AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE II

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IMPROVING THE EFFECTIVENESS OF AGRICULTURAL POLICY REFORM IN AFRICA: MARKETING REFORM IN MALAWI

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ACRONYMS

ABA	African Businessmen's Association
ALS	Agricultural Liaison Service
APAP II	Agricultural Policy Analysis Project II
ADMARC	Agricultural Development and Marketing Agency
FMB	Farmers' Marketing Board
GDP	Gross Domestic Product
GNP	Gross National Product
HAF	High Analysis Fertilizer
IMF	International Monetary Fund
IRDP	Integrated Rural Development Project
LAF	Low Analysis Fertilizer
MCP	Malawi Congress Party
MDC	Malawi Development Corporation
NAC	Nyasaland AFrican Congress
NRDP	National Rural Development Program
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Program
TAMA	Tobacco Association of Malawi

PREFACE

During the past decade policy reform has become a valuable tool in efforts by the U.S. Agency for International Development (A.I.D.) to improve the contribution of agriculture to the physical and economic well-being of developing nations. The success of reforms requires not only rigorous economic analysis and extensive host country collaboration, but also strategic implementation. To perform effectively in the design and implementation of policy dialogue and adjustment-related programs, A.I.D. field officers as well as their host-country counterparts must be familiar with the repertoire of strategic and political issues that affect the reform process.

The Bureau for Research and Development's Agricultural Policy Analysis Project, Phase II (APAP II) has been a key vehicle through which A.I.D. has developed practical insights for the initiation, implementation and sustainability of agricultural policy reform. In addition to highlighting issues like these, APAP II has developed practical tools and methods for agricultural policy analysis and implementation in developing countries.

The "Improving the Effectiveness of Agricultural Sector Policy Reform in Africa" research project was funded by the Africa Bureau of A.I.D. (AFR/ARTS/FARA) under a buy-in to APAP II, in an effort to improve the quality of policy reform efforts. The specific objectives of this activity have been (1) to gain better understanding of the political and socio-cultural factors that explain the success and failure of agricultural policy reform programs and projects in Africa; and (2) to develop a set of guidelines and training materials that will enhance the ability of A.I.D. staff and host country officials to effectively incorporate political and socio-cultural analysis into the design and implementation of agricultural policy and institutional reform programs and projects.

The role of policy leadership, the political impact of key technical assistance staff, and strategies for institutional change were examined in a range of countries and contexts using a common analytical framework. Field studies were conducted in Côte d'Ivoire, Mali, and Zambia, and desk studies examined Cameroon, Ghana, Madagascar, and Malawi.

This document is but one component of the research reports produced under the "Improving the Effectiveness of Agricultural Sector Policy Reform in Africa" task. The complete corpus of documents include:

Improving the Effectiveness of Policy Reform in Africa: A Synthesis of Lessons Learned by Nicolas Kulibaba and Catherine Rielly;

Improving the Effectiveness of Policy Reform in Africa: Manual for Agricultural Development Practitioners, by Catherine Rielly and John Tilney;

Improving the Effectiveness of Policy Reform in Africa: Training Module by Catherine Rielly and John Tilney;

Improving the Effectiveness of Policy Reform in Africa: Cocoa Marketing Reform in Ghana by Nicolas Kulibaba;

Improving the Effectiveness of Policy Reform in Africa: Agricultural Marketing Reforms in Malawi by Nicolas Kulibaba;

Improving the Effectiveness of Policy Reform in Africa: Maize Marketing Reform in Zambia by William Levine and Charles Stathacos;

Improving the Effectiveness of Policy Reform in Africa: Cereals Market Policy Reform in Mali by Ismael S. Ouedraogo and Carol M. Adoum;

Improving the Effectiveness of Policy Reform in Africa: Rice Market Liberalization in Madagascar by Catherine Rielly;

Improving the Effectiveness of Policy Reform in Africa: Fertilizer Reforms in Cameroon by Catherine Rielly;

Improving the Effectiveness of Policy Reform in Africa: The Politics of Agricultural Policy Reform in Côte d'Ivoire by Jennifer A. Widner with Atta Brou Noel.

EXECUTIVE SUMMARY

This case study examines the political economy of agricultural marketing and price reform in Malawi during the 1980s.

Although Malawi attained nationhood as one of world's poorest nations, the years following independence were marked by impressive economic gains. Policies were clearly focused on promoting economic growth by building on the nation's comparative advantage in agricultural production and maintaining an open door to foreign private investment. Exchange rate policy consistently held to the principal of convertibility, while fiscal management was conservative and relatively transparent. Finally, Malawi has enjoyed continuity in political leadership matched by few other nations in the region.

Disequilibrium and downturn in the late 1970s and early 1980s revealed structural weaknesses in the economy and inequities in the nation's approach to development, which concentrated development resources and economic opportunity in the estate sub-sector of agriculture. Malawi was one of the earliest recipients of structural adjustment lending and, in spite of the fact that it exhibits many of the characteristics usually deemed necessary for success, it has yielded disappointing results. The principal objectives of adjustment policies were to improve the performance of smallholder agriculture, increase efficiency and output through market liberalization, raise producer incentives, liberalize trade, and redefine the role and operational methods of quasi-public and parastatal institutions.

Although the disappointing outcomes of reform might suggest that the targets of adjustment were in and of themselves unrealistic, this study examines the degree to which political forces and conflicting interests in Malawi, rather than flawed theory, have been to blame.

The following lessons are derived from Malawi's reform experience:

Politics and economics are intrinsically related; an understanding of each is key to the design and implementation of reforms.

Donors failed to comprehend the underlying structure of the economy and the extraordinary degree to which economic and political power were consolidated. By focusing reform efforts on smallholder food production, the reform process failed to exploit the potential of the estate sub-sector and facilitate government policies that actively discriminated between the two.

Malawi is a rule-ordered environment where political institutions are clearly defined, where the agencies of the state operate efficiently; where standards of performance are widely known and adhered to, but where economic and political power are consolidated to an exceptional degree. Institutional reform of marketing agencies and holding companies in which the president had a strong personal interest limited the depth and effectiveness of reform.

Quick-disbursement assistance mechanisms can present a barrier to frank exchanges between donors and recipients when they are most important: during the initiation of reform.

Limitations of reform efforts to smallholder income enhancement through diversification and the emphasis on price incentives to promote aggregate supply responses were in conflict with government strategy and key concerns about food security among the political leadeiship. This led to delays and interruptions in the rhythm of the reform process. But this very serious difference of priorities did not emerge during the early stages of reform initiation, due in large measure to the Government's need for immediate financial relief and its willingness to overcommit itself to reforms it did not believe in.

Contingency planning can be crucial to the success of reform.

During the course of reform implementation, Malawi experienced food deficits for the first time in thirty years. Government response to this eventuality created the appearance of intransigence. Contingency planning—including the modification of conditions attached to aid and scenarios for prospective action—would have led to improved understanding among donors and the Government on issues of paramount concern to each party.

Donor coordination is critical to the prevention of countervailing initiatives. This applies as much to different actors working within the same institution as it does to different agencies.

Donor *policy* objectives sometimes conflicted with those of the donors' *project* objectives. Against the goal of promoting smallholder adoption of fertilizer-responsive maize hybrids (central to the World Bank-funded NRDP), fertilizer subsidy removal appeared as a contradiction. Excessive reliance on price policy instruments to increase export crop production, in conjunction with the policy of input subsidy removal, exacerbated the food crop versus export crop conflict. This reflected not only a difference of theoretical views but also poor understanding of government priorities.

Effective liberalization of trade requires preparation and appropriate sequencing.

Inappropriate sequencing of reforms exacerbated internal contradictions of the reform program: price liberalization occurred in advance of market liberalization, placing a financial strain on the principal agricultural marketing agency, contributing to the near-collapse of the formal marketing system in 1985-86. The unpreparedness of the bureaucracy to administer trade liberalization suggests that the Government had caved in to pressure from donors to implement reform too rapidly.

1. INTRODUCTION

1.1 General Overview

During the past thirty years the nations of sub-Saharan Africa have, as a group, been characterized by low or negative economic growth. Among the reasons most frequently cited for this phenomenon have been policies to subsidize the growth of the urban economy through high taxation of agriculture, untenable, inwardly-focused exchange rate policies, restrictive controls over private economic activity, inefficient or corrupt management of public resources, excessive governmental intervention in markets, and political instability.

In certain key respects the southeastern African nation of Malawi has been an exception to the rule. In spite of the fact that Malawi attained nationhood as one of world's poorest nations, the years following independence were marked by impressive economic gains. Policies were clearly focused on promoting economic growth by building on the nation's comparative advantage in agricultural production and maintaining an open door to foreign private investment. Exchange rate policy consistently held to the principal of convertability, while fiscal management was conservative and relatively transparent. Finally, Malawi has enjoyed continuity in political leadership matched by few other nations in the region.

Disequilibrium and downturn in the late 1970s and early 1980s revealed structural weaknesses in the economy and inequities in the nation's approach to development. Malawi became one of the earliest recipients of structural adjustment lending and, as such, was scrutinized by donors, academics and other African nations as a case study and testing ground for the kinds of fundamental policy reforms that this approach entailed. Malawi's importance as a case study is reflected in the contradictions inherent in the country's policy orientation and its disappointing results. Agriculture has always served as the foundation of its economic development strategy. However, the nation's ostensible adherence to growth-oriented agricultural policies has failed to translate into improved incomes for the mass of rural farmers on whom it so depends: with a per capita income of only $ 160 in 1986, Malawi remains one of the least developed countries in the world.[1] The principal focus of structural adjustment policies was to improve the performance of smallholder agriculture, increase efficiency and output through market liberalization, raise producer incentives, liberalize trade, and redefine the role and operational methods of quasi-public and parastatal institutions.

While Malawi's response to adjustment appeared promising during its earliest stages, structural and institutional barriers have at times derailed progress. Although the disappointing outcomes of reform might suggest that the targets of adjustment were in and of themselves unrealistic, this study will examine the degree to which political forces and conflicting interests in Malawi, rather than flawed theory, have been to blame. Through an examination of agricultural pricing policy reform in Malawi during the past decade, the report will identify the way in which a variety of political actors within and outside of Malawi affected the *process* of

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[1] Lele. 1990. p 1208.

reform in its various stages. The report concludes with lessons learned from the Malawi reform experience with regard to the analysis, implementation and sustainability of agricultural sector reform.

1.2 The Analytical Framework Employed in this Study

In recent years a considerable body of research has been devoted to the role of political factors in the application of economic theory, particularly with regard to problems of structural adjustment in developing economies. On the basis of this heightened interest in the interplay between the political and economic realms, this research effort seeks to identify how agricultural policy reformers in developing countries can effectively integrate the lessons of political economy into the application of economic theory.

