Policy Reform and Adjustment in an Economy under Siege: Malawi 1980-87

Jonathan Kydd

A. Introduction

This paper contributes to our understanding of the nature of economic adjustment in sub-Saharan Africa by discussing eight 'distinctive features' of the Malawian case, and considering these against a summary account of recent economic performance and social developments. However, before setting out these distinctive features, it is necessary to discuss the genesis of the adjustment problem, the 'policy loans' which have been received, and the general performance of the economy since 1980.

Malawi's aggregate growth record from 1973 to 1978 was highly satisfactory: annual growth of GDP per capita varied between 1.3 per cent and 5.3 per cent. The two leading growth sectors were large-scale (estate) agriculture and aid-financed physical infrastructure. Estate agriculture had been promoted by policies which have been analysed elsewhere.[1] The rapid increase in production was, in part, achieved by directing the investment resources of the commercial banks and the smallholder marketing board (ADMARC) into private tobacco estates. A substantial part of this investment was badly managed, and the net value performance of the new tobacco estates was much less favourable than might be suggested by the trend in gross tobacco output. An important consequence was a resource transfer from small to large farmers, which reduced the incomes and the incentives to produce of the former.

The new estates, and the systems which had been providing them with financial resources, were vulnerable to a decline in tobacco prices, and in Malawi's international terms of trade generally. When, following the second 'oil shock', the terms of trade declined by a third during 1979 and 1980, a financial crisis was precipitated within the tobacco estate sector, and in the two commercial banks, which had both financed them (to the point that tobacco estate loans were over 40 per cent of the banks' portfolio!).

Other aspects of policy were also undermining the country's macroeconomic health. In 1977 the government abandoned what had been a conservative fiscal strategy, awarding large pay increases to the public sector. This was followed by a series of major investments of a mainly non-productive character (palaces, military aviation, a new international airport, elite private college), which were in part financed by borrowing from the Eurocurrency market. The overall balance of payments went into deficit in 1978.

The final element in the making of an economic crisis was the failure of the 1979-80 season rains in the southern half of the country, which hit the smallholder maize crop especially hard.

B. Policy Loans since 1980

In 1980, an IMF Standby was negotiated, conditional on demand management measures to correct the balance of payments deficit. But the poor international terms of trade, combined with the weakness of the agricultural sector from drought (smallholders) and managerial weakness (new tobacco estates), made it impossible to restore equilibrium in international payments without the use of tougher measures than the government was then prepared to contemplate.

Thus negotiations were opened with the World Bank for a two-year Structural Adjustment Loan (SAL-I), which was agreed in 1981, along with the reactivation of the IMF Standby, which had broken down earlier in the year. This was followed by a second SAL (SAL-II) in 1983, expiring in 1985. From 1985, SAL-III was agreed, this being followed by a supplementary SAL-III financing package at the beginning of 1987. At the time of writing, preparatory work was being undertaken for SAL-IV, which should run from 1987 to 1989. The economy is now heavily dependent on the budgetary and foreign exchange support provided by SALs.

On the expiry of the first IMF Standby, a new IMF Extended Facility (EFF) was negotiated in 1983, and maintained up to early 1986, at which time the government was not able to draw the final tranche. At the time of writing, the government did not have a Standby facility with the IMF.

The conditionality of SAL-I was mild[2], and it provided a breathing space in which the World Bank and the government could study and negotiate an

[1] A representative example of this work is Kydd 1985:293-381.

[2] For more detailed discussion see Kydd and Hewitt, 1986:352.

agenda of policy changes. Hitherto, the Bank had considered that all was going well in Malawi, and thus it had few ideas 'in store' for policy changes which might improve the underlying performance of the economy. The substance of SAL-I conditionality was little more than a commitment to move towards price decontrol and to raise the tariffs of various parastatal enterprises. The government made only half-hearted movement on either of these during the first year of SAL-I, but the Bank's decision to delay disbursement of the second tranche brought about some of the desired changes.

SAL-II was tougher, and forced major policy changes, two key aspects of which were (i) the ending of ADMARC's taxation of small-scale farmers, (with the implementation of large producer price increases for export crops), and (ii) the restructuring, and bringing into the public domain, of President Banda's massive personal holding company, Press Holdings.

SAL-III was negotiated in 1984, against what then appeared to be a background of economic recovery. The conditionality was a mild as SAL-I, and the overall objective was described as 'strengthening of key development institutions'. This consisted of studies, backed up by moderate pressure, to improve the performance of parastatals, including ADMARC and the Malawi Development Corporation. Preliminary studies were launched on two 'structural questions' which the Bank had identified as possible constraints to longer-run development, namely, land policy and the marketing system for smallholders. The Bank's interest in land management had been stimulated by evidence of widespread underutilisation of estate land. The 'marketing issue' gained priority as it appeared to represent an under-exploited avenue into improving the performance of the smallholder sector, (expenditure on extension and infrastructural development having yielded disappointing results in the 1970s). The Bank believed that it should be possible to achieve a substantial compression of margins in the marketing system by privatising some of the activities of ADMARC, and by improving the management of the core activities which remained.

