. It also reflects the predominantly religious nature of Malawian society.

The state’s basic infrastructure extends across the entire country. However, there are major deficiencies in its effectiveness. This is partly due to an absence of effective local governance structures. Local government elections have not been held since 2005, resulting in situations where local councils operate without elected officials. The public bureaucracy is also affected by political intervention, especially the neopatrimonial pattern of bureaucracy and lack of adequate personnel. Public order and security are, however, generally ensured as the state has increased its police service in terms of both personnel and resources, with the introduction of rapid response services.

Access to public goods such as sanitation and water source is moderate: 53% of Malawians have access to sanitation and 83% to water sources.
2 | Political Participation

Competitive general elections are held regularly and are accepted in principle as the means of filling and renewing leadership mandates. The fourth general elections since the transition were held in May 2009. Elections are open but their fairness has been questioned, with the governing party’s use of public media giving it an unfair advantage. Although the Malawi Electoral Commission is independent by law, there have been occasions when the executive has interfered, undermining the commission’s credibility. President Mutharika’s unilateral decision to close the offices of MEC in November 2010 and the futile attempt by President Joyce Banda to nominate her vice President as a minister to oversee the electoral management body are some of the cases in point.

Democratically elected political representatives have effective power to govern. No individual or group holds de facto veto power. The fact that the former governing party DPP didn’t challenge the constitutionally mandated succession of Joyce Banda following the death of President Mutharika also points to an absence of unconstitutional veto players. Malawi continues, however, to rely on donors. This has, at times, limited the extent to which an elected president might deviate from donor prescriptions and expectations. This donor dependence has the potential to significantly influence policy choices for Malawi in exchange for continued development and financial support.

Association and assembly rights are unrestricted for individuals and independent political or civic groups within the basic democratic order. There are procedures for groups organizing demonstrations. Those who feel that the authorities are stifling their right to assemble or demonstrate are able to challenge them in court, where they often have their rights upheld.

There are some limits on freedom of expression, but generally no outright prohibition of the press. The state-controlled radio and television, the Malawi Broadcasting Corporation (MBC), is biased towards the government and the ruling party, but its dominance has been threatened by the emergence of private radio stations, some of which, like the Zodiak Broadcasting Station, have country-wide coverage and a reputation for independent, balanced news coverage. There is a variety of independent newspapers but these are only available in urban areas and their readership is relatively low, mainly due to the high levels of illiteracy. Following the death of President Mutharika, legislation contrary to constitutional provisions guaranteeing freedom of the press and opinion were repealed. The Access to Information Act is yet to be passed. Under the Muluzi and Mutharika administrations, government and parastatal agencies tended not to advertise in newspapers deemed
critical of the government (Daily Times and Nation Newspapers, for example) – an attempt to financially strangle and suppress critical media.

3 | Rule of Law

The separation of powers generally functions well. Partial or temporary restrictions of checks and balances occur periodically. The executive, for instance, wields more powers than the other branches and parliament can only meet with the consent of the president. However, the opposition-dominated and assertive parliament keeps such powers in check.

The judiciary is substantially independent, even though its decisions are occasionally subordinated to political concerns. The executive only complies selectively with court orders, ignoring and sometimes even ridiculing inconvenient decisions. One example is when the Supreme Court upheld the constitutionality of the floor crossing clause (Section 65), President Mutharika ignored the decision since his 2004–2009 minority government survived on pro-government MPs from opposition parties.

Office holders who break the law and engage in corruption are generally prosecuted under established laws and often attract adverse publicity, but occasionally slip through political, legal or procedural loopholes. The political ramifications are particularly evident in cases of allegedly corrupt politicians who only face prosecution once they fall out of favor with the authorities. For instance, it was not until after Patricia Kaliati, former Minister of Information and Tourism, had left government that she was finally questioned by the Anti-Corruption Bureau about an alleged case of corruption during her time in office. Even then, the case was not successfully completed. In a country where power can change hands rapidly, cases against politicians are not always followed through to their logical conclusion. It is almost established practice for leaders who assume power to effect changes in the leadership of key institutions, including the Anti-Corruption Bureau. This negatively affects efficiency in prosecution of office abuse.

Basic civil rights are generally guaranteed. Nonetheless there have been incidents of police officers using excessive, when it happens, is met by public outrage and judicial inquiries. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are in place. However due to deficiencies in the judiciary coupled with limited public awareness of civil rights, particularly in rural areas, redress is effectively limited. There are civil society organizations which play an important role in public awareness of civil rights but they remain weak and under-resourced.
4 | Stability of Democratic Institutions

Nearly all influential political actors accept the country’s democratic institutions and regard them as legitimate. However the performance of these institutions is hampered by friction between and among them. Until April 2012, parliament was dominated by the then governing DPP with an over two-thirds majority. The (minority) government had barely survived the previous legislative period (2004 – 2009) and after May 2009 the DPP settled old scores, putting its people in charge of every parliamentary committee. Joyce Banda had been fired by the party and formed her own People’s Party (PP), but with the sudden death of President Mutharika she assumed the presidency, pushing the DPP into opposition. With minority representation in parliament, Joyce Banda formed a cabinet with members drawn from across the political divide; thereby resuscitating the debate regarding floor crossing. The relationship between the executive and the present opposition-dominated parliament can best be described as tense and unstable. On the other hand, the judiciary has continued to perform its functions independently and without interference. In the absence of elected local government councilors, the local government structure is largely considered to be an extension of the central government.