An initial point of departure for each of the studies is the assumption that economic reforms cannot be analytically or practically divorced from the complexities of the political milieu in which they are to take place. Indeed, *every proposal for a reform and every prediction of its outcomes implies a series of assumptions about the behavior and effectiveness of political actors or institutions and how they may react in a given set of circumstances.*

The analytical framework employed by this and its companion studies applies a "phased" approach to the assessment of policy reform: policy innovation is but a first step in the reform process, whereas often formidable challenges lie in policy implementation and sustainability. As policy reform is generally carried out, however, greater energy is often devoted to the design and adoption of a given policy regime, whereas an ad hoc approach is taken to implementation. The approach employed by this study examines the various stages that each reform regime or initiative must encompass: initiation/adoption; implementation; and institutionalization/sustainability.

The value of this approach is that it permits assessment of the roles that key political actors, (whether individuals, institutions or informally organized groups), play—or are likely to play—in the agricultural policy reform process at it various stages over time. Specific attention is given to the salience and power of those actors in contributing to the success or failure of reform initiatives. The dynamic relationship between economic objectives and political behaviors (activism or reaction) necessarily requires the examination of events over time as a means of identifying how effective strategies for reform can be developed.

For the purposes of analysis, an analytical matrix was developed that grouped critical political actions, responses and behaviors into four broad categories, or themes:

- Coalitions and Mass Political Pressure
- Donor-Government Relations
- Political Elites and Factions
- Bureaucratic Interaction

Table 1 presents the analytical matrix the study employs along with key considerations to be taken into account when analyzing the relationship between the agricultural policy reform and the relevant political actors.

Each category of political interactions deals with the political behavior of relevant actors as they influence or respond to political and economic conditions that give rise to or result from the evolution of the policy reform process. The four categories admittedly imply certain assumptions about the prospective importance of types of political actors. The categories are sufficiently broad, however, to accommodate analysis of changes in the alignment and relative saliency of political actors that typically occur in an evolving political and economic context.

Examining **coalitions and mass political pressure**, for example, can identify the degree to which demographically important stakeholders—political parties, particular social classes, ethnic or religious groups, or the proverbial "man in the street"—influence the reform process. Is their influence specific or diffuse? Did such groups provide an effective impulse for reform? Did they support, defend or oppose the economic or political trade-offs that are an essential element of the reform process? Were their responses based on perceptions of winning or

Table 1.1: Analytical Matrix

Improving the Effectiveness of Policy Reform in Africa

	POLITICAL THEMES: LEVELS			
PHASES OF AGRICULTURAL POLICY REFORM	Coalitions & Mass Political Pressure	Donor-Government Relations	Political Elite, Factional	Bureaucratic Interaction
Initiation/Adoption	• Consensus Building • Public Perception of Crisis • Previous Style of Adjustment Discredited	• Perception of Need for Consensus • Donor Resources • Sense of Urgency to Act • Sequencing of Reforms • Conditionality	• Selling Reform to Politicians • Autonomy from Elites • Support of Elites • Clientelism • Political Management Skills	• Policy Champions • Critical Mass of Technocrats • Tactical Thinking • Autonomy • Parallel Markets
Implementation	• Protests • Winners/Losers: • Urban/Rural, Farmers, Military, Other Interest Groups • Compensatory Measures	• Pace • Conditionality • Institutional Reform Strategies • Timing of Financing • Level of Financing • Tactical Thinking	• Motivation: Ideas, Party, Donor Resources, Constituency, Ethnic Group, Diffuse Opposition • Duration of Regime, Legitimacy	• Capacity of Technocrats • Incentives • Effective Institutions • Technocrat Autonomy/Influence on Bureaucracy • Role of TA
Sustainability	• Compensatory Measures • Concentrated Benefits • Dispersed Costs • New Coalition	• Supply of Public Goods • Conditionality • Relations with Bank, Fund, USAID, Other External Relations • Resources	• Institutionalized Autonomy • Role of Ideas • New Consensus	• Rules/Norms Reducing Discretionary Power of Bureaucracy • Reform Pace • Successful Institutional Change

losing, and how did this translate into support or opposition? Can mass political pressure be mobilized to support agricultural reforms even when there is significant lag-time between initiation and the ultimate derivation of benefits to such groups?

Given the often significant role of donors in promoting and supporting reform, **donor-government relations** are especially important, particularly when examining structural adjustment issues. Here, the framework seeks answers to some of the following questions:

> Was it the donors or the government that took the lead in perceiving the need for reforms, and to what extent did they support and participate in the design of the reform program?
>
> Did donors or the government mobilize winners and diffuse losers in the reform process, that is, did they account for trade-offs among stakeholders?
>
> Did the donor community respond consistently to reform programs in terms of funding and conditionality?
>
> To what degree did donor-government perceptions of the need, pace, conditions, and support for reforms remain consistent and compatible?

Focus on **political elites and factions** seeks to determine the degree to which those who are in positions of political or economic privilege can act as a unified force for progressive change, or how they can effectively oppose or derail reform. These issues are especially critical in autocratic political regimes that, by their very nature, are extremely sensitive to clientelism and patronage. In instances where agricultural policy reform reduces or eliminates sources of revenue for political elites, the question of political "marketing" acquires particular importance. How did the political leadership "sell" proposed reform initiatives to their elite constituents and clients? Were there reform "champions"? Was the integrity of the reforms maintained or was it compromised by elite pressures? How was opposition among elites diffused or coopted? Were special accommodations made in the timing of reform implementation? How did this affect the outcome of the reform process?

Bureaucratic interactions within the analytical framework are examined with attention to the degree to which the bureaucracy plays an important part in conceiving, supporting and implementing the reforms reform process. The analysis addresses questions such as:

> What critical mass of support from technocrats is needed in order to successfully implement and monitor reforms?
>
> Are bureaucrats and political actors mutually supportive in the reform process?
>
> What is the relationship between bureaucrats and donor agencies supportive of the reforms?

How do bureaucrats seek to institutionalize reform programs?

As this study and its companions demonstrate, the interactions that transpire at each level of political grouping vary during the evolution of the reform process over time, based on the perception or experience of the consequences of the reform process by different political actors.

2. THE HISTORICAL AND ECONOMIC CONTEXT OF REFORM

2.1 Historical Background

The present-day nation of Malawi was known as Nyasaland under British colonial rule and achieved independence in 1964. Economic prospects for Malawi at that time were poor: the nation was landlocked and without significant mineral or energy resources. Compared with other of Britain's colonies in the region, Nyasaland had been largely neglected both by the colonial administration and the many expatriates who had invested and taken up residence in such colonies as Kenya and Rhodesia.

With fewer than 200 miles of paved roads, physical infrastructure was inadequate and much of the country remained largely inaccessible. Access to the Indian Ocean was provided by roads to the South African port of Durban, railroads through Mozambique's Beira Corridor, and the only partially navigable Shire River, which connects Lake Malawi with the Zambezi River and, ultimately, the Indian Ocean.

Regional imbalances in colonial investment policy aggravated this situation. Policy neglect created relative isolation in the northern part of country (where approximately 12 percent of the population is found) and concentrated development in the south (where 52 percent of the population is concentrated). Approximately three-quarters of the nation is situated on highland plateau, where rainfall and temperatures are moderate, rendering the area suitable for the cultivation of cereals and groundnuts as well as typical highland crops like tea and coffee. The remainder of the country consists of mountainous zones and lowland areas along Lake Malawi and the Shire River. Of the nation's total land area of 9.4 million hectares, only about a third is suitable for intensive agriculture.

Both before and after independence, Malawi's population has been predominantly rural, in spite of a historical pattern of land scarcity; arable land per capita in 1964 was only 0.24 hectares, compared with 0.38 hectares for Africa as a whole. High rates of population growth have progressively decreased the size of land holdings over time.[2]

At independence Malawi's economy was dominated by smallholder agriculture, complemented by tea and tobacco plantations in the southern region. Smallholders generated roughly 90% of agricultural output as well as one-half of all merchandise exports.

Nonetheless, a principal source of income for rural and urban Malawians alike came from the migration of labor to the mines and farms of South Africa and Rhodesia. As a colony, Nyasaland had been part of the Central African Federation, along with Northern and Southern Rhodesia (now Zambia and Zimbabwe). Central tenets of this union had been the maintenance

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[2] Pryor. 1990, p. 23.

Table 2.1: **Principal Macroeconomic indicators, 1980-90 (annual growth per cen tper annum)**

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Real GDP[a]	-0.04	-5.20	2.70	3.60	4.40	4.30	2.60	-0.20	3.29	4.30	4.68
Real GDP/capita	-3.64	-8.17	-0.51	0.48	1.38	1.23	-0.81	-3.22	3.10	-2.79	1.43
Agriculture of which:	-6.50	-8.20	6.40	4.40	5.40	1.10	0.10	1.90	1.98	3.45	5.09
Smallholder	-8.50	-8.90	2.50	3.70	7.20	1.20	0.40	0.50	0.49	1.56	7.52
Estates	3.30	4.90	22.40	7.10	0.80	0.60	-1.10	7.20	7.13	9.58	-2.19
Manufacturing	0.30	3.60	-0.30	7.10	2.50	0.50	5.30	-0.80	3.27	7.87	5.03
Govt. Services	8.40	6.30	5.50	4.90	10.30	3.20	8.50	4.10	5.28	2.33	2.69

Note: (a) 1978 prices; new series introduced 1987.
Source: Cromwell. 1992. p. 118; data are derived from various issues of the Government of Malawi *Economi Report*

of open borders and the free movement of labor among the colonies. Indeed, until the imposition of a boycott against its apartheid regime, South Africa continued to depend critically on the importation of labor by its mining sector well into the post-independence era.

2.2 Colonial Agricultural Policy and Its Relevance

During the colonial era certain British colonies in East Africa (Kenya and Southern Rhodesia) created large-farm enclaves through discriminatory economic regulation. The mechanisms used to promote this development included the prohibition of small-holder production of specific crops, administrative facilitation of the movement of labor to large-farm areas, bias in the provision of infrastructure and services, and the alienation of large tracts of highly arable land.