IMF conditionality has continued to consist of exchange rate and demand management criteria. As Table 3 shows, the kwacha has been depreciated in every year since 1982, and the latest devaluation, (by 20 per cent in February 1987) is not shown. There was some progress in checking credit growth in 1984 and 1985, but performance in 1986 was much less good. This caused the breakdown of the EFF.

Table 1

Indices of Real GDP per capita, and GDP Growth Rates, 1973-86
(based on 1980 = 100)

Year	*GDP*	*GDP per capita (based on 3% population growth)*	*% change on previous year*	
			GDP	*GDP per capita*
1973	71.59	88.05		
1974	76.92	91.85	7.44	4.44
1975	81.17	94.10	5.53	2.53
1976	86.22	97.04	6.22	3.22
1977	89.96	98.30	4.34	1.34
1978	97.44	103.37	8.32	5.32
1979	100.70	103.72	3.34	0.34
1980	100.00	100.00	-0.69	-3.69
1981	94.69	91.93	-5.53	-8.53
1982	97.66	92.05	3.15	0.15
1983	101.14	92.55	3.56	0.56
1984	105.67	93.89	4.48	1.48
1985	110.28	95.13	4.36	1.36
1986	110.08	92.19	-0.18	-3.18

Source: *National Accounts Report 1973-78*, updated from *Economic Reports* (1984, 1985 and 1986). In all cases latest estimates used. Per capita figures based on an assumed 3.0 per cent annual population growth rate, which is used in the *World Development Report, 1986*. Some analysts accept a slightly lower population growth rate, e.g. the 2.86 per cent per annum between the 1966 and 1977 censuses.

Data shown for 1973 onwards because pre-1973 data is of lower quality.

C. The General Peformance of the Economy since 1980

The years of severe recession were 1980 and 1981: from 1982 to 1985 a recovery was underway which, whilst not very strong, can be considered satisfactory in the circumstances (Table 1). Unfortunately, the recovery stalled in 1986, with a fall in GDP, and, in 1986, per capita GDP was 11 per cent lower than its historic high point in 1979.

Some insight into this history of recession, and subsequent recovery, can be gained by examining the sectoral composition of GDP change in the two periods: (i) the 1979-82 'recession' and (ii) the 1982-86 'slow recovery', which is analysed in Table 2.

The recession was led by decline in small-scale agriculture and in construction. The immediate problem of small-scale farming was the 1979/80 drought, but the impact of drought was exacerbated by eight years of unsatisfactory price incentives, during which time ADMARC had taxed smallholders and transferred resources to estates. Large-scale agriculture continued to grow through the recession, but this was more a consequence of favourable output prices than of continuing momentum in production. The sector which grew most during the recession was government: this is not unexpected in a recession, but the 7.0 per cent annual growth rate shows that little headway was made in restraining government spending.

The government sector also led the slow recovery and, taking the evidence overall, it is difficult to avoid the conclusion that a substantial part of structural change since 1980 can be attributed to aid-stimulated growth of the non-tradeable sector. This hypothesis is lent weight by the fact that during the recovery the performance of tradeable sectors, agriculture and manufacturing, has been below the overall GDP growth rate, (although a mildly positive feature is that the growth rate for smallholder agriculture during the recovery is estimated to have very slightly above that of the economy as a whole).

Table 2

The Sectoral Composition of GDP Growth, 1973-86
(at 1978 constant factor cost)

	Annual Growth Rates			*Sectoral Shares of GDP*	
	1973-79	*1979-82*	*1982-86*	*1973*	*1986*
	(%)	*(%)*	*(%)*	*(%)*	*(%)*
Agriculture	5.3	-1.3	2.6	41.6	36.8
(Small-scale)	(4.5)	(-3.1)	(2.9)	(34.1)	(28.9)
(Large-scale)	(9.6)	(6.6)	(1.5)	(7.5)	(7.8)
Manufacturing	6.5	2.0	2.5	11.1	12.1
Electricity and Water	7.8	4.0	4.2	1.5	2.1
Construction	6.7	-5.7	-0.6	4.3	4.2
Distribution	6.0	-2.0	4.3	12.9	13.1
Transport and Communications	5.6	1.7	2.3	6.6	6.2
Financial and Professional Services	14.7	3.5	2.3	4.2	6.4
Ownership of Dwellings	7.5	2.9	2.8	3.7	4.4
Private, Social and Community Services	1.7	3.7	4.0	5.3	4.3
Producers of Government Services	6.0	7.0	5.7	10.4	13.1
Unallocable Finance Charges	..	16.4	-2.4	-1.5	-2.6
GDP at Factor Cost	5.9	0.1	3.0	100.0	100.0

Note: Growth rates are compound.