Most democratic institutions are accepted as legitimate by most relevant actors. Following the death of President Mutharika in April 2012, the vice president stepped in as the constitution mandated, although some in the DPP considered her an outsider because she had been fired from the party. There was even a suggestion that the army should assume power but the military’s refusal to get involved meant the transition took place peacefully. The Joyce Banda administration has also addressed the democratic reversals of the DPP administration. It has committed to holding local government elections in 2014, alongside the general elections.

5 | Political and Social Integration

The party system remains fragmented and unstable with shallow roots in society. The major cause of this fragmentation is the strong personalization of party politics, greed for political office and the promise of private wealth that accompanies a political career.

In April 2012, the governing DPP was thrown into turmoil when President Mutharika died and his vice president assumed power. The majority of senior DPP members crossed over to Joyce Banda’s PP, although previously they had acknowledged neither Banda nor her party. Almost all parties face succession challenges. John Tembo’s leadership of the MCP is contested by an internal faction which would like to overthrow him. With former President Muluzi’s retirement from active politics, the UDF decided on his son, Atupele Muluzi, as the torch bearer for the 2014
elections. Senior UDF members took this decision poorly, seeing it as an attempt by Muluzi to maintain power over UDF from behind the scenes. As the elections draw closer, the question of President Joyce Banda’s running mate will be contentious and potentially divisive for the PP.

Overall, there are 40 registered political parties in Malawi. Only five of these are represented in parliament, including AFORD, with two MPs and MAFUNDE with just one. Almost every party has entered some kind of coalition or collaborated with another party, at least for elections or on specific issues. Very few parties have a clearly identifiable ideological orientation.

Malawi has a relatively small but vibrant and growing civil society that is involved in the country’s socioeconomic, human rights and democracy sectors. During the period of political transition in the early 1990s, civil society institutions played a crucial role as the mouthpiece of the people and as process drivers for change. Whenever the democratization process has faced serious challenges with potential for democratic reversal, civil society has been active and instrumental in averting disaster. This was the case during the transition period following the death of President Mutharika when civil society, particularly the Malawi Law Society and the Human Rights Consultative Committee (HRCC) joined forces to ensure that the transition took place within the constitutional framework. While the end of dictatorship in Malawi created more space for citizens to associate freely in different civil society organizations (CSOs), these groups still face serious challenges related to capacity, funding, legitimacy and effectiveness. Most advocacy organizations are based in urban areas, with weak links to rural communities which comprise the bulk of the poor that civil society organizations claim to represent. Most political leaders still perceive pro-democracy CSOs as a threat to their power. Almost all CSOs are donor-dependent and lack organizational skills, leaving them vulnerable to donor influence and manipulation. Organizations tend to switch or ‘diversify’ from one focus area to another, starting as governance NGO, for example, and ending up as an HIV/AIDS and orphan care institution.

NGOs whose legitimacy has been recognized by the government include the HRCC, Malawi Economic Justice Network (MEJN), the Civil Society Coalition on Quality Education (CSCQE), the Civil Society Agriculture Network (CISANET), Gender Network, the Church and Society Programme of the Church of Central Africa Presbyterian (CCAP) and the Catholic Commission for Peace and Justice (CCJP). However there are fewer think tanks in Malawi than general civic and voter education groups. The few that exist are relatively new and small, such as the Institute for Policy Interaction (IPI) and the Institute for Policy Research and Dialogue (IPRAD), both based in Blantyre, established in 2001 and 2002 respectively. The Centre for Social Concern (CSC), in Lilongwe, also acts as a think tank sometimes. The country also
lacks public interest organizations with the capacity to link government with the public.

The population’s approval of democracy and democratic norms is relatively high. The 2012 Afrobarometer survey established that 76% of the population prefers democracy to any other form of government (up from 74% in 2008) while a plurality of political parties is favored by 74% of the population (up from 68% of the population in 2008). As much as 86% of the population rejects any military takeover while 55% of the population prefers elections as the best means of choosing leaders (down from 78% in 2008). As of 2012, however, overall satisfaction with democracy was 53%, compared to 68% in 2008. Political protests do not generally call the constitutional framework into question.

There are very few civic organizations in Malawi, even compared to other African countries. Civic associations are concentrated in the few urban centers, where they serve a crucial monitoring function, though their activities depend to a large degree on foreign funding. Due to organizational weaknesses, social self-help organizations are unable to create significant social capital. However, the construction of society and social support system seen in traditional events such as weddings, commemorations and funerals is well stratified through interpersonal links, mutual interdependence and enduring extended family ties.