Similar practices were undertaken in only a limited fashion in colonial Nyasaland: certain tracts were set aside for European settlement, indigenous small-holders were not allowed to grow flue-cured tobacco or tea for export, and infrastructure and agricultural support services were overwhelmingly directed to European estates Growth of the estate sector in Nyasaland, however, was undermined in large measure by long-distance labor migration to Rhodesia and South Africa, resulting in indigenous labor scarcity. Visiting tenancy labor schemes, (known as *thangata* in Nyasaland) allowed settler estates to remain viable, although the profitability of the estates remained marginal or dependent on subsidies from the colonial administration. By the end of the colonial period, the British authorities had begun a phased withdrawal of support from the estates and began shifting their efforts toward promoting improved productivity in the small-holder sector. The inevitability of independence and the low returns on subsidies to Nyasaland led to a waning of Britain's commitment to Nyasaland before the impact of its small-holder orientation could be measured.

While the expatriate presence in Malawi was small compared with other nations in East Africa, the monetized economy was dominated by non-Africans, including expatriate British, South Africans, Rhodesians and a large East Indian community that dominated rural commerce and transport.

As Harris, Gordon and Lipumba have argued, it is ironic that Malawi ultimately "succeeded in creating in the post-colonial period what earlier colonial efforts never did—a dynamic large-farm sector to serve as the leading edge for export-based growth." [3]

2.3 Economic Performance After Independence

When it attained independence in 1964, Malawi's economic prospects were considered dim by comparison with other African colonies. It was considered "an imperial slum" and was called "the Ireland of Central Africa—poor, scenic, and with a ready supply of exportable labor."[4] Domestic savings were minuscule and capital formation depended principally on grants-in-aid, remittances from migratory labor, and encouraging, if small, flows of investment capital in the agricultural sector. With only 33 university graduates, Malawi was poorly prepared for the difficult task of nation-building. Public finance was weak in its management and immediate potential, and in the first year of independence revenues were sufficient to cover only half of the Government's expenditure needs. Foreign capital inflows constituted 85 percent of total savings during the first years of independence (although these were to decline gradually to 35 percent of total savings by 1978) and during the first year of independence Malawi's trade balance was negative, with imports exceeding imports by 25 percent of GDP.

In spite of these "downside" elements, the regime of President Hastings Kamuzu Banda succeeded in promoting rapid economic growth during the nation's first decade: gross investment as a share of GDP rose from 14 percent to almost 40 percent, while the domestic savings rate increased from 2 percent to over 20 percent of GDP in 1978.

Perhaps the foremost advantage enjoyed by Malawi was the seemingly enlightened approach taken by the Banda regime, whose goal was to limit Malawi's dependence on aid as quickly as possible by generating significant private and public savings and investment. Banda sought to do so using a strategy whereby markets would generate growth in some sectors of the economy, while the Government would intervene to "push" labor and development capital in the desired direction. Although this created market distortions and social inequities, over the short term it yielded many of the anticipated, positive outcomes. Indeed, during the nation's first

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[3] Harris et al. 1989. p. IV. 9.

[4] Unattributed quotations, cited in Pryor. 1990. p. 39.

decade of independence (and, with some qualification, even afterward), the Banda regime's approach led many donors to cite Malawi as a nation where liberal policies resulted in successful development.

Nonetheless, the literature on Malawi's developmental success is rife with contradictions: to donor agencies, the first years of independence were hailed as a "success story," while other analysts point out the fact that Malawi's macroeconomic gains came at the expense of deterioration in the quality of life of the majority of Malawians who reside in rural communities. As noted by Harris, Gordon and Lipumba, "In this view, whatever growth Malawi has achieved had accrued either to foreigners or to a small group of Malawians who were in an operative alliance with the foreign interests that dominated their economy.[5]

To better appreciate the basis for these opposing points of view, it is necessary to review developments in Malawi's economy during the initial decade following independence.
Between 1964 and the late 1970s, Malawi sustained a high rate of annual GDP growth, peaking between 1974-1978 at 6.6 percent, based largely upon growth in the estate subsector of agriculture. Agricultural exports valued at current prices grew at a rate of 15 percent during the 1960s, and accelerated to a rate of 22.5 percent between 1973 and 1977. (By comparison, the average growth rate of agricultural exports for sub-Saharan Africa as a whole during the same period was -1.9 percent.)[6] In spite of high population growth, per capita GNP during Malawi's first decade as a nation grew at 2.5 percent annually. During the same period, Malawi increased its rate of investment and raised the annual growth in the savings rate from 8 percent to 18 percent of GDP.

Signs of emerging structural weakness in the economy became evident in 1978, when roughly two-thirds of all savings were generated directly by government or quasi-governmental enterprises. Of the remainder, a significant proportion resulted from enterprises in which public companies played a large role. Closer scrutiny indicates that there were nearly parallel linkages between the domestic savings rate, the activities of quasi-public marketing firms, and the performance of export commodities (tobacco and tea) in world markets.

After 1979, Malawi's economy entered a recession in which the rate of GNP growth dropped below that of population growth. The principal catalysts for decline were exogenous: the second large round of oil price increases, the collapse of prices in world markets for Malawi's principal agricultural export (tobacco), civil turmoil in Mozambique that cut off Malawi's rail link to the Indian Ocean, and a sharp decline in remittances as the result of politically-related bans on labor migration to South Africa.

However, the magnitude of the recession's impact was due largely to structural imbalances in the economy, enhanced by policies that placed the tea and tobacco estate subsector

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[5] Harris et al. 1989. p. IV.4.

[6] Sahn and Arulpragasam. 1992. p 1.

of agriculture at the forefront of economic development. As Malawi's terms of trade plummeted by 15.5 percent per year between 1977-1980, the interest burden on accumulated foreign debt (including commercial borrowing for estate development) began to rise.[7] Severe drought in southern Africa during 1980-1981 further aggravated demands on the country's foreign exchange reserves: sharp reductions in small-holder production of cereals obliged Malawian authorities to make up for shortfalls in food production by importing cereals.

Beginning in 1980 economic conditions worsened dramatically: agricultural GDP declined 6.5 percent, followed by a further drop of 8.16 percent in 1981. During the same two-year period, overall GDP declined more than 10 percent, to a level not surpassed during the entire subsequent decade. Falling export revenue and a rise in imports' share of nominal GDP (related to higher fuel, food and transport prices) contributed to a devastating increase in the country's current account deficit, which grew by 145 percent between 1977 and 1980, to nearly 20 percent of GDP.[8] Although Malawi's fiscal managers had enjoyed a reputation for conservatism during the first decade of independence, by 1981 the compounded effects of economic decline created a budget deficit that exceeded 10 percent of GDP, due in large measure to debt service and shrinking revenue.[9]

Beginning in 1979 the Banda regime sought external assistance to help it cope with its declining economic circumstances, negotiating a two-and-a-half year standy-by agreement with the International Monetary Fund that provided approximately US $64 million from various financing facilities. Conditions attached to the IMF program focused principally on short-term demand management measures to which the Banda regime was unable to adhere, due to a worsening of exogenous conditions. With the agreement of the IMF, in 1980 the World Bank began to work with Malawian authorities to formulate a Structural Adjustment Program (SAP).

Although the substance of World Bank and other donor programming will be discussed elsewhere in the study, one point should be stressed. The structural weaknesses identified during preparation of the SAP included: sluggish growth of smallholder exports; the narrowness of the export base (tobacco and, to a much lesser extent, tea); dependence on imported fuel and rapidly-depleting supplies of domestic fuelwood; deterioration of parastatal finances; inflexible price and wage administration; and increasing budget deficits. As Harrigan (1991) has noted, the important problems identified by the World Bank can hardly be debated; donor analysis of

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7 Sahn and Arulpragasam. 1992, p. 7.5.

8 Malawi's current account had been in deficit every year since independence, however capital inflows from private investment in the estate sector and from remittances had precluded the emergence of serious balance-of-payment problems until the late -1970s.

9 Combined sources: Sahn and Arulpragasam, 1992, p. 7.6; Toye, 1991, p. 210; Harris, et al, 1989, p, 1.13.

these problems, however, "did not demonstrate a clear understanding of Malawi's post-independence development strategy and the associated political economy or the manner in which many of the structural weaknesses were the by-products of this strategy."[10] Whether the formulation of structural adjustment programming in Malawi was due to a lack of understanding of underlying political causes, as Harrigan implies, or reticence with regard to tackling essentially political problems, the ultimate result was to postpone the Banda government's reckoning with deeply ingrained policy inequities and dysfunctions.

2.4 Agricultural Policy in the Early Independence Era

In Malawi's agricultural sector, the years immediately following independence were characterized by a continuation of policies in force during the late colonial era, emphasizing development of smallholder agriculture.

The Banda regime required private estates to cede undeveloped and uncultivated lands to smallholders, a small proportion of estates were dissolved and made available for smallholder settlement, and regulations governing the terms of tenant labor were liberalized. Extension services to smallholders were expanded, and programs were inaugurated to assist smallholders to expand into the production of flue-cured tobacco and tea. Perhaps most important of all, smallholders were paid near-export-parity prices for their crops.

Government emphasis on smallholder development did not endure, due in part to longstanding doubts about smallholder-led growth strategy, and the waning need to consolidate popular support for the regime in rural areas. As early as 1964, an official report on the tenant labor system had concluded that despite substantial problems with tenancy system. it allowed tenants to produce yields substantially higher than those achieved by smallholders. A 1968 *Government Economic Report* expressed doubts about the ability of smallholders to sustain the increases in production needed to support the rapid growth planned in other sectors. Contributions to Government revenue was an issue of great importance to the Banda regime, which was seeking to minimize its dependence on revenue contributions from the British treasury.

Reversal of the Government's development strategy came in the 1970s, when sanctions against the apartheid regime in Rhodesia led multinational tobacco companies to relocate to Malawi, allowing the nation to enter a largely closed market that was dominated by a small number of powerful multinational firms.

In examining the emergence of estate agriculture as a focus of Malawian development strategy, most documents consulted for this study emphasize the Government's belief in the greater productive potential of the new thrust. However, additional views are provided by several authors who consider the estate strategy in the context of Malawian politics.

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[10] Toye. 1991. p. 213.

Pryor (1990) points out that the "big push" to support the expansion of estate agriculture may have been motivated not merely by their potential contribution to the economy, but also by Banda's belief that they would serve to promote:

> "the allegiance of certain segments of the educated urban elite, especially politicians and high civil servants, by turning them into a rural bourgeoisie with strong ties to the state. Ironically, the estate owners who finally succeeded in such economic endeavors were a somewhat different socioeconomic group, but they still provided a type of rural leadership that was important for the future of the nation."[11]

While the Banda regime's methods for promoting estate development are described below, (in the Section 3 discussion of quasi-official elite institutions), several points bear mentioning at this point. In the manner in which it evolved, the development of estate agriculture was only possible for two reasons: the creation of privileged quasi-official companies, owned and operated by Life President Banda and his closest associates, and the enthusiasm of donors in addressing the development needs of the smallholder sector, thereby relieving the Government of responsibility for the greater mass of agricultural producers.