Source: *National Accounts Report, 1973-78*, updated from *Economic Report 1986*.

Table 3 **Selected Financial and Economic Indicators, 1979-86**[1]

Year	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*
Money and credit (annual percentage changes, except where otherwise shown)								
Domestic credit of which:	..	12.0	29.0	17.7	17.1	2.3	13.0	23.6[6]
credit to government	..	31.5	91.0	25.8	23.4	7.8	22.9	26.8
credit to other sectors[3]	..	8.4	5.3	12.0	12.2	-2.4	3.7	20.1
Money and quasi-money (M2)	..	12.6	26.1	14.5	5.9	32.6	-1.0	25.4
Velocity of money[4] (ratio)	5.0	5.2	4.6	4.5	4.9	4.4	4.6	4.5
Interest rates								
deposit rate (%)	8.0	7.9	9.8	9.8	9.9	11.8	12.5	12.8
lending rate (%)	..	16.7	18.5	18.5	18.3	16.5	18.4	19.0
Exchange rates								
kwacha per SDR	1.05	1.05	1.05	1.22	1.36	1.53	1.84	2.99
kwacha per $	0.80	0.83	0.91	1.10	1.30	1.56	1.68	1.98
Cost of living index								
low income index (%)[5]	18.3	11.8	9.8	13.5	20.0	10.5	11.6	n.a.
Government deficits[6] (as % of GDP)								
revenue account (%)	(3.4)	(1.6)	1.0	1.4	0.2	0.7	(0.8)	3.5
overall deficit (%)	9.6	12.5	11.7	9.2	7.8	6.4	6.6	10.6
Government borrowing (SDR equivalent)								
net domestic borrowing	14.7	25.0	79.7	71.2	56.6	29.7	42.1	..
net foreign borrowing	59.7	59.3	38.9	31.8	27.6	51.5	-6.1	..
International terms of trade[7] (1980 = 100)								
commodity terms of trade	118	100	122	124	113	118	101	93
income terms of trade	99	100	97	102	124	94	96	96
Indices of rail freight volume (1980 = 100)								
local	..	100	97	88	81	111	123	139
external	..	100	88	63	35	19	1	0

[1] Source: except where otherwise stated, calculated from *IMF International Financial Statistics*. (Jan, 1987).

[2] Based on third quarter data.

[3] Mainly private sector and parastatal enterprises.

[4] GDP in relation to M2.

[5] Percentage increase in the Blantyre low income price index for January of year shown to January of following year. Source: *Monthly Statistical Bulletin* (various issues).

[6] Calculated from *Economic Report* (various years).

[7] Imports are valued c.i.f., exports f.o.b. Data is from *Economic Report* (various years). Post 1980 estimates are from a series base weighted to 1980, previous estimates are from a series base weighted for 1970.

Table 3 **Selected Financial and Economic Indicators, 1979-86 (continued)**

Year	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*
Balance of payments and debt relief[8]								
(Millions of kwacha)								
current account	(188)	(208)	(120)	(132)	(169)	(24)	(166)	(164)
debt relief	..	..	..	20	70	33	12	5
overall balance (after debt relief, where applicable)	(56)	(7)	(35)	(47)	(54)	(91)	(105)	(112)
Use of IMF facilities								
(in millions of SDRs)								
quota, SDRs and reserve position	22.1	28.5	38.2	32.1	40.2	42.3	39.4	39.2
all other IMF credit	26.9	47.9	75.3	73.6	97.5	114.9	121.9	104.7[9]
Gross official development assistance								
($ million)								
bilateral	..	..	..	69	59	56	61	..
multilateral	..	..	..	57	62	110	62	..
total	..	..	..	126	121	165	123	..
(of which grants:)	..	..	..	86	74	75	73	..
Indices of agricultural output								
(1980 = 100)								
real value of payouts to *smallholders*[10]	109	100	90	123	122	172	182	167
real value of *estate tobacco* production[11]	142	100	162	200	159	160	142	175
real value of *tea production*	122	100	98	128	146	262	179	124
Index of employment[12]								
(1980 = 100)								
private sector	..	100	86	92	106	104	113	..
government	..	100	100	100	104	104	106	..
all industries	96	100	89	94	105	104	111	..

[8] From *Economic Report* (various years).
[9] November 1986 figure.
[10] Total value of ADMARC payouts, deflated by GDP deflator series.
[11] This is an index of total value of sales at auction, deflated by GDP deflator.
[12] Calculated from *Economic Report* (various years).