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality in Malawi remain pronounced although there have been slight improvements in the recent past. Malawi’s HDI improved from 0.336 in 2005 to 0.376 in 2009. The 2011 HDI shows that Malawi moved to 0.400 from 0.385. The rank of Malawi’s HDI for 2013 is 170th out of 187 countries.

While the country is making progress in reducing poverty levels, Malawi’s Gini coefficient of 39.0 indicates that the challenge of reducing income inequality remains.

Life expectancy at birth in Malawi has improved from 48 years in 2007 to 53 in 2010. This is largely due to the availability of drugs for combatting HIV/AIDS (anti-retrovirals, or ARVs) coupled with an overall decrease in poverty. The 2013 HDR indicators that life expectancy at birth has moved up to 54.8 years. Literacy rate is at 74.8%. Infant mortality rate has reduced significantly from 79 per 1000 live births in 2006 to 69 in 2008. As of 2010, the infant mortality rate had dropped further to 58 per 1000 live births. There has also been a dramatic improvement in maternal deaths,
from 807 per 100,000 live births in 2006 to 460 in 2010. Malawi is still predominantly rural, with 80% of the population living in areas where the majority depends on rain-fed subsistence farming. In the past five years, however, the administration has intensified irrigation farming.

### Economic Indicators

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<td>-</td>
<td>0.8</td>
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</table>

7 | Organization of the Market and Competition

Market competition remains limited and operates within a weak institutional framework. The informal sector is sizeable, although difficult to quantify. Government intervention is relatively high; government spending accounts for some 40% of total GDP and the public sector is the largest employer. State intervention can be observed particularly in the agricultural sector where the state-owned Agriculture Development and Marketing Corporation (ADMARC) remains a dominant player. In recent years the government has also established minimum and maximum prices for strategic agricultural products such as maize, cotton and tobacco. Targeted agricultural input subsidies remain in force.

Although relevant public institutions are in place, they suffer from widespread corruption, inconsistent enforcement and insufficient oversight, while the slow and costly business registration process poses a barrier to entry. Malawi ranks 157th of the 185 countries on the World Bank’s 2013 Doing Business Report. There is considerable state intervention in those sectors the government regards as strategically important. For instance, the energy and water sectors are dominated by government owned parastatals (the Electricity Supply Commission and various water boards). The Agriculture Development and Marketing Corporation remains a dominant player in the agricultural sector. The Mutharika administration also set minimum prices for agricultural products although they were not widely observed. Transformation of the informal sector, diversification of the agrarian-based economy and expansion of the mining sector are the tasks facing Malawi’s in its quest for economic transformation.

While there are competition laws to prevent monopolistic structures and conduct, they are enforced inconsistently. 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 of lowering barriers to entry, reducing restrictive business practices and protecting the consumer. The law forbids anti-competitive business behavior (price fixing, collusive tendering or customer allocation, and tied sales) aimed at eliminating or reducing competition, unfair business practices, taking unfair advantage of consumers, market structures that permit abuse by dominant enterprises. The Malawi Competition and Fair Trade Commission, which is responsible for implementing this competition law, has been operational since 2005. The government has also appointed a Director of Public Procurement under the Public Procurement Act, which promotes transparency and competitiveness in the procurement of goods and services in the public sector. These efforts notwithstanding, competition oversight in the country remains weak, partly because of the anti-competition agency’s lack of capacity. There is also inadequate public awareness of the anti-competition law, including the mandate and operations of the Anti-Competition Commission.
The Malawi economy was liberalized in the wake of the Structural Adjustment Programs (SAPs) of the early 1980s. Another milestone was the liberalization of the exchange rate in May 1999. This high degree of liberalization has been maintained. According to the 2010 Malawi Trade Policy Review submitted to the WTO, Malawi’s trade policy is directed towards maintenance of an open economy, with relatively low tariffs (averaging 13.5%) and a general absence of non-tariff barriers. Import and export licensing is considered fairly liberal, with restrictions largely based on health, safety and national security reasons. The government maintains a coherent legal and regulatory framework, recently reviewing its trade laws, especially those pertaining to services, to ensure their compatibility with WTO guidelines. However these reforms have made little impact on the Malawian economy.