As important, as Harrigan has noted:

> "Banda's estate-led growth strategy had not featured in any of the Government's official development policy statements and had been implemented 'behind donors' backs' via circuitous methods of state intervention. Government agencies, such as the Ministries of Agriculture and finance with whom Bank staff were involved, themselves had limited dealings with, and knowledge of, the estates."[12]

As the estate-led development strategy evolved, a variety of methods were used to strengthen it: pricing policy, restrictive crop licensing, the facilitation of credit, and the mobilization of foreign capital.

Whereas most authors tend to view Malawi's agricultural production and marketing system through the lens of bifurcation—smallholder and estate agriculture—Harrigan takes a somewhat different view, assigning significance to the class of officially-designated Progressive Farmers, the *Achikumbe*. [13] He notes that Banda's development policy facilitated estate expansion in several ways:

> "First, the majority of smallholder subsistence producers, unable to participate in the cash economy and hence benefiting little from the rural development programmes and

[11] Pryor. 1990, p. 390.

[12] Toye. 1991, pp. 214-215.

[13] The *Achikumbe* farmers are described in some detail in Section 3 of this study.

facing growing land scarcity, became increasingly impoverished. This forced many to enter estate wage employment despite declining real wages in the estate sector throughout the period. Second, this increase in wage employment at the expense of smallholder subsistence production required a concomitant increase in the marketed surplus of food crops in order to feed the new estate labourers. The Achikumbe were central to providing such a surplus. Hence, by the late 1970s, Malawi's agricultural sector was essentially trimodal, with the smallholder sector subdivided and related to providing the country's food requirements and the estates' labour requirements."[14]

[14] Toye, 1991, p. 214.

3. POLITICAL ACTORS IN MALAWI

The following section of this study describes the principal actors who have played a role in Malawi's political economy, using the approach described earlier in the analytical matrix. One particular feature of Malawian political economy, however, necessitates a subtle departure and a reordering of categories found therein.

Since independence Malawian politics have been dominated by Life President Hastings Kamuzu Banda. On a continent where strong, central leadership and personalization of the political apparatus are the norm, Malawi is exceptional for the degree by which its President has imprinted his personal philosophy and values on the structure of the nation's econonmic and political institutions. While there can be little argument that the President has profited enormously from the consolidation of his power, what is most unusual is that he has done so using an approach that emphasizes the importance of aggressive private sector development and moralistic conservativism in public and private life. As argued by Harris, Gordon and Lipumba (1989),

> "Banda's Malawi is an interesting variation on the theme of the patrimonial state and of neo-mercantilist development policies in sub-Saharan Africa. On the one hand, it is an extreme version of the centralization of power and the shrinking of the political arena that have been pervasive elements of the post-colonial polities. The authoritarian, arbitrary and highly personalistic nature of Banda's rule fits in well with the general themes of African patrimonialism. On the other hand, it has not witnessed the corruption, wholesale expansion of public employment and inefficiency of many other patrimonial states, nor their tendencies to decay and lose their connectedness to the rural areas." [15]

The relevance of Banda's personal influence and the strength of the institution of the Presidency is such that only external forces—chiefly multilateral donor institutions—have been able to provide a countervailing political force for reform.

3.1 Political Elites

3.1.1 Life President Banda and the Power of the Presidency

Even during the final years of its status as a colony, nationalism in Nyasaland was nowhere near so strongly pronounced a political force as elsewhere in East Africa. Emerging indigenous political forces were concentrated largely around the central issue of Nyasaland's inclusion in the Central African Federation, along with the two Rhodesias, beginning in 1954. Where the British Crown argued that the Federation would offer obvious economic benefits,

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[15] Harris et al. 1989. pp. IV. 41-42.

Nyasaland politicians feared that the forces of racial discrimination that so characterized Southern Rhodesia (latter-day Zimbabwe) might take root in their own territory.

The Nyasaland African Congress (NAC) had been founded in 1944, comprised of various "native associations," and was the principal forum for political activism among indigenous politicians. By the 1950s, opposition to Federation became the NAC's principal rallying cry, and when they failed to bloc the British action, the NAC older leadership found itself discredited. Younger members of the Congress identified a new leader in the person of Dr. Hastings Kamuzu Banda.

A member of the numerically dominant Chewa ethnic group, Banda had spent nearly 40 of his 60 years in the United States, Scotland and England, where he studied medicine and practiced as a physician. Returning to Nyasaland in 1958, Banda sought to reconstruct and broaden participation in the NAC, and redirect its energies to a campaign for independence. Where the Congress had earlier been based among a small group of representatives of ethnic minorities, Banda set about recruiting a broader array of traditional ethnic leaders, rural farmers, civil servants and migrant laborers from Nyasaland who were working in South Africa and Rhodesia. Most important of all, he was able to attract the nearly unqualified support of his own Chewa ethnic group.

In 1959 Banda was imprisoned for thirteen months for anti-Federation activities, and by the time he was released, his political stature had been considerably enhanced. Under Banda's leadership, the NAC rechristened itself the Malawi Congress Party (MCP) in 1961, swept the first colony-wide elections for the legislative assembly, and even succeeded in recruiting support among a number of winning candidates for exclusive white only seats.

In the pre-independence government Banda chose to take charge of the Natural Resources portfolio, which included responsibility for agriculture. By January 1, 1964 when Britain dissolved the Federation and granted Malawi independence, Banda already enjoyed the status of the nation's elder statesman and was named Prime Minister. Support for Banda was not unanimous, and younger members of the Government regarded Banda merely as a titular leader who could be shunted aside as the process of achieving nationhood gave way to the business of nation-building.

Less than a month after independence, conflict broke out in the new Government. Banda's rivals sought to enact legislation to promote rapid indigenization of the economy, (including the seizure of lands owned and operated by white expatriates) and to prompt Britain to liberalize the racial policies in Southern Rhodesia and South Africa. In a move to gain popular support, Banda's rivals also argued for an immediate raise of civil service salaries. Banda reacted by dismissing his cabinet and, assured of the support of parliament, forced his opponents into exile. In 1966, when he was elected President of the Republic, Banda consolidated power by banning all political parties other than the MCP. By 1971 he had enacted constitutional changes to extend his mandate, naming himself Life President.

Perhaps the best, and most concise, description of governance under Life President Banda is provided by Chazan, who points out that, in Malawi:

> "Ideologies aside, authoritarian politics have dominated the domestic scene. Competition over access to and control of state resources has nurtured an instrumental view of politics in which the public domain is seen as a channel for individual or partisan enrichment. Zero-sum patterns of interaction (one side's gain is another side's loss) have led to the muzzling of loyal oppositions and to an intolerance of dissenting opinions."[16]

Banda's approach to governance and policy-making has been nothing less than pragmatic. Recognizing a continued need for Western participation in the economy, he aggressively promoted cooperation with foreign investors and development agencies and crafted policy to create an environment that was attractive to them. While his hold on power has been consistently authoritarian, he has at one and the same time strictly enforced higher standards for performance and integrity among public servants than can be found elsewhere in the region. The corruption so endemic throughout sub-Saharan Africa is largely absent in Malawi, replaced by institutions and a policy regime that have encouraged enrichment through the conduct of legitimate business. This has not prevented the distribution of benefits from enlightened policy from being channeled to a small group of elites and to the Life President himself, however; they determine, after all, the rules by which legitimate business in Malawi is defined.[17]

3.1.2 Malawian Elites

Chazan describes Malawi as an "administrative-hegemonial regime," which, however exclusionary it may appear to be on the surface, "nevertheless involves major actors in the decision-making process." She argues that regimes of this type have developed their own ordered relationships with the representatives of key interests in society. "In Malawi this phenomenon has been predicated on the concomitant nurturing of elite cohesion. Leaders have

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[16] Chazan, 1988, p. 7.

[17] At the risk of engaging in a sound-bite assessment of a career that has listed nearly one hundred years, it is perhaps best to examine Life President Banda's role as described in his own words, taken from a 1975 public speech: "I am the boss here. Why beat about the bush? I am the boss. I am responsible for this country, the welfare of the ordinary people in the villages, men and women, boys and girls. Whatever the rules and regulations, practices and usage, etiquette in other countries...whatever the etiquette between the officials and politicians, between Permanent Secretaries and their Ministers, whatever the usage in other countries--not here, not here! I am the boss. I am responsible. If anything goes wrong, it;s not my Permanent Secretary who is going to be blamed. Therefore, when the opinions of the officials on any subject conflict with my own opinions, my opinions should always prevail. Any official who does not like that can resign at any time. And that has been my policy all through...A leader...who depends on others, even his own officials or outside experts, is a prisoner. and I never want to be a prisoner on any subject, not one. I accept advice from my so-called experts, so-called advisers, so-called specialists only when their advice agrees with my own ideas and not at any other time." (cited in Pryor, 1990, pp. 12-13)

used state resources and state offices as a means of constructing a state managerial class with a common interest in bolstering the public apparatus."[18]

Two principal means have been utilized to accomplish this end: the selective recruitment, training and posting of civil servants and employees of quasi-public companies, and the creation of opportunities for participation in economic growth.

While the economic rationale for big-push development of the estate sector was its evident potential compared with traditional agriculture, the strategy also created political dividends for the regime. Using quasi-official institutions to direct the flow of investment capital (including concessionary and unsecured loans), the Banda regime was able to create opportunities for legitimate profit for political elites and, in fact, to create those very elites. This was reinforced by policies that favored the estate sector by protecting it from competition from smallholders; generating a supply of cheap wage labor; providing favorable access to expatriate technical expertise and inputs, and paying higher prices for their products.

Hence, while it is often argued that the Banda regime has been progressive in its in its support for agricultural development, the fact remains that the consolidation of benefits among political elites evidences a pronounced and self-serving class bias in policymaking.

3.1.3 Elite Institutions for Agricultural Marketing and Development

While liberal trade policy and private sector development have been hallmarks of Malawian policy, the fact remains that investment, employment and marketing in agriculture and other sectors of the economy have, over time, become consolidated within a handful of elite institutions that, although privately owned or managed, are quasi-governmental in character: ADMARC, Press Holdings, and the Malawi Development Corporation (MDC).

The origins of these institutions stem from the desire of Banda's government, during the period immediately following independence, to transfer ownership and control of the economy to indigenous entities while, at the same time, safeguarding a place in the economy for vital foreign business interests.

Before describing each of the institutions, it is possible to note the characteristics that ADMARC, Press Holdings and the MDC have in common:

- Memberships on managing boards and in the distribution of shares exhibit extensive cross-participation by government elites and members of their families. The most notable of these is President Banda himself;

[18] Chazan et al. 1988. pp. 133-136.