Table 3 summarises the nature of IMF support for the adjustment programme. Between 1979 and 1985, Malawi's total borrowing from the IMF rose from $49 mn to $161 mn, but fell back to $145 mn in 1986. IMF conditionality was influential in determining the exchange rate depreciation which has been undertaken since 1982, causing the value of the kwacha against the SDR to fall by nearly two-thirds over 1985 to 1986 (see Table 3).

Restraint in domestic credit was slowly achieved from 1982, again with the aid of some pressure from the IMF, but rose alarmingly in 1986 (Table 3). Within the category of domestic credit, the private and parastatal sector has been squeezed much harder than central government. Positive features of the financial adjustment are that the increase in nominal interest rates appears to have increased time deposits, and the velocity of money shows some decline over the period.

An analysis of government recurrent account spending is shown in Table 4. The most notable feature is the growth in expenditure on debt servicing. This was checked, temporarily, in 1982, by rescheduling with private creditors. but by 1986 had reached almost 11 per cent of GDP.

Five other points emerging out of the budgetary analysis require brief comment:

(i) the continuing growth of expenditure on general administration, a category in which, as noted earlier, there has been limited progress in achieving restraint;

(ii) it was possible to achieve substantial cuts in the defence budget, until the build-up of the MNR[3] problem in 1985;

(iii) education has been reasonably protected;

[3] The Mozambique National Resistance Movement (MNR — sometimes known as RENAMO) is a South African assisted rebel movement, opposed to the FRELIMO government of Mozambique. The MNR's operations have very substantially disrupted the Mozambique economy since the early 1980s, and, since 1982, have steadily reduced traffic on Malawi's international rail links (see Table 3 — index of rail freight). For a scholarly account of the MNR see Metz 1986:491-508.

Table 4

Functional Classification of Central Government Recurrent Account Expenditure, 1978/79 to 1987/88[1]
(as a percentage of GDP)

Financial year	*1978/79 (%)*	*1979/80 (%)*	*1980/81 (%)*	*1981/82 (%)*	*1982/83 (%)*	*1983/84 (%)*	*1984/85 (%)*	*1985/86 (%)*	*1986/87[2] (%)*	*1987/88[3]*
General services										
General administration	2.40	2.59	2.58	2.74	3.31	3.52	2.58	3.23	3.76	(3.29)
Defence	2.41	2.01	1.93	2.13	1.65	1.57	1.58	1.89	2.12	(1.64)
Justice	1.51	1.86	1.85	2.14	2.34	1.53	1.77	1.89	2.13	(1.45)
Social services										
Education	2.22	2.33	2.52	2.61	2.74	2.47	2.35	2.30	2.69	(2.52)
Health	1.29	1.38	1.59	1.78	1.51	1.50	1.64	1.93	1.98	(1.73)
Community and social development	0.56	0.50	0.60	0.52	0.35	0.40	0.37	0.12	0.15	(0.13)
Economic services										
Natural resources (incl. agriculture)	1.50	1.64	1.86	2.15	2.14	2.06	1.76	1.87	2.02	(1.80)
Transport	0.58	0.67	0.59	0.06	0.09	0.87	0.83	0.76	0.87	(0.78)
Posts and telecoms	0.24	0.24	0.21	0.23	0.24	0.23	0.18	0.22	0.35	(0.35)
Other economic services	0.91	0.88	1.09	0.79	1.05	0.62	0.79	0.95	0.93	(0.72)
Unallocable services										
Debt servicing	2.53	4.18	6.08	8.86	6.73	5.71	9.23	9.25	10.92	(9.01)
Pensions, etc.	0.37	0.41	0.38	0.39	0.41	0.33	0.26	0.31	0.33	(2.56)
Unallocated services	1.01	1.08	1.09	1.05	0.80	1.16	1.05	0.89	0.65	(0.77)
less:										
debt amortisation	0.74	1.88	2.38	3.55	1.43	1.82	3.05	4.63	4.48	(3.72)

Notes:
[1] Calculated from *Economic Reports* (various years).
[2] Preliminary estimate of actual expenditure.
[3] Planned expenditure at 1987 Budget.

(iv) the health budget has been built up from a very low level, but suffered a most unfortunate budget cut for 1987;

(v) spending on agricultural development is still growing, in circumstances where other budgets have been tightly restrained.

An important aspect of the economic deterioration at the end of the 1970s was a sharp decline in the profitability of the parastatals. This is shown in Table 5, along with an analysis of the performance of the five largest parastatals. The consolidated account shows that the parastatal sector started losing money in 1979, was subsequently brought under control, but lost 26 mn kwacha in 1985. This can be explained with brief reference to four of the 'big five':

(i) ADMARC's potential as a profit generator was curbed by the World Bank's stipulation that ADMARC should pay farmers near to border prices. The 1985 loss can be attributed to a combination of the costs of financing a large maize stockpile and the collapse in world prices for dark-fired tobacco.