There have been significant developments in Malawi’s banking sector in recent years. By the end of 2008 there were eleven commercial banks, one having closed in 2005. There are four banks listed on the Malawi Stock Exchange. Overall, the financial performance of commercial banks has been satisfactory, with all banks adequately capitalized and liquid. However the two largest banks (National Bank of Malawi and Standard Bank of Malawi) dominate; their combined assets comprise 62% of the sector while their combined deposits represent 56% of the sector’s total deposits. Over the years, privatization and public offerings have significantly reduced direct government control and ownership in the financial system. The government still has 100% ownership in one bank, the Malawi Savings Bank. The Banking Act of 1989 increased the number of banking institutions in the country. The act mandates the Reserve Bank of Malawi (RBM) to supervise banks and financial institutions in what the RBM calls “a robust and offsite and onsite supervisory process.” This mandate is set by the Ministry of Finance, to ensure a safe, sound and stable financial system in Malawi. The banking sector has responded to technological advancement with the introduction of internet banking and internationally recognized VISA debit cards, while the New Building Society became the first bank to issue credit cards. Foreign investment in the banking sector is encouraged under the strict supervision of the RBM, which itself has been undergoing reforms to ensure its independence and capacity equal to its regulatory and supervisory role. Despite these improvements, many in rural areas have little access to financial service, while some consumers complain of exorbitant bank charges across all customer services.

Moreover, interest rates doubled to more than 35% in 2012, making the cost of bank-financed investment too high for a small economy like Malawi. Until the death of President Mutharika in April 2012, the autonomy and authority of the RMB were highly compromised by Mutharika’s unfettered control of the currency exchange rate, which he maintained in defiance of donors and experts who advised deregulation of the exchange rate. Since April 2012, President Joyce Banda’s administration introduced policy reversals as remedial measures (including an automatic fuel pricing
regime and depreciation of the local currency by around 49%) which caused spiraling inflation, with unprecedented price increases for goods and services.

8 | Currency and Price Stability

While Malawi officially aims to control inflation and implement sound foreign exchange policies, it has not been consistent in pursuing these goals. The Malawi Kwacha remained artificially stable at MWK150.8:$1 from February 2010 to April 2012 due to the reinstatement of an implicit currency peg, as confirmed by the return of foreign-exchange shortages. The IMF’s Extended Credit Facility (ECF) with Malawi was declared off-track on account because of the Malawian government’s failure to devalue and float the local currency, among other reasons.

In August 2011, the Malawi Kwacha was devalued by 10%, with a further 50% devaluation in April 2012. Since then, the government has adopted a free-floating exchange rate regime. Until mid-2012 the inflation rate was in the single digits, but according to the National Statistics Office of Malawi it soared to around 25% in September 2012, largely due to devaluation.

For a few years (specifically 2004 to 2009), the government’s fiscal and debt policies generally promoted macroeconomic stability. Malawi took significant steps to reduce macroeconomic imbalances, broaden market-oriented reforms and improve outcomes in the social sector. Total reserves jumped from $866 million in 2007 to $971 million in 2009. The government also acted to contain both public and external debt and debt servicing which dropped from 1.0% of total external debt in 2007 to 0.8% in 2008. At the time the IMF judged Malawi’s fiscal and debt policies to be satisfactory, noting “Malawi’s seven-year (2002 – 2009) period of uninterrupted growth – even amid a global recession – reflecting, according to the IMF, the benefits of generally sound macroeconomic policies and of debt relief from the Heavily Indebted Poor Countries (HIPC) initiative”. Mutharika’s insistence on a fixed exchange rate regime led not just to an over-valued local currency and shortage of foreign currency, but the emergence of a parallel forex market as well. In June 2011. The IMF declared Malawi’s Extended Credit Facility off track. This, along with concerns about governance under President Mutharika, led a number of donors to withhold financial support. By November 2012, foreign exchange reserves had reached $340 million, or 1.81 months of import cover according to the Reserve Bank of Malawi.

According to Malawi’s Ministry of Finance 2011/2012 Review of Public Debt, devaluation has impacted the nominal value of domestic debt in relation to external debt. It has increased the value of external debt in Malawi Kwacha terms and reduced the value of domestic debt in dollar terms, with domestic debt declining sharply from $1,106.7 million to $78 million. However gross domestic debt stock in Malawi...
Kwacha increased by 27% from MK 165.9 billion in June 2011 to MK 222.97 billion by the end of 2012.

9 | Private Property

Property rights and regulations on acquisition, benefits, use and sale are well defined, although there are occasional problems with implementation and enforcement. These problems largely arise from weak institutional capacities and corruption.

Decision makers recognize the private sector as the backbone of the economy and there is a policy and legal framework for a functional private sector. Privatization of state-owned companies is ongoing, with Air Malawi being sold off recently. The role of the private sector is likely to increase, with the majority of state-owned companies tagged for privatization. But the public sector remains a strong player in Malawi’s economy. There are numerous administrative hurdles for anyone establishing a business: according to the World Bank it takes on average 39 days and ten procedures.

10 | Welfare Regime

There is no efficient social safety net to compensate for poverty or any other social risks. With the average Malawian life expectancy of 54 years is some way below the African average of 67 years. Only the tiny percentage of the population employed in the economic sector enjoys the benefits of a rudimentary social safety net set up by the state, which offers old age, illness, disability, and unemployment protection. The government has maintained its program of subsidizing agricultural inputs such as fertilizer and seeds but this system is inadequate, targeted only at the very poor. Similarly insufficient safety nets include a public works program, social cash transfers and micro-credit schemes, which are being piloted in some districts. The public works program pays communities for participation in local development initiatives as one way of addressing their financial needs. The number of districts benefiting from the government’s social cash transfer scheme, implemented with funding from development partners, has also increased.