- Each acts as an investment holding company and participates directly in the ownership of private estates, factories, service bureaus, and banks;

- Each has been successful in recruiting foreign capital, through joint ventures and licensing arrangements;

- All of them are prone to engage in joint ventures with one another, as a means of distributing risk and profits;

- All acquired interests in the principal Malawian sources of lending capital, whereby they have been able to provid themselves with privileged access to often unsecured loans needed for typically highly-leveraged investments.

- All benefit from government-sanctioned monopolies and quasi-monopolies, usually in partnership with foreign firms or multilateral investment agencies (including the World Bank Group's International Finance Corporation).

- All enjoy concessionary tax treatment.

- All enjoy discriminatory treatment with regard to the transparency of their accounts. Although gross assets and liabilities are public knowledge, undistributed profits are often not reported.

3.1.4 ADMARC

The Agricultural Development and Marketing Corporation (ADMARC) succeeded the colonial-era Farmers' Marketing Board (FMB) in 1971, with a legal monopsony over all export crops produced by smallholders, and over the inter-district marketing of food crops grown by smallholders.

ADMARC is legally owned by the Government of Malawi; however it operates as a profit-making institution, with dividends distributed to the Government and high fees paid to Directors appointed by the Government. As a profit-making entity it has traditionally had no mandate to either maintain low food prices in urban areas nor to make contributions to the official budget. Nonetheless, by virtue of its dominance, ADMARC has frequently performed like a traditional marketing board, for the purpose of stabilizing prices nationally and ensuring the distribution of cereals during periods of shortage.

ADMARC pricing policy for crop purchases and the sale of agricultural inputs has been nominally determined by an ostensibly independent authority, the Government Price Commission, although the Commission's own directives require the personal approval of Life President Banda, who directs ADMARC and is a principal beneficiary of its operations.

ADMARC profits have been heavily invested in the estate subsector of agriculture, although it has also been a principal source of loans and investment capital to Press Holdings and the MDC, thereby extending its reach into other sectors of the economy.[19]

Prior to the creation of ADMARC the export prices of smallholder-produced crops were enjoying an upswing in international markets. FMB pricing policy, meanwhile, had begun to move away from the practice of paying near-parity prices. Between 1967 and 1970 the FMB had turned a net profit of K 6.6 million; however between 1971 and 1974 profits rose to K 38.5 million.[20] Under ADMARC the gap between the prices paid to Malawian smallholders and export parity was allowed to widen, and between 1972 and 1978 ADMARC profits reached K 100 million. While export marketing may have brought windfall profits, a portion of ADMARC's returns were utilized to subsidize less profitable trade in domestic foodcrops. Throughout the 1970s ADMARC foodcrop accounts generated only slight profits and, in some years, losses, which effectively provided a marginal subsidy to producers.

In a sense, ADMARC pricing policy can be said to have represented economic engineering by the Banda regime; as it invested itself heavily in expanding the estate sector, the regime used pricing policy to bolster food production by generating a shift among small-holders out of export crops and into food crops, especially maize. However, in doing so, ADMARC merely reinforced existing inequities in Malawian society. ADMARC effectively weakened smallholder price incentives for increasing output while doing little to enhance foodcrop productivity.

Until 1979, roughly 75 percent of ADMARC's trading profits (as opposed to dividends on its growing portfolio of other investments) were invested in estate development and agroprocessing, and by 1981 ADMARC's wholly-owned estates had grown to 30,000 hectares. Although some of these investments were directly made to the acquisition and development of tobacco and tea estates, others were made through loans to Press Holdings and Malawi's increasingly-indebted commercial banks, (which had, themselves, heavily invested in estate development).

The rapid growth of the estate subsector benefitted from other events and policies as well, including Malawi's rapid population growth. While government policy drove the value of wages down by approximately 30 percent between 1966 and 1977 and returns on smallholder production of export crops shrank, a ready supply of labor became available to the estates. This was compounded further by Banda's decision to joint the Front Line States' embargo on the

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[19] By the early 1980s ADMARC owned more than twenty agricultural estates and shares in thirty other companies including agricultural processing facilities, the National Bank of Malawi, the National Insurance Company, Lever Brothers, a cement factory, a metal products manufacturing facility, and the Bata Shoe Company. (Pryor. 1990. p. 99)

[20] Harris et al. 1989. p. 26.

provision of labor to South Africa, shutting down opportunities for employment outside the country.

Economic crisis in the late 1970s and intervention by donor agencies during the 1980s have led to a fundamental redefinition of ADMARC's role. Having over-extended itself as an investment institution during its early years, ADMARC has returned to its original focus on agricultural marketing and food security management. Its success in adapting to this change will be discussed subsequently in this study.

3.1.5 Press Holdings, Ltd.

Press Holdings began shortly after Dr. Banda's return to Malawi in the late 1950s as a publishing company linked to the Malawi Congress Party. It has, since that time, remained wholly owned by Life President Banda, albeit "in trust for the people of Malawi."[21] After independence Press began to diversify through direct investment and the establishment of subsidiary companies that over time, themselves, hived off into other subsidiaries.

Although Press is a commercial operation, President Banda has regularly used it to facilitate his own political agenda. Its profits have been used to subsidize the women's and youth wings of the MCP and local development projects, or to finance high-profile projects, such as the construction of the Kamuzu Academy, (an elite boys' school), the Kamuzu International Airport, and the capital city, Lilongwe.[22]

One of the less savory chapters in the growth of Press Holdings came in the 1970s, when Banda acquiesced to a rising tide of anti-Indian sentiment, driving Asian entrepreneurs, first, out of rural areas and, eventually, out of key towns and cities. As dynamic entrepreneurs, Indian businessmen left behind successful wholesale and retail businesses and transport operations. Malawians were allowed to acquire these, but many failed owing to a lack of business acumen among their new owners. Press Holdings, Ltd. then set out to acquire those same businesses at discounted prices. By the late 1970s, Press Holdings held the controlling interest in Limbe Leaf, the country's premier tobacco processing and export company, tobacco, rubber and sugar estates; Peoples' Trading Center, the nation's largest retail chain; Malawi's largest bakery chain, and transport companies. Press also held shares in a wide range of other businesses, including joint ventures with British and other foreign companies.

During the same period of time, Press (along with ADMARC and MDC) acquired a controlling share in the Malawi's two commercial banks, providing it with control over the principal sources of capital on which its ambitious growth depended. This also permitted Press

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[21] Pryor, 1990, p. 147.

[22] Among the more difficult to explain drawdowns from Press Holdings' noncommercial accounts was a 1979 contribution of US $ 2 million the United States-based Wilberforce College. (Pryor. 1990. p. 148)

to extend its activities to currency trading, where it utilized Government guarantees as leverage. Within a period of eighteen months, Press became the single-largest debtor to Malawi's banking system. By 1982 Press was technically insolvent, with debt that exceeded K 100 million and which was continuing to grow at a rate of K 500 thousand per month.

Because of the scale of its holdings and operations in the economy, as well as the presence of the Life President at its helm, Press has enjoyed the same treatment normally accorded to official institutions and agencies in Malawi's dealings with donors. It has benefitted from concessionary external financing within the context of the nation's successive structural adjustment programs and retained its dominance in the economy.

3.1.6 Malawi Development Corporation (MDC)

The Malawi Development Corporation was established in 1964, capitalized by an interest-free loan from the United Kingdom. Under the direct management of Life President Banda, its mandate was to provide local counterpart investment capital for import-substitution joint ventures with foreign firms. By 1970 it became a limited liability corporation with most shares held by the Government of Malawi and the remainder held by Life President Banda, ADMARC and Press. Within ten years its assets grew to US $ 100 million.[23]

MDC's business strategy was, first, to establish joint ventures with foreign capital (sometimes in partnership with other local holding companies) and, second, to support the development of subsidiaries of those joint ventures, extending their reach into the same or unrelated industries. MDC's approach successfully generated rapid expansion of commerce and industry, but entailed rampant overcomplexity in its accounts. Over time its interests became plagued by cash management problems and illiquidity, high leveraging, and shortages of adequately-trained local managers.

3.2 Coalitions & Mass Political Pressure

3.2.1 The Articulation of Political Interests

A characteristic of Malawian politics that there are is no institutional power base in the country that is not dominated by Life President Banda. The triumivirate of political power—the presidency, the Malawi Congress Party, and the holding companies—were created by the Life President himself, who defined the universality of their mandates and the exclusivity of their control over public and private life. This consolidation of public and private power has not only unified governance, but it has also atomized opposing interests and precluded the emergence of a legitimate or loyal opposition. Hence, the trade unions, teacher and student organizations, intellectual dissidents, and ethnic blocs that have been a catalyst for change in other nations have either failed to emerge or have been co-opted, suppressed, or exiled by a hypersensitive

[23] Harris et al. 1989. p. IV.25.

regime.[24] Constant reorganization of personnel within the Government has been a principal means of preventing the emergence of factionalism even at the upper reaches of power. In the constrained environment of Malawian politics, the only institutions not fully mastered by the Banda regime have been the nation's churches, which are providing an ever-larger number of activists for greater equity for rural populations and democratization of the state. Supported and, in most respects, protected by international organizations, they presently enjoy an emerging freedom of expression that, while limited, is unprecedented in the life of the nation.

To a great extent, Banda has been successful in building a unified nation through effective institution-building, employment creation, and the avoidance of regional or urban bias in policy. The MCP's role is more that of a channel of communication between the populace and state interests than a tool for mobilizing popular support for the regime.

3.2.2 Ethnicity and Mass Politics

Compared with other African nations, Malawi is a nation where ethnic diversity has, thus far, not led to fragmentation or factionalism. The two largest ethnic groups, the Chewa and the Nyanja are historically related and together constitute over 40 percent of the population as a whole.[25] Nonetheless, ethnic unity has rarely been a force for political action in the modern era, nor have inter-ethnic tensions been divisive.[26]

To its credit, the Banda regime has conscientiously sought to recruit political leadership from all of the nation's ethnic groups: a review by Pryor (1990) of Banda's "ethnic arithmetic...a crucial political skill" indicates that between independence and 1983, the number of cabinet ministers from each of the nation's ethnic groups has been, for the most part, proportional to the size of each ethnic group in the national population.[27]

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[24] Human rights organizations have long campaigned to highlight the abuses of the Banda regime and have raised credible allegations about extrajudicial killings of cabinet members, a long list of whom died in rural "traffic mishaps" during the 1960s and 1970s.

[25] Pryor, 1990, p. 24.