(ii) The national airline is a political status symbol, with a management which has been slow to take difficult decisions.

Table 5

Revenues and Profits of the Statutory Bodies, 1974-86[1]
(millions of kwacha)

Year	*Consolidated Accounts of Statutory Bodies of which*[2]*:*		*Admarc*		*Air Malawi*		*Malawi Railways*		*Malawi Development Corporation*[3]		*Electricity Supply Commission*	
	R = revenue	P = profit[4] or (loss)	R	P	R	P	R	P	R	P	R	P
1974	**70.8**	**24.3**	39.8	12.4	10.9	2.5	9.3	4.0	0.1	0.1	4.2	2.5
1975	**83.4**	**20.8**	44.3	8.6	14.1	(−0.6)	10.9	5.1	0.5	0.5	5.8	3.5
1976	**98.9**	**39.0**	80.1	23.8	9.2	(−3.0)	12.3	5.7	0.6	0.5	6.8	4.7
1977	**125.7**	**40.8**	73.6	29.0	12.1	(−3.5)	14.0	12.2	0.4	0.4	8.4	5.8
1978	...	...	51.7	4.4	...	...	...	...	...	...	...	...
1979	**115.6**	**(7.1)**	50.8	(4.7)	16.2	(5.9)	15.9	(1.7)	2.5	(0.8)	13.4	4.9
1980	**123.8**	**(5.5)**	56.8	(6.2)	10.9	(4.3)	19.0	(0.3)	2.7	(1.6)	15.8	6.1
1981	**140.0**	**1.9**	63.2	(1.0)	15.4	(0.4)	20.3	(2.1)	2.0	(0.6)	18.1	3.9
1982	**162.9**	**(3.8)**	79.8	3.0	16.2	(0.5)	22.5	(4.4)	1.7	2.5	20.3	0.5
1983	**160.9**	**(2.4)**	88.5	7.9	17.1	(3.0)	17.9	(6.1)	2.3	2.8	23.4	0.8
1984	**169.3**	**(2.9)**	80.7	4.4	19.0	(11.5)	19.4	(6.0)	2.6	5.6	26.7	2.2
1985	**226.9**	**(24.5)**	107.9	(26.0)	19.9	(9.1)	20.2	(4.6)	4.6	10.6	32.1	2.6
1986[5]	**267.3**	**(2.5)**	167.6	(8.0)	20.7	(4.1)	20.9	(2.6)	3.5	2.6	34.6	7.3

Notes:
[1] Data sources are *Economic Reports*, 1983 to 1987, and the *Malawi Statistical Yearbook, 1979*.
[2] Statutory bodies other than the 'big five' shown here include the water boards, the smallholder tea, coffee and tobacco authorities, the broadcasting corporation, an educational supply organisation and some public sector housing.
[3] Malawi Development Corporation is mainly an investment (rather than trading company), hence the distinctly different ratio of profits to revenues.
[4] The pre-1978 figures are for 'gross profits'. After 1978 the figures are for net profits.
[5] Estimate from unaudited accounts.

(iii) In contrast, the performance of the railways has been heroic. The losses are mild in relation to the scale of the problem. As Table 3 shows, the railway has coped with the collapse of the international freight volume by building up domestic freight.

(iv) Tariff increases for electricity have left the industry with a sensible level of profits.

The international payments position since 1979 is summarised in Table 3. Bearing in mind that the last year in which the overall balance was positive was in 1977, it can be seen that the onset of payments difficulties was insidious. The overall balance for 1979 and 1980 did not appear excessively worrying at the time, (especially as the 1980 accounts were nearly in balance), and the international payments position became much worse when the 1980 recovery was not sustained, and was followed by a series of ever-larger deficits.

There were a number of determinants of the worsening payments problems. First, the commodity terms of trade over 1979-86 remained stuck on a plateau approximately 40 per cent lower than the plateau of the early to mid-1970s. The failure of the commodity terms of trade to recover was due less to adverse trends in the prices of Malawi's exports than to the increasing costs of transport diversion as the MNR progressively shut down the rail lines through Mozambique (see rail freight index in Table 3).

The second determinant of the payments problem was the increasing burden of international debt. As Table 3 shows, debt rescheduling was negotiated in 1982, but the lack of progress in turning round the payments deficit means that further debt rescheduling is probably unavoidable. Finally, the failure to make more headway in reducing government expenditure is also a factor in the payments disequilibrium. Part of the problem is that aid donors are generally unwilling to see the closure or scaling-down of projects which they have recently financed.

To convey some impression of the performance of the agricultural sector, three output indices are included in Table 3. The index of the 'real value of ADMARC payouts' has risen from a low in 1981. While this is only a partial measure of smallholder income, which takes no account of input costs, nevertheless there is evidence of a substantial increase in the aggregate income of the sector. It may be presumed that the immediate beneficiaries will be larger smallholder farmers but, as they hire labour and consume rural services, some of this will be transmitted through the rural economy.