There is no mandatory public health insurance or market-based initiatives for the specific health and social welfare needs of Malawi’s poorest citizens. A mandatory pension scheme was introduced in 2011 but it has faced challenges, particularly misunderstanding between employees and employers about how pension schemes are run and paid out. In any case the mandatory pension scheme will only benefit the small proportion of the population in pensionable employment – about 10%. The state provides free or highly subsidized health services and it has intensified its focus on maternal health. There is a ministry for issues related to the elderly and people with disabilities and in 2011, parliament passed legislation to promote social integration.
of the disabled. Families and communities continue to serve as social capital as an alternative to state-sponsored social security but the HIV/AIDS pandemic has taken a toll on the productive segment of the population, weakening this informal social capital. Although the government remains committed to the fight against poverty, it is heavily dependent on international aid to achieve this.

Equal opportunity is enshrined in the Malawian constitution. Malawi has adopted international conventions to promote gender equality and women’s participation in society. Malawi’s legislation in this area includes the 2006 Prevention of Domestic Violence Law, the 2010 Child Justice and Protection Act and the 2011 Deceased Estates (Wills, Inheritance and Protection) Act. In 2012, the Malawian parliament passed the Gender Equality Act to protect the rights of women and the Disability Act to ensure inclusion of people with disabilities. Although the Malawian constitution and legal framework support equality of opportunity, implementation remains a challenge.

Participation of women in politics, as measured by the number of elected female parliamentarians, has increased but only marginally. In 1994, only 5.6% of parliamentarians were women. This rate increased to 9.3% in the 1999 general elections and 14% in 2004. The 50-50 campaign advocating greater female participation in the May 2009 election helped bring the number of women in parliament to 22.28%.

11 | Economic Performance

Economic performance was poor during the period under review. The country faced a severe shortage of foreign exchange, which translated into shortages of critical imports including fuel, inputs for production, and medicines. Several businesses lost credit lines after delays in making payments abroad, forcing them to scale down operations and lay off workers. Malawi’s long-standing foreign exchange problems intensified in 2011 due to lower tobacco export earnings and cuts in external aid. Several donors reduced their financial support when Malawi’s IMF-supported program went off track in the first half of 2011, adding to human rights and governance concerns. The economic growth rate, as measured by the GDP, slowed down from 9.0% in 2009 to 4.3% as of 2011. At $900, the GDP per capita based on PPP remained at the same level as 2009 and 2010. Inflation soared into the double digits, reaching 25.5% by the end of 2012. There was also little improvement in GDP from $5.4 billion in 2010 to $5.6 billion in 2011. The overall percentage of public debt to GDP increased from 35.1% in 2010 to 40.5% in 2011.

Malawi is still vulnerable to external shocks, particularly fluctuations in oil prices and changes in weather patterns. Although the fuel supply has stabilized in the last ten months, the introduction of automatic fuel pricing has caused fuel prices to
increase on an almost monthly basis. The Joyce Banda administration has introduced an Economic Recovery Program (ERP) but its effects remain to be seen.

12 | Sustainability

Environmental concerns receive only sporadic and mostly superficial consideration and are often subordinated to growth efforts. Regulations governing waste management and forest preservation are weak and rarely enforced. None of the major cities has an adequate sewerage system. Only 12.4% of the population has access to electricity, according to the 2010 HDR. The majority of the Malawian population depends on wood fuel, resulting in acute deforestation. As of 2010, Malawi ranked 107 on the Environmental Performance Index (EPI) with a score of 51.4.

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

Primary education in public schools is free while secondary and tertiary education is subsidized. According to UNESCO’s Institute for Statistics, Malawi’s public expenditure on education in 2011 was 14.74% of the government’s total recurrent expenditure and 5.72% of GDP. However access to tertiary education, especially universities, is limited; with a population of 14 million, Malawi has just three public universities. In 2012, the gross enrollment ratio was reported to be 0.8 for tertiary education while for primary and secondary education it was 141 and 34.2 respectively. Literacy levels continue to improve, reaching 74.8% in 2012 (68.5% for men and 81.1% for women). There has been proliferation of private schools at all levels, which demonstrates increasing willingness to pay for education. However the quality of education offered in many of these schools, particularly primary and secondary schools, is substandard.
Transformation Management

I. Level of Difficulty

There are a number of structural constraints that have made effective governance extremely difficult, with Malawi’s location and geography presenting challenges to growth and development. Measuring 48,000 square miles, it is a relatively small, densely populated and landlocked country with limited mineral resources. Additional constraints include a very low level of socioeconomic development, low educational standards, a high degree of social inequality, neo-patrimonial administrative structures subject to interference at the hands of politicians, unproductive cultural traditions and work ethic, weak market economy structures, underdeveloped infrastructure, dependence on rain-fed agriculture (which makes the country highly susceptible to drought) and a high HIV/AIDS infection rate.