[26] Recall, however, that the leadership and activists of the colonial-era Nyasaland African Congress emerged from minority ethnic groups, in an effort to safeguard or expand equity in a rapidly-evolving political environment. Dr. Banda's eventual mobilization of Chewa traditional leadership and other segments of the population effectively introduced balance into the nationalist campaign. As viewed by his opponents, however, Banda's activities were a move to institutionalize Chewa ethnic hegemony.

[27] Pryor, 1990, pp. 24-25. The sole exception is the Nyanja ethnic group which comprises more than 15 percent of the population, but whose representatives enjoyed only 3.3 percent of the "tenure years" of cabinet service. It is also worth noting that the Banda regime has also recruited cabinet ministers from among expatriate groups and those of European ancestry.

The decision by the Banda regime in the late 1960s to relocate the capital from Zomba, in the south, to the more centrally-located town of Lilongwe in the center of the country was, in part, an effort to physically locate power in a geographically neutral area of the country; however, this also placed the capital in a region where the President's own ethnic group, the Chewa, were numerically dominant.

More important, instead, have been the effects of policy-making, which have widened the economic, political, and social distance between the vast majority of the nation's smallholder farmers and the elites of the governing regime. This has been aggravated by regional disparities in development, whereby the simple facts of geography have resulted in a concentration of the population and consequential land poverty in Malawi's southern region (more than 50 percent of the population), and pockets of isolation and poverty in the north.

3.2.3 Rural Smallholder Interests

Malawi's population has always been predominantly rural and agrarian: in 1945 less than 2 percent of the population resided in towns of more than 5,000 people, and by 1966 this number had only risen to 3.9 percent.

Because of the importance of agriculture, land tenure issues have historically been the dominant theme of the country's politics. Under colonial administration, roughly 87 percent of arable land was classified as African Trust Land, communally owned and consensually allocated. In spite of the fact that the indigenous population was denied freeholds or leaseholds, landlessness was a largely unknown phenomenon during this period. Only 3 percent of land during this period was privately owned. The remainder was classified as Crown Lands and chiefly comprised forests, reserves, and waterfront.[28]

After independence, the Banda regime borrowed its land administration system from the colonial era: African Trust Land was reclassified as "Customary Land," with continued restrictions on freehold and leasehold. There exists no legal market for this land, nor are rental agreements juridically legitimate. Land use allocation continues to depend on communal leadership, although rights of appeal to District Commissioners are provided under law. In 1990 more than 70 percent of Malawi's labor force worked under the Customary Land regime.[29] 12

Land in the estate sector, however, enjoyed no such restrictions and could be bought and sold on the open, if politically constrained, market. Indeed, the principal distinctions between the smallholder and estate sector continue to be those of land tenure, complemented by restrictions on crop culture, marketing arrangements, and crop pricing. Due principally to the Banda regime's promotion of estate agriculture, privately-owned or managed lands now comprise more than 20 percent of Malawi's arable land.

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[28] Pryor, 1990, pp. 32-33.

[29] Sahn, Arulpragasam and Merid, 1990, p. 9

A small proportion of Malawian farmers derive a portion of their incomes from tenancy on estate lands, principally in the northern and central regions of the country. As a group, tenant farmers are typically incapable of meeting their all of their income needs from tenancy plots and are dependent on wage labor on estates. The principal advantages of this arrangement are improved access to extension services, credit, and production inputs through estate suppliers, as well as ready access to food rations on credit during periods of production shortfall.

An additional characteristic of Malawi's rural population is persistently high population growth. The nation's annual average population growth rate of 3.7 percent is among the highest in Africa, and has led to a demographic shift in which nearly half the population is currently under the age of fifteen. Throughout the 1980s high population growth was accompanied by massive movements into the country by persons fleeing civil war in Mozambique, and by 1987 the refugees were estimated to constitute as much as 10 percent of Malawi's population.[30]

The degree to which natural resource constraints and high population growth have aggravated poverty and agricultural productivity in Malawi cannot be underestimated: Sahn et al (1990) note that the National Sample Survey of Agriculture in 1988 indicated that 23.5 percent of households cultivated less than 0.5 hectares and more than a third of all households cultivated less than 0.7 hectares of land. Between 1968/69 and 1980/81 land pressures intensified, with the average size of holdings declining from 1.54 to 1.16 hectares. Nutrition and health data for the same period underline the degree to which food insecurity and poverty are linked closely to land holdings and tenure arrangements.[31]

The principal means by which Malawi's rural population has been able to articulate its interests is at the local level, in negotiations with traditional leaders over resource allocation and, on the occasion of vacancies, participation in the selection of traditional leaders. Although the MCP has established party cells, along with youth and women's wings, in rural communities, these serve principally to bolster support for the Banda regime by articulating its interests downward and by identifying suitable recruits to the civil service and the state apparatus. Even party activities are conducted on a highly localized, rather than national, scale, intentionally fragmenting participation and preventing the emergence of unified challenges to political hegemony.

Upward economic mobility for rural farmers is institutionalized in Achikumbe, the politicized Progressive Farmer Program. This program has its origins in the colonial era, when "Master Farmers" were designated as a progressive rural elite who could acquire economic privilege through hard work and exceptional productivity. The Banda regime reorganized the program within the framework of its own smallholder policies, allowing designated "Master

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[30] Sahn, Arulpragasa and Merid. 1990. p. 2.

[31] Sahn, Arulpragasm and Merid. 1990. pp. 9-17. The authors note, however, that the land-poverty correlation can be misleading when other variable, such as gender and age, are taken into consideration as well.

Farmers" access to special credit facilities, priority in the distribution of inputs, and the right to sell tobacco at auction, rather than through ADMARC. However, as Pryor has noted, the program's ostensible demonstration impact represents a "wager-on-the-strong policy, because it deliberately increases income differentiation in order to increase production. Despite such intentions, some local observers claim it has not appreciably increased agricultural productivity, but no hard data are available."[32]

Harrigan argues that *Achikumbe* farmers played a key role in the Banda regime's strategy of development, because they were the principal beneficiaries of donor-sponsored Integrated Rural Development Projects (IRDPs) and could make up for gaps in food production that might result from emerging emphasis on estate agriculture. She argues that:

> "the *Achikumbe*...possessed enough land to meet their own food requirements and to produce a marketed crop surplus. Pricing policies, the types of inputs and services provided and the perpetuation of a rigid colonial productive pattern, whereby smallholders were prevented from growing high-value exportable crops, ensured that the Achikumbe's marketed surplus increasingly took the form of the major food crop—maize."[33]

If personalization of the state's relationship with the rural population has created effective channels for upward and downward communication, the articulation of group interests is limited in its effectiveness: the expression of individual or highly-localized interests is welcomed, while even the appearance of cohesive opposition draws a swift response. The regime's control over resources, services and the distribution of private goods is sufficient enough to present a sufficient and effective threat to emerging opponents.

During the past fifteen years, the principal advocates for rural interests have not been Malawian at all but, instead, international donor agencies who recognized the critical importance of smallholder development and poverty alleviation for Malawi's future, (albeit imperfectly during the early years of the reform process). The Banda regime has, for the most part, welcomed their initiatives for two principal reasons: its genuine concern, if not obsession, with food security, and its confidence that the mobilization of donor assistance in the rural sector would relieve pressure on increasingly scarce government resources. This, in turn, would provide the quasi-state apparatus with the freedom to pursue its "private sector" development initiatives.

3.4 Bureaucracy and Bureaucratic Interaction

Malawi's administrative apparatus has earned a reputation for efficiency and integrity that is enjoyed by few other African nations. This can be attributed, again, to the Banda regime's

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[32] Pryor. 1990. p. 80.

[33] Toye. 1991. p. 214.

policy of creating a body of responsive and competent bureaucrats beholden only to public service. Although the civil service exhibits technical weakness, it is imbued with Life President Banda's forceful work ethic and a basic intolerance of corruption. The concentration of power in the state also ensures the presence of an effective chain of command in public sector agencies. It can, in fact, be argued that in the absence of an official state ideology, responsive service to the state (or to the Life President himself) is the credo of government.[34]

Responsibility and authority are not evenly distributed among Malawian ministries: Life President Banda has historically reserved key cabinet portfolios for himself, maintaining tight control over the Treasury and the central bank and relegating responsibility over line ministries to his proteges. In order to strengthen the technical competence of the Government and avoid the emergence of independent patronage networks, he has often recruited expatriates to serve in senior positions, including the Cabinet.

3.5 Donor Agencies

Malawi's surprising economic growth immediately following independence made it a favored target of foreign assistance; if resource-poor, agrarian Malawi could succeed in spite of the odds against it, it could point the way toward workable development policies and methods. It can be argued, in fact, that the ease of operation in Malawi, the cooperative and efficient performance of its bureaucracy, and the congeniality of the political environment worked for a long time to obscure the systemic political barriers to development.

The role of donors during the first fifteen years of Malawi's independence must be put in historical perspective. During the 1960s and 1970s most donor aid came in two forms: Former colonial powers continued to provide grants-in-aid and budgetary assistance to fledgling nations, while other donors preferred assistance in the form of projects. The first type of assistance tended to bolster development of the state apparatus, while the second tended to have a sectoral or highly-localized geographical focus, or a thematic one. It was not until the 1980s that donors began to take a broadened approach, seeking to correct economic imbalances through systematic policy interventions.[35]

3.5.1 The World Bank

Throughout the 1970s, the World Bank focused its own efforts in Malawi on a series of integrated rural development projects. Between 1972 and 1979 it expended roughly US $60 million on four regionally-focused projects (Lilongwe, Shire, Lakeshore, and Karonga) whose principal, but not exclusive, focus, was to promote smallholder production. Because the projects

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[34] Numerous authors note that Malawi is notable for the limited role that ideology plays in politics. This is especially remarkable given the salience of ideology in such neighboring states as Tanzania, Kenya and Mozambique.

[35] For a more thorough discussion of this topic, see the Synthesis volume.

earned high marks for their effectiveness, in 1979 the Banda regime issued its National Rural Development Programme, proposing that similar integrated rural development projects be undertaken to ultimately encompass the entire country. (The four original projects did, in fact, serve as prototypes for integrated rural development projects elsewhere in the developing world.)[36]

In 1979 the World Bank conducted two review missions to assess the impact of its projects in Malawi and, for the first time, to examine national level performance issues: The mission reported that the record of project implementation was relatively good, but that their impact was, in fact, disappointing.[37] Limitations on the effectiveness of the projects included technical problems (acute land shortage, shortages of producer credit, insufficient supplies of improved seed) and administrative ones (inadequate availability of project management resources). However, in what were the first of many salvos to come attacking the Government's agricultural marketing policy, the report also criticized implicit heavy taxation of export crops by ADMARC and restrictive crop licensing, which prohibited smallholder production of burley tobacco.