D. Distinctive Features of the Malawian Experience

1. *Malawi is a very poor country, even by SSA standards,* and was poorer still at Independence. Although a number of aspects of the country's development have determined this poverty, the proximate explanation is that over 80 per cent of the population live in 'customary land' areas, primarily dependent on small-scale agriculture for their livelihoods. Most of this population lives in plateau areas, which in normal years are reasonable well watered, but where the land resources per person have declined at about 2 to 2.5 per cent per annum since the mid-1960s, producing a situation in which near the landless groups are emerging in circumstances where there has been only moderate growth in employment, and this at declining real wages.

Taking national figures, which include the semi-arid areas which have lower population densities, the 1980/81 National Sample Survey of Agriculture found that 49 per cent of the rural population were resident in holdings of under 1 hectare, while 19 per cent of the population were resident in holdings with an average of 0.08 hectares per person. Projecting these figures to the present, about a quarter of rural households are nearly landless, while even the top fifth have only about half a hectare per resident family member.

In 1986 it was estimated that maize occupied 70 per cent of the cultivated land [MANR 1986]. Yields are being maintained by more intensive work on land which is suffering declining natural fertility. Fertiliser application by small farmers grew rapidly, (from 25,000 tonnes in 1972 to 51,000 tonnes in 1985), but this external nutrition is estimated to amount to less than half the annual loss of soil nutrients. There has been no technical breakthrough in maize production, and most farmers continue to use local varieties.

As about two-thirds of rural people now live on holdings which are unable to provide a full year's subsistence in a normal season, the economy is highly monetised. There is a considerable amount of off-farm work performed within the local economy. During the 1970s, international labour migration to South Africa, Zimbabwe and Zambia was run-down, creating problems of social adjustment which were successfully overcome in the short term, through rapid economic growth [Christiansen and Kydd 1983]. But this has magnified the task of employment generation for the future.

The southern half of Malawi is surrounded by Mozambique, and the government has difficulty in preventing the ebb and flow of population across the border (motivated by the relative advantages of residence in one or another country). Since the beginning of the 1980s, with the increasing insecurity of Northern Mozambique, large numbers of Mozambicans have come into Malawi. Some groups are formally labelled as refugees, and concentrated in camps, but many recent immigrants are 'at large' in the economy, putting further pressure on employment and wages.

The depressing findings of health and nutrition surveys in Malawi reflect, in part, the location of a very poor but stable society (Malawi) within a larger zone of near total destitution (Northern Mozambique).

2. *Malawi embarked on adjustment programmes from a position of moderate macroeconomic disequilibrium.* At the beginning of the 1980s, the situation did not seem too serious. It appeared that a 'squall' in the external economic environment had been exacerbated by some shortcomings in macroeconomic management and also that this had revealed weaknesses in the structure of the rapid growth which had occurred in the 1970s.

Malawi's policies, however, had been far from the worst case of SSA macroeconomic management. Up to 1979, the government had actively depreciated the real effective exchange rate for a number of years [Kydd and Hewitt 1986]. The external payments regime was relatively liberal. Inflation was accelerating, mainly as a result of increased import costs, and price controls were in force on a narrow range of basic commodities. With small consumer subsidies (and these implicit rather than explicit) price control could be eliminated without social upheaval.

3. *Malawi's external environment has undergone further deterioration since the commencement of adjustment.* The costs of transport diversion are partly accounted for in the commodity terms of trade, but further damage has been felt through the delayed arrival of imports (notably fertiliser) and the government's inability to fully implement its plan to cut defence spending.

4. Partly offsetting the harshness of the external environment is the fact that the weather has been helpful: over 1980-86 growing conditions over most of the country have varied from reasonable to excellent. If Malawi had experienced more of the droughts which have afflicted other parts of the sub-region, this article would tell a more gloomy story.

5. Malawi has a larger public sector than might be suggested by some journalistic myths about 'Africa's free-market miracle'. Although Table 6 shows that only 20 per cent of enumerated employment is directly for the government, Pryor has recently estimated that, in 1980, 47 per cent of 'modern sector workers' were employed in the public sector [Pryor 1987]. The expansion of central government has been facilitated by aid projects, which have created quite large numbers of jobs in the broad category of 'rural economic services' (extension workers etc.).

6. *Malawi has had a 'hard state'*, capable of overriding vested interests, and of implementing unpopular decisions. Power is heavily concentrated in Dr Banda. Although Banda was brought to power by the nationalist movement, with widespread popular assent, after Independence this power was consolidated by coercion and a single-minded intolerance of opposition. In obtaining compliance with his rule, Banda has relied more on force than on the buying of mercenary support from sectional or ethnic interests: hence the term 'hard state'.