A combination of structural constraints, an uninterrupted legacy of authoritarianism and a ruthless dictatorship which up until 1994 inhibited the development of civic culture and critical society has resulted in a weak civil society. However CSOs, particularly those in urban areas, have been instrumental in fighting for observance of the rule of law, human rights and constitutional order.

Ethnic, religious and social cleavages exist, but they are not persistent. Political tension occasionally manifests, particularly during election periods, but it is never insoluble. In the period under review, deterioration of democratic governance under President Mutharika incited public outrage, culminating in the 20 July 2011 nationwide demonstrations which the state ruthlessly suppressed, resulting in 20 deaths. Following the death of Mutharika in April 2012, transition ran smoothly although some members of the DPP tried to circumvent the then vice president’s assumption of the presidency, which was mandated by the constitution, on the grounds that she had been expelled from the ruling DPP. Regional politics within Malawi remain an influential factor and all key political actors recognize the prevalence of societal cleavages and seek to broaden their appeal to as many groups as possible.
II. Management Performance

14 | Steering Capability

The government sets strategic priorities and maintains them over extended periods of time. In 2006, it launched a five year (2006 – 2011) Malawi Growth and Development Strategy (MGDS), replacing the Malawi Economic Growth Strategy (MEGS). The MGDS was succeeded by the MGDS II (2011 – 2016). Like its predecessor, MGDS II is built on thematic areas from which priorities are derived. MGDS II has six thematic areas: sustainable economic growth, social development, social support and disaster risk management, infrastructure development, governance, and – new to MGDS II – gender and capacity development. From these themes, the MGDS II derives nine key priority areas which are central to the sustainable economic growth and wealth creation. These key priority areas are: agriculture and food security; energy, industrial development, mining and tourism; transport infrastructure and Nsanje World inland port; education science and technology; public health, sanitation, malaria and HIV/AIDS management; integrated rural development; green belt irrigation and water development; child development, youth development and empowerment; and finally climate change, natural resources and environmental management. In addition, the government launched an 18 month Economic Recovery Plan (ERP) in late 2012 focused on a handful of priorities which are “pro-growth, represent quick wins, and are highly effective.” This plan stresses the need for social protection programs through the Farmer Input Support Program (FISP) and other assistance to small-scale farmers, public works, school meals, scholarships for girls and cash transfers. It also identifies diversified commercial agriculture, tourism, energy, mining and infrastructure/information technology and communications (ITC) as sectors which can help turn around the economy and assist in the structural transformation needed to successfully implement the MGDSII.

Development partners are expected to align their country strategies with the priority areas set out in the MGDSII and the ERP. While the government’s commitment to a socially responsible market is not in question, some basic democratic tenets have been compromised. Local government, which would enhance citizen participation, have not been held since 2005 although they will be held concurrently with presidential and parliamentary general elections in 2014. Some pieces of legislation which constrained the democratic space were reversed following the death of Mutharika. The influence of foreign aid is still very strong in Malawi’s economy, making it hard for the authorities to consistently pursue their own policy goals. The Mutharika defied some donors’ dictates in pursuing his own government’s policy,
with serious negative repercussions, including the suspension of the IMF’s Extended Credit Facility and freezing of financial support by major bilateral donor partners.

The government has been able to implement its policies, although with limited success. The government has continued with its policy development agenda guided by its policy framework, the MGDS (now in its second version). Sustainability of policy reforms, however, remains a challenge. Malawi typically sees periods of sound policy implementation with episodes of policy reversal or stagnation, across successive political regimes. The macroeconomic stability brought by Joyce Banda’s administration, therefore, is still fragile and wholly dependent on the government persisting with the policy measures already instituted.

A nation-wide constitutional review process was launched in 2006 and 2007 to address the many loopholes in the constitution. It also addressed the repeal of the senate clause, the recall of MPs, the retention of the floor crossing provision, and clarity on term limits for president, among others. The future of this process, however, is in limbo as the cabinet has not submitted Special Law Commission’s report on the constitutional review to parliament. Furthermore, despite its stated commitment to decentralization as a government policy, the government has not held local government elections since 2005. The administration’s success in implementing its policies is also substantially dependent on foreign aid from development partners, given that over 40% of Malawi’s development budget is financed by donors.

The government demonstrates a general ability for policy learning. The MGDS (2006-2011) built on lessons learned from previous policies, namely the Malawi Poverty Reduction Strategy Programme (MPRSP) and the Malawi Economic Growth Strategy. When the first MGDS expired, the government conducted a review process which included nationwide consultations in preparation for its successor, MGDSII (2011-2016). A number of studies have been commissioned to review government policies and the way they are implemented. Sometimes, however, there is a lack of capacity and political will to implement lessons learned.