As subsequent sections of this study will note, three successive World Bank Structural Adjustment Programs became the principal vehicles for agricultural policy reform throughout the 1980s, providing a coherent approach and axis of coordination for bilateral assistance to Malawi. This also made the World Bank the principal interlocutor of the donor community in its negotiations with the Banda regime.

3.5.2 The International Monetary Fund

As the economic shocks of the 1970s compounded, Malawi turned to the International Monetary Fund in 1979, securing a two-year standby arrangement to stabilize external and domestic balances. A second two-year standby arrangement was undertaken only a year later, in which the Government committed itself to an austerity program that focused on restraint in budgeting and an increase in revenues.

Among the conditions attached to the programs that impacted directly on the agricultural sector was a limit on development expenditures to only those that could be covered by foreign aid. This had little or no effect on smallholder development efforts, in which donors had concentrated their efforts.

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[36] World Bank funding came largely in the form of IDA credits during a period when over 80 percent of agriculture-related expenditures were being covered by donor assistance. During this same period, the Banda regime sought unsuccessfully to promote donor assistance for development of the estate sector. (Harris, et al,. 1989,. pp 19-20.

[37] The findings of the Review Mission report were not made publicly available until 1982, when they were cited in the Bank's Basic Economic Report on Malawi.

Somewhat more complicated was the case of estate development; funding for the expansion of estates came principally from private or quasi-private investment by ADMARC, Press Holdings, and the MDC, which were not yet considered by donors to operate as public institutions. Indirect curbs on estate development occurred through conditions limiting total domestic credit expansion to 11 percent, (compared to 30 percent in the previous year) and a rise in the bank discount rate, from 7 percent in August 1979 to 10 percent in March, 1980, which raised the cost of credit and debt service overall.

The IMF's assessments of Malawi differed substantially from those of the World Bank and other donors. The IMF did not view Malawi's prior economic performance as being exemplary, believing its growth rate to fall well within the norm for sub-Saharan Africa during the 1970s; their data showed that between independence and 1980 per capita income growth per annum had been only 0.5 percent, while World Bank estimates for the same period showed per capita income growth to be more than 3 percent per annum. The source of discrepancy was vastly different GDP deflators used by the two institutions; the World Bank accepted the calculations of the Malawian government, while the IMF insisted on using its own figures, which included higher rates of inflation.

The significance of this simple conflict should not be overlooked. Earlier sections of this report have noted that the donor community failed to identify the shortcomings of government policy toward agricultural markets and rural poverty and, by virtue of their ignorance, became accomplices to economic downturn. The 1979 IMF assessment, which attributed recession to longstanding policy deficiencies, was the first indicator of how deeply ingrained Malawi's economic problems might be.

4. INITIATING REFORM

4.1 Response to Crisis by Political Elites

As described in earlier sections of this study, the economic shocks of the late 1970s exposed both structural weaknesses in Malawi's economy and the flawed assumptions in Banda's development strategy. The longstanding policy of maintaining a strong, convertible currency mitigated some of the effects of exogenous events and, in fact, brought several of the less stable economies of the region into Malawi's economic orbit. However, Malawi's dependence on a narrow range of export commodities, highly-leveraged lending to vulnerable export-oriented estate development, and emerging food insecurity together amplified the negative effects of cyclical price swings in external markets.

The 1980-81 drought in southern Africa had a further demoralizing effect on Malawi's leadership, which prided itself in the fact that the country had been self-sufficient in food production for the previous thirty years. The sudden emergence of a food deficit necessitated the importation of large quantities of maize, both to offset production shortfalls and to create a 180,000 ton strategic grain reserve.

The Government responded to the emerging crisis rapidly, by slowing down its investment program and altering its pricing strategies. The principal constraint facing the Government was its inability to fund a crisis-response program, given the already weakened state of both government accounts and the banking system. This factor alone provided sufficient reason to turn to multilateral sources of financing, in spite of the fact that this would entail disagreeable conditions and a constraint on government autonomy in directing the flow of resources.

In anticipation of an agreement with the World Bank, the Government took a number of unilateral actions to protect its interests. In 1980 President Banda raised the official producer price of maize by 32 percent in order to ensure that ADMARC could remain competitive with private traders, in spite of the fact that declining export revenues could push ADMARC's balance sheet into the red. Banda also ordered that political considerations be shunted aside to improve technical management in the estate sector.

In the midst of crisis, Banda sought to strengthen his smallholder strategy as well. The National Rural Development Programme (NRDP) was established in 1978, inspired by the World Bank's Integrated Rural Development Projects. The NRDP focused on improving agricultural research and extension services, credit availability, fertilizer usage, food and fertilizer storage facilities, and fisheries. Driven by donor financing, the NRDP employed the top-down approach that had been characteristic of the IRDPs. In its initial stages, the program emphasized the improvement of infrastructure, in part because of donor reluctance to fund what would become recurrent costs related to service provision. For its own part, however, the Banda regime found itself hard-pressed to meet even its modest financial obligations for the recurrent cost elements of the NRDP.

TABLE 4.1: MALAWI: ADJUSTMENT POLICY MATRIX FOR AGRICULTURE AND RELATED REFORMS

Economic issue	*SAL I policy measures*	*SAL II policy measures*	*SAL III Policy Measures*
OBJECTIVE: IMPROVEMENTS IN BALANCE OF PAYMENTS			
Smallholder Production			
Slow output growth and export stagnation	Annual review of smallholder prices using World Bank-approved methodology.	Continued use and improvement of the price-setting system.	Continued use of the price-setting mechanism, with World Bank approval of 1986-87 prices.
	Review of ADMARC's marketing and storage operations	80% reduction in the 1984-85 fertilizer subsidy with complete by 1989-90, with World Bank	Fertilizer subsidy to be removed by 1989-90, with World Bank ap for 1986-87 prices.
			World Bank/USAID monitoring (Fertilizer Project.
			Acceleration of ADMARC's rationalization. Relieve ADMAR(of financial burden of certain development activities.
			Expand the role of private traders in agricultural marketing.
Estate Production			
Excessive reliance on tobacco and tea exports. Rising input costs, management and land inadequacies.	Study of tobacco market prospects and tobacco estate diversification.	Revision of proposed program for estate extension, management training and credit provision.	Establisment of a pilot credit sch Preparation of management traini and extension programs.
Agroindustrial investments			
Need to exploit investment opportunities to earn and conserve foreign exchange.	Reform of Press Holdings, Ltd. and MDC to enable them to make new investments.	Identical to SAL I.	Identical to SAL I.
	Adoption of appropriate price, wage and income policy.		
OBJECTIVE: IMPROVED FINANCIAL RESOURCE MANAGEMENT			
Public enterprises			
Need to improve profitability and operational efficieny	Review of MDC's financial position including debt and equity needs.	Strengthen and clarify the role of the Department of Statutory Bodies in monitoring operations of parastatal and quasi-official enterprises.	Improve effectiveness of the Department of Statutory Bodies
	Review management budgeting of MDC and its subsidiaries and prepare long-term planning.		Prepare action plans to eliminate
			Preparation of action plans to remove parastatal deficits and
			improve efficiency.
			Continued monitoring of MDC investments in agro-industry.

TABLE 4.1 (cont.): MALAWI: ADJUSTMENT POLICY MATRIX FOR AGRICULTURE AND RELATED REFORMS

omic issue	*SAL I policy measures*	*SAL II policy measures*	*SAL III Policy Measures*
Holdings Ltd.			
l to improve Press ings' management, eting and profitability at it can undertake new industrial investments.	Complete review of Press Holdings' management performance, finances and corporate structure. Development of a plan for long-term financial restructuring.	Implementation of Press Holdings' restructuring program. Adherence to new corporate guidelines. Completion of a study on the sale of assets.	Ensure that asset rationalization proceeds in a satisfactory way.
CTIVE: RATIONALIZATION OF GOVERNMENT EXPENDITURE AND INVESTMENT			
rrent expenditures			
to correct under-ng of agriculture and id expenditure in key omic and social sectors e with on-going tment program.	Commitment of additional K 2.8 million to agriculture in 1981-82 budget.	Review recurrent budget allocations with World Band and ensure that agricultural requirements are not under-funded.	No policy actions required.
CTIVE: INSTITUTIONAL IMPROVEMENTS			
omic monitoring			
to monitor all invest- to ensure economic nancial viability.	Prliminary review of all large investments, with detailed review by coordinating committee and independent consultants. Strengthen expertise in Economic Planning Division of Treasury and Ministry of Agriculture under technical assistance program to assist with public debt, Government finance, macro and agricultural planning and statistical resources.	Strengthening Economic Planning Division to assist medium-term strategy development and project identification, evaluation, monitoring and coordination.	Strengthen and reorganize policy-making staff of the Office of the President and Cabinet and the Ministry of Finance.

e: Adapted from Harrigan. 1991. pp. 220-222.

4.2 The Estate Sector and Quasi-official Institutions

On President Banda's direct orders, in 1979 Malawi's two commercial banks jointly established the Agricultural Liaison Service (ALS), whose role was to provide technical advice to estate managers and exercise greater control and supervision over the banks' equity in the estate sector. However, in a sluggish market environment, many of the highly-leveraged estates were forced into bank receivership. In order to salvage its interests, the ALS hired expatriate managers to operate the largest estates. The short term results of this enlightened action were uniformly positive, with ALS-assisted estates reducing their operational costs and increasing yields over a period of several years.

Nonetheless, the underlying forces that had permitted the rapid growth of the estate sector in the late-1970s, had begun to wind down. The collapse of tobacco export prices was not the only weak element of estate development strategy. The requirements for diversification and continued expansion—finance, land and labor—were no longer available under liberal terms.

4.2.1 Donor-Government Relations

In mid-1980, during the course of preparing Malawi's first Structural Adjustment Program, the World Bank conducted an assessment of domestic policy weaknesses. The report identified six critical problems, nearly all of which were relevant to agricultural production and marketing:

- The failure of the Government to enact policies that would increase production of export crops by small holders. Low producer prices (relative to export parity) paid by ADMARC and crop production restrictions favored the estate sector at the expense of smallholders.

- The failure of the Government to more rapidly finance and expand integrated rural development projects. Although principal funding of the projects was provided by donors, counterpart funding was necessary in order to ensure that recurrent costs could be covered by government agencies.

- The Government had not given adequate attention to expanding the export base, rendering it vulnerable to price swings for a too-narrow range of commodities. (At the same time, however, the Government was criticized for expanding production of flue-cured tobacco, because of its demands on already scarce firewood).