Where there is personalised rule through the apparatus of a 'hard state', much turns on the personality and ideology of the ruler, his views on economic policy and the instruments (both institutions and people) employed to implement policy. A further aspect is that absolute rulers are in a position to plunder the country, or, (as in Banda's case), to indulge in conspicuous consumption within the country. Thus a 'hard state' may, (and often will), pursue policies inimical to development. But, in contrast to states where power is more decentralised, it also has the capacity to force through policies which can promote sustained development (for example by restraining government consumption to allow greater prodution of tradeables).

Some themes in Banda's policy and practice have been:

(i) Malawi has to develop through agriculture, implying a large increase in agricultural exports;

(ii) an attitude veering between scepticism and outright hostility to senior and middle level public officials, important manifestations of which have been a willingness to allow large declines in the value of civil service pay, during the period of rapid growth, and a genuine drive to tackle corruption in the public service;

(iii) a marked preference for economic efficiency where this conflicts with other objectives such as Africanisation of senior posts and disengagement from South Africa;

(iv) opposition to 'socialist' or 'cooperative' ideology;

(v) nevertheless, a strong desire to promote African control of the economy (especially his personal control) through intervention to direct the investable funds of the commercial banks and the crop marketing board (ADMARC), and the creation of the Press Group;[4]

(vi) a willingness to delegate much detailed oversight of the economy to technocrats, especially the plans and programmes involving aid agencies. Banda's interest has tended to focus on key political-economic variables such as producer prices, basic consumer good prices, and major items of infrastructure;

(vii) a proclamation of fiscal conservatism, which was adhered to during the post-Independence

[4] This latter feature caused a recent USAID mission to remark, 'Malawi's private sector is alive, doing well and owned by the government'.

Table 6

Average Monthly Earnings and Numbers Employed in 1985, by Sector, and Index of Real Value of Wages, by Sector, 1977-85

Sector (and numbers employed in 1985)	*Average Monthly Wages in 1985 (current kwacha)*	*Index of Real Earnings by Sector[1] (1980 = 100)*								
		1977	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Agriculture, forestry and fishing (189,300)	26.4	110	123	107	100	107	126	100	90	90
Manufacturing (59,900)	70.4	102	100	96	100	100	133	94	71	63
Electricity and water (4,500)	99.5	104	91	72	100	70	86	82	74	67
Building and construction (23,100)	56.1	106	96	92	100	85	79	69	64	63
Wholesale and retail trade, hotels and restaurants (38,600)	229.8	89	90	101	100	97	99	96	72	159[2]
Transport, storage and communications (23,900)	93.4	108	88	109	100	63	102	70	63	63
Financing, insurance and business services (12,700)	224.5	111	121	118	100	116	105	104	94	84
Community, social and personal services (57,000)	104.3	96	117	105	100	95	93	88	84	83
Total:										
Private (328,600)	**58.1**	**n.a.**	**n.a.**	**n.a.**	**100**	**103**	**104**	**89**	**81**	**77**
Government (80,700)	**82.1**	**n.a.**	**n.a.**	**n.a.**	**100**	**93**	**97**	**90**	**82**	**82**
All industries (409,300)	**62.9**	**100**	**104**	**100**	**100**	**102**	**103**	**89**	**81**	**78**

Source: Calculated from earnings and employment data in *Economic Reports* (various years). These are based on a mix of censuses and sample surveys of employers (depending on the sector) and take into account the value of payments in kind such as food and accommodation. Pre-1977 data is available, but is not strictly comparable, as it is derived from different surveys, which had a narrower coverage.

Notes:

[1] Calculated on the basis of the low income consumer price index.

[2] This estimate, which is derived from data in the *Economic Report 1987* is surprising, and may reflect a printing error in the average wages reported for this sector.

'austerity' when the fiscal effort had to be increased as the UK recurrent grant was phased out. But this stance was somewhat bogus, as an ambitious palace building programme was commenced in the late 1960s. From the mid-1970s Banda became profligate, as noted earlier.

7. *Malawi's acceptance of policy loans has not involved a basic change in ideology of economic policy.* There has been less tension than elsewhere between the Washington institutions and the government in the formulation of adjustment policy.

8. *There has been a conscious effort by the World Bank that Malawi should provide an example of 'adjustment practice at its best.* Because Malawi's initial disequilibrium was not exceptionally serious, and because the government had historically under-invested in health and education, the Bank encouraged the government to increase spending on rural health and primary education during the adjustment process, supporting this with Bank credits to both sectors. Since 1985, the Bank has taken an interest in nutrition questions. Structural adjustment also precipitated a critical reappraisal of the Bank's previous approach to rural development in Malawi, resulting in a major shift away from area-based rural development programmes towards more focused investments (e.g. in agricultural research and agricultural marketing reform) [Kydd and Spooner 1986].