15 | Resource Efficiency

There has been remarkable improvement in the use of public resources since mid-2004. In 2004/2005, the government developed its budget within a framework agreed with the IMF Staff Monitoring Programme (SMP) and the Poverty Reduction Growth Facility (PRGF) which was completed in 2008 and judged satisfactory by the IMF. Malawi’s fiscal policy is geared at reducing the weight of domestic debt while at the same time increasing allocations for anti-poverty and pro-growth expenditure. The new Integrated Financial Management Information System (IFMIS) has improved expenditure control and timely financial reporting somewhat. But despite these improvements, incidents of gross abuse and misappropriation of public resources
continue to plague most public institutions. The government’s 2011 forensic of the Malawi Electoral Commission (MEC) revealed widespread abuse and misappropriation of public funds. The targeted input farm subsidy is also characterized by wasteful malpractice and abuse, resulting in increased transactional costs.

There are appalling incidents of wastage and abuse of public resources, including use of government vehicles, time and office resources for personal gain, and the accumulation of personal wealth and property which not commensurate with salary scales for both junior and senior civil servants. There are also long-standing court cases against public officers who have claimed daily allowances for more than 3000 days in a calendar year. These cases are still outstanding and may even be dropped for lack of state witnesses. There have also been numerous large payments in out-of-court settlements to public employees and service providers, due to abrupt curtailment of service contracts by the government – often on political grounds.

With the introduction of the Public Finance Management Act and the establishment of the office of the Director of Public Procurement (ODPP), the procurement situation has improved although there are still concerns about specific procurement processes. For instance, the procurement of a $13.26 million presidential jet in 2009, when the country was experiencing fuel and foreign exchange shortages, hardly suggests efficient utilization of public resources. Moreover this extraordinary procurement was not approved by parliament. Nonetheless the government has corrected many expenditure lapses of recent years. Joyce Banda’s cabinet voted, for instance, to sell the presidential jet. The president has reduced her presidential motorcade as another way of reducing public expenditure. With the devaluation of the local currency, however, the public wage bill has soared as civil servants have been awarded salary increases ranging from 5% to 61% following a nationwide industrial strike.

With the launch of the MGDS (2006-2011) and MGDSII (2011-2016), the government has made an effort to coordinate conflicting objectives and interests. A Debt and Aid Coordination Department within the Ministry of Finance has been strengthened, while the Department of Economic Planning and Development formerly administered by the Ministry of Finance has been upgraded to ministry status and is responsible for overseeing implementation of the MGDS. The government has also developed the Malawi Development Assistance Strategy (DAS) of 2006 – 2011, which provides a framework for external support of the MGDS. In 2008, the Office of the President and Cabinet issued guidelines for institutionalizing Sector Working Groups (SWGs) which identify sectors, their composition and operational boundaries by grouping all ministries and other agencies in the national budget into 16 compatible clusters to improve inter-agency cooperation and coordination. Despite these effort, capacity remains a problem.
The government has taken positive steps to contain corruption, which remains on the present administration’s agenda. However there is a perception that those in opposition are unfairly singled out for prosecution. A number of institutions, laws, policies and strategies, including a National Anti-Corruption Strategy, are in place. A National Integrity Committee has also been established. An autonomous Anti-Corruption Bureau is in place and is pursuing a number of cases including one involving the former president, Bakili Muluzi. The establishment of the ODPP represents an attempt to improve public procurement processes. Although senior elected representatives, including the president, are obliged by law to declare their assets, the relevant law is deficient as it does not stipulate punitive measures in the event of non-compliance. Despite public pressure, President Joyce Banda and her cabinet have still hadn’t declared their assets over eight months after assuming office. While the constitution provides for public funding to political parties with at least 10% representation in parliament, there are no mechanisms to account for these public funds. There are also no laws whatsoever governing private financing of political parties or disclosure of funding sources. In principle, citizens and the media have a right to access information but this is limited by structural constraints, ranging from a culture of secrecy to a lack of response from public officers. An Access to Information Bill has been prepared but has not yet been passed by parliament.

16 | Consensus-Building

There is basic consensus on the principles of democracy and market economy. However this consensus can be superficial, and is often called into question whenever private interests are affected.

There are no anti-democratic veto powers in Malawi although there is a danger that if left unchecked, some political actors may regress and resort to anti-democratic practices. The commission inquiring into the death of President Mutharika, for instance, revealed that senior DPP leaders had tried to circumvent the constitution by barring Vice President Joyce Banda from the presidency. There are patrimonial and undemocratic leanings across all political parties, especially with respect to leadership succession, party management and transparency and accountability of party resources.

Political decision makers prevent cleavage-based conflicts from escalating. Potentially volatile political conflicts are usually handled by the courts or peaceful conflict management strategies such as mediation.

Political decision makers permit civil society participation. CSOs are invited to participate in policy debates, help formulate and review legislation and monitor the government’s performance. However, the effectiveness of civil society engagement is hampered by limited capacity and institutional weakness as well as the
government’s lack of receptivity to alternative and critical voices. Furthermore, Banda’s administration has co-opted a number of civil society leaders for public positions, although it is uncertain if it sought to compromise their civic activism, or effectively integrate the concerns of civil society.

The government has recognized the need to compensate victims of Hastings Banda’s regime, although the reconciliation effort is regarded as a failure as the majority of victims have not received compensation. Nevertheless, the constitutionally-sanctioned National Compensation Tribunal, established to deal with the regime’s victims, concluded in 2004 when its 10-year mandate expired. Civil society groups have lobbied the government to revive the tribunal but without success.

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. With the adoption of the MGDS, the government is attempting to align donor support with its own priorities.

After enjoying the trust and confidence of international donors for five consecutive years between 2004 and 2009, the relationship between the Mutharika administration and many international donors soured because of the country’s poor record on democratic governance and economic management. This disharmony reached a peak in April 2011 when Malawi expelled British envoy Fergus Cochrane-Dyet after he described Mutharika as autocratic in a leaked diplomatic cable. With the IMF declaring its Extended Credit Facility with Malawi being off track in mid-2011, along with ongoing concerns over governance, the majority of donors also suspended their financial support of Malawi. It was not until Joyce Banda assumed the presidency in April 2012 that relations with international donors started to improve. The IMF program is back on track and financial support has also resumed. Malawi once again enjoys the confidence of the international community with Joyce Banda’s administration making strides in improving democratic governance.

Political decision makes cooperate with neighboring states in compliance with rules set by regional and international organizations. In disputes with neighbors, Malawi pursues peaceful settlement. During the period under review, Malawi was engaged in a border dispute with Tanzania over Lake Malawi, but both parties have returned to negotiations. Malawi also actively participates in peacekeeping missions.
Strategic Outlook

Mutharika’s deteriorating record of democratic governance prompted major donors to suspend financial support, plunging the country into desperation and panic and so there was a sigh of relief when Joyce Banda assumed the presidency. Her administration has resolved a number of democratic governance issues, repealing laws which contradicted the constitution’s stance on human rights and press freedom. The government has also implemented tough but critical macro and structural reforms aimed at turning the economy around. These include devaluing the local currency by almost 50%, and subsequently floating it. The 18 month Economic Recovery Plan (ERP), which focuses on a handful of priorities which are “pro-growth, represent quick wins, and are highly effective,” is a test case for the administration’s ability to manage a complex economic situation. It faces rising public discontent, with recent demands for wage increases and public demonstrations against the government’s stringent macroeconomic policies.

It is unlikely that the negative economic trend will ease before mid-2013, thereby undermining the visible gains from the new government economic reforms. There is also an expectation that parliament will become increasingly volatile following the recent arrests of key figures in the DPP, the largest opposition party, on charges relating to the death of President Mutharika. However, the cumulative effects of these political and economic trends will influence the judgment of citizens and inform voter choice in the 2014 tripartite elections. This makes it difficult to describe plausible future scenarios for Malawi.

However the electoral prospects for President Joyce Banda and her PP in 2014 can’t be weighed without considering how her leadership has attracted public confidence and popular support. Countervailing forces demand a delicate balance in reconciling donor goodwill with domestic pressure. This includes civil servants calling for wage increases and the Consumers Association of Malawi petitioning for abolition of the current automatic fuel pricing mechanism in order to curb escalating prices for goods and services. This requires the executive to proceed cautiously in translating present trends into positive future outcomes. Unless the inclusive government meaningfully delivers on the president’s inaugural pledges, the PP will be judged for appeasing the other parties in exchange for temporary parliamentary support. This might not go unpunished at the ballot box. Given that legislative turnover in Malawi stood at around 75% in both the 2004 and 2009 general elections, the PP leadership should further improve its reputation for responsive government, and not sell out to donor demands. Official negligence and partial success are both treated unfavorably by voters. The government can only exploit public sympathy if that public believes the government has done everything within its power to reduce the adverse effects of IMF, World Bank and donor policies. Likewise, the electoral fortunes for opposition parties in 2014 will be contingent on their presidential candidates and the extent to which their legislative conduct is aligned to the expectations and interests of the voters, not simply their efforts to undermine the prevailing administration, as they did with Mutharika’s minority government.
between 2004 and 2009. Voters are unlikely to reward selfish and partisan legislators in 2014, irrespective of handouts from electoral candidates.

In summary, as Malawi approaches the 2014 tripartite elections and as campaigns heat up, the administration may sacrifice some of its success for short-term political gain. Sustainability of policy reforms will remain a challenge in the coming months, with the country’s history of policy implementation characterized by cycles of sound policy implementation and good donor relations followed by periods of policy reversal. The macroeconomic stability established by the new administration remains fragile and depends on continuance of policy measures the ongoing support of donors. It should be noted that while the mining sector is slowly growing, Malawi’s economy will remain largely agrarian for the foreseeable future. The country remains vulnerable to natural disasters, particularly climate variability and change. Improved resilience to climate risks will be extremely important for the majority of rural households who depend on the fragile natural resource base for their livelihoods.