- The Government had failed to develop a coherent energy policy to deal with rapid depletion in the supply of firewood and mounting dependence on imported energy supplies.

- The Government had not adequately supervised the financial operations of the parastatal and quasi-public holding companies. Their tendency to undertake projects without adequate planning or satisfactory financing, to channel investments into non income-earning assets (such as Kamuzu Airport and the Capital City Development Corporation), and their excessive drain on scarce credit resources were all noted. The report singled out ADMARC and the MDC, whose operations increasingly required subsidies. More importantly, the report also criticized Press Holdings, Ltd. for its dominant role in the economy and the strain that its capital needs placed on commercial banks. In criticizing the nominally-private Press, the World Bank opened the way for its inclusion in future structural adjustment operations.

- The Government was criticized for underfunding the recurrent budget by comparison with the investment budget, (particularly for agriculture, road maintenance and health services); for the rapid expansion of development projects; and donors were criticized for their tendency to compensate for Government failure to adhere to its recurrent cost obligations in project funding.

- The report criticized the policy of overly rigid control of prices and wages, and argued that prevailing formal and informal price controls created disincentives for producers in an inflationary environment.

In retrospect, many authors have argued that the World Bank's assessment, although correct, did not go far enough, particularly in its failure to recognize the peculiar concentration of power in Malawi or the nation's development strategy and its links to political economy:

> "True structural adjustment of the Malawian economy...required a fundamental reassessment of the relationship between smallholder and estate agriculture in the form of land policies, tax policies, price policies, the focus of smallholder rural development projects, and the restrictions on crops grown by smallholder and estates... In terms of budgetary policy, the high costs of the attempt to achieve food self sufficiency needed to be reviewed, the untapped tax revenue potential of the estates needed exploration, the high recurrent costs of largely unsuccessful donor-funded smallholder development projects required questioning, and the costs of consumer subsidies needed to be addressed. Bank reforms implemented under the three SALs failed to address this central adjustment issue. Consequently, policy prescriptions were ad hoc and were not integrated into an overall assessment of Malawi's past and future development options.[38]

Indeed, a peculiar feature of the World Bank's assessment was its exclusive focus on smallholder export crops and its failure to analyze the role of food security issues in ADMARC's pricing regime. This is especially puzzling given that food security was one of President Banda's

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[38] Harrigan, 1991, pp 216-217.

highest priorities during this period and was daily front-page news. Most alarming was the failure to identify the trend toward declining subsistence production and increased impoverishment among smallholders.

Likewise, the report's lack of specificity with regard to the estate sector was unusual; while it cited the narrowness of Malawi's export base, it failed to identify the peculiar institutional arrangements that had made estate expansion possible, the drain that this had placed on financial resources, and the structural imbalances this had created.[39]

The structural adjustment program proposed by the World Bank in 1981 cited five general objectives:

- improving the balance of payments;
- adjusting price incentives and incomes policy;
- strengthening resource management;
- rationalizing the Government investment programme;
- strengthening of institutional capabilities.

The proposed reforms pertaining to agricultural production and marketing in this and subsequent SAPs are identified in Table 4: Adjustment Policy Matrix for Agriculture and Related Reforms.

In most respects, the structural adjustment program was an easy sell to Malawian authorities, as it called upon them to undertake a large number of studies and action plans that, while potentially threatening to entrenched interests over the long term, provided the Government with much-needed resources and additional time to regain its equilibrium. Even the conditionalities attached to SAP I were short-term stabilization measures rather than requirements for systemic reform.

4.3 Bureaucratic Interaction

Malawian agencies were full participants in the formulation of the World Bank's first structural adjustment loan (SAL I) and were given high marks for their performance, as reflected

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[39] In 1980, the World Bank's Malawi Economic Report had praised the efficiency of estate agriculture, in spite of the large number of estates which, at that time, were technically insolvent or on the verge of receivership. The report also failed to identify the threat that this posed to the commercial banking system.

in the World Bank's willingness to accept much of the analytical data provided to them with relatively few modifications.

A point of pride and strategic importance to President Banda was the fact that SAL I granted a primary role and considerable leeway to Malawian technocrats in the performance of the many studies, price reviews, and action plans called for in the program. While World Bank consultants and personnel were required to approve the analytical methods to be used, the prescribed method of conducting the work could hardly have been viewed as an infringement on nationalist sensibilities nor on the regime's fear of losing control over the policy agenda.

That SAL I included no calls for reductions of the civil service or inflationary reforms in the consumer price regime was, in fact, a testimonial to the conservativism of Malawian authorities during the previous fifteen years. Hence, the SAL required no actions that threatened the civil service or might prompt reticence in their efforts to implement the program.

As noted elsewhere in this study, the crucial gaps in the World Bank's assessment of the Malawian policy regime were not due to non-cooperation or reticence by bureaucrats: the cross-financing activities and estate development strategies of Press Holdings, the MDC and ADMARC were veiled by sheer complexity and familiar only to the President himself and a small group of elites in his orbit.

4.4 Mass Political Pressure on the Eve of Adjustment

Formulation of Malawi's reform program involved no consultation whatsoever with the population at large nor, ultimately was the announcement of the SAP to engender anything remotely resembling a popular reaction. Certain of the proposed measures, including prospective price increases for export crops and fuelwood, were welcomed in rural areas, while others—sectoral and institutional reviews—were little understood or of no immediate consequence.

Of the greatest immediate consequence during this period were short-term measures undertaken by the Government to close gaps in food supply and to ensure timely delivery of foodstocks to remote rural areas. The President's decision to boost ADMARC prices for maize following the disasterous 1980 harvest brought some relief to some areas of the country that relied heavily on sales to ADMARC, however in other regions competition from private traders offered an attractive market outlet for food producers.

Ongoing trends in rural areas during this period were ominous, given the SAP's neglect of more systemic imbalances in government policies toward smallholder agriculture. High rates of population growth and the growing influx of Mozambican refugees were creating pockets of intense "land-hunger". Average smallholder plot size was diminishing at a rapid pace, with consequential reductions in per capita production.

Although the estate sector had been able to absorb much of the rural labor surplus, the slowdown in estate expansion was matched by shrinkage of growth in new employment. The

Banda regime's suppression of real wage rates in the estate sector, undertaken to compensate for declining commodity prices, was probably the sole element of government policy that entailed any political risk at all. In the absence of representative workers' institutions or articulation of their interests, any mass grievances with regard to wage policy went largely unspoken.

5. REFORM IMPLEMENTATION

This portion of the study will focus on the implementation of Malawi's first structural adjustment loan (SAL I), approved in June 1981 and providing US $45 million in funding, as well as on the formulation of a second Structural Adjustment Loan (SAL II), approved in December 1982 and which included $55 million in financing. The rationale for unifying these is based on the continuity of the reform program and its evolution from a first phase, intended to identify future actions, to a second phase in which the process of systemic reforms was undertaken.

5.1 Political Elites

5.1.1 Agricultural Pricing Policy

In spite of the fact that SAP I required very few difficult actions on the part of the Banda regime, implementation was endangered from the start by the President's concerns regarding food security and conflicts with the price policy conditions of the adjustment program.

One of the very few enforceable components of SAL I was the requirement that ADMARC raise the price of smallholder export crops (principally tobacco) to redress policy bias toward maize production as well as to reduce government expenditures (incurred to cover losses generated by ADMARC's maize account). This reform was intended to serve as the centerpiece of adjustment in the agricultural sector, seeking to correct the bias against smallholders that had become so strong during the previous decade. However, the 1979-1980 drought and harvest failure had broken with three decades of food self-sufficiency and led the President to undertake emergency actions. One year later the President remained as concerned as ever about prospects of widespread scarcity; ADMARC was ordered to nearly double maize prices as an inducement to bolstering smallholder food production, and to postpone any increase in the price of smallholder tobacco.

This action was taken in defiance not only of SAL conditions, but also those attached to the country's IMF Standy Agreement. In retrospect it is difficult to challenge Banda's reasoning, and the relatively mild response by donors suggests that there was at least tacit recognition of the political imperatives that drove him.[40] Banda, in his traditional fashion, took both all of the credit and all of the blame for this action and, as Gulhati has noted, "the decision to raise

[40] The element of embarrassment may have played a role in the donors' low-key response as well: "The first SAL report does not suggest that the Bank addressed itself in a rigorous way to balancing the objectives of increased food production and increased exports by peasant producers. The document contains not a single reference, either direct or oblique, to the issue of how to maintain food supplies during the period of the first SAL, even though this was at the time a major preoccupation of Malawi's political leadership, receiving frequent mention in Malawi's national media." (Kydd and Hewitt. 1986. p. 357.

maize prices sharply in 1982 had little to do with methodological issues. It reflected the President's preoccupation with food security against the background of drought experiences. Civil servants' recommendations on the basis of the agreed methodology were ignored."[41]

It is important to note that this was viewed by the President as a stop-gap action, and it did not derail other agreed upon elements of agricultural price reform. Technical cooperation between ADMARC and the Ministry of Agriculture continued toward the formulation of a new methodology for price determination, which ultimately enjoyed the President's endorsement.[42]

Government agricultural price policies during SAP I largely achieved the Government's policy objectives, if not those of the donors: maize sales to ADMARC more than doubled, permitting replenishments of the Strategic Grain Reserve. The downside to this strategy was a roughly 50 percent decline in tobacco, cotton and rice purchases by ADMARC.

5.1.2 The Weakening of ADMARC

Agricultural price reform and Banda's personal manipulation of ADMARC, however well-intended it may have been, set the stage for a weakening of this important marketing institution during the early reform period. Establishment of the Strategic Grain Reserve took place during a period when interest rates had increased sharply, in keeping with costs of capital within and outside of Malawi and on the basis of the country's Standby Agreement with the IMF. In order to expand its ability to store buffer stocks, ADMARC borrowed heavily for the construction of silos and warehouses, assuming mistakenly that costs would be later covered by a transfer from central government accounts.

Between 1983-1984, ADMARC's profits fell by 50 percent and, following a brief rebound in 1984-85, it incurred heavy losses during the subsequent two years. This situation was aggravated by a number of factors: Government refusal to allow ADMARC to adjust prices on a seasonal or regional basis; rising operational costs associated with the management of buffer stocks; falling prices for tobacco on world markets, and credit ceilings imposed by the SAP.

The weak state of ADMARC's accounts and Banda's failure to intervene set the stage for subsequent SAL III reforms to liberalize grain marketing and to withdraw subsidies on fertilizers sold by ADMARC.

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[41] Gulhati. 1989. pp. 49-50.

[42] The new methodology was "based on a multi-market model consisting of six sets of supply and demand equations (one for each crop and one for fertilizer). It traced the impact of price changes on