The Bank was also fortunately placed in that the government had taken one of the toughest decisions adjustment — a large hike in the maize price — in 1980, prior to the negotiations for the first SAL. Thus, in Malawi, the Bank has found it easier to be on the side of the angels. It pressed hard, against government resistance, for increases in the producer prices of small farmer grown non-food crops (cotton, tobacco etc.). There is room for debate on the distributional consequences of this move, but, probably, its overall impact was progressive.

Conclusions

On the negative side, at the end of 1986, the economy was far from macroeconomic balance, after two years of large, unplanned balance of payments deficits, constituting the worst payments performance ever experienced by Malawi. Growth of M2, and of domestic credit, was accelerating. Foreign exchange rationing became more stringent from the beginning of 1986, with noticeable economic costs from import strangulation, beginning to be experienced in the latter half of the year.

Although there is no doubt that external circumstances are responsible for much of Malawi's present troubles, there are arguments emerging within the donor camp to the effect that there has been little radical reforming zeal in the IMF and World Bank programmes. Greater pressure, it is argued, should have been applied to reduce government recurrent spending, by reviewing civil service departments, and closing/contracting those which are not deemed to supply essential or 'high return services'. If such cuts were to be undertaken, this could precipitate conflict between donor organisations, as this would involve cutting back capacity created by recent aid projects. There would also be conflict within such agencies, between project and policy departments. A desire on behalf of donors to avoid such conflict probably explains why pressure to reduce government spending has not been greater.

These 'radical free market' critics also point to the slow implementation of liberalisation measures, notably in smallholder crop and input marketing (ADMARC) and public sector housing (mainly provided to middle and upper level civil servants). Both of these measures have been resisted by the government, but some preliminary liberalisation affecting ADMARC was underway in 1987. They also argue that the adjustment programme has placed excessive emphasis on increased taxation as part of the solution to budgetary problems.

On the positive side, it is possible to point to some arguably successful features of adjustment. The agricultural sector has performed moderately well. In the smallholder sector, there has been a strong increase in the real value of total ADMARC payouts, which in 1985 were 82 per cent above the 1980 level, before declining somewhat in 1986. After the favourable weather has been taken into account, this can be attributed to the improved terms of trade which was put in place in stages over 1980 to 1983, bringing most producer prices close to export/import parity (whichever is relevant). Over 1982 to 1985, Malawi produced maize harvests in excess of domestic demand, giving rise to the symbolic 'success story' of an African country with food to export.[5]

Employment levels were surprisingly buoyant up to 1985 (Table 3), and over 1980-85 the average annual rate of employment growth has been 2.1 per cent, about one percentage point behind labour force growth. As yet there is not a crisis of employment availability: the problem is more that of the income levels which can be achieved with these jobs.

Incomes of poorer workers have fallen proportionally less than better-off groups. Table 6 presents a picture of real earnings generally stable over 1977-82, and then dropping sharply. But since 1980 agricultural workers, by far the poorest category of employees, have suffered the least erosion in proportional terms.

[5] But there were a number of problems associated with the food surpluses. First, the price increases which had been necessary to elicit the necessary supply response had placed downward pressure on effective domestic demand, and this in circumstances where under-nutrition was already widespread. Second, farmers switched to maize reduced production of more profitable export crops, such as tobacco and groundnuts. Third, the government had not fully anticipated the financial costs of the build-up of maize stocks, which was a factor in ADMARC's very poor financial performance in 1985, which contributed to the falling out of compliance with IMF conditionality in 1986.

References

Christiansen, R. E. and Kydd, J. G., 1983, 'The return of Malawian labour from South Africa and Zimbabwe', *Journal of Modern African Studies,* vol 21 no 2

Kydd, J. G., 1985, 'Malawi in the 1970s: development policies and economic change', in *Malawi: An Alternative Pattern of Development,* Centre of African Studies, University of Edinburgh

—and Hewitt, A. P., 1986, 'The effectiveness of structural adjustment lending: initial evidence from Malawi', *World Development,* vol 14 no 3

—and Spooner, N. J., 1986, 'The World Bank's analysis of Malawian agriculture: changing perspectives, 1966 to 1985', paper prepared for Development Research department, World Bank, Washington DC, May

Ministry of Agriculture and National Resources, (Malawi), 1986, 'Crop Production Policy', *Working Paper* no 5, Lilongwe, July

Metz, Steven, 1986, 'The Mozambique National Resistance and South African foreign policy', *African Affairs,* no 341, October

Pryor, Frederic, 1987, 'Economic development and income distribution in very poor nations: Malawi and Madagascar', paper presented to the Development Research Department, World Bank, Washington DC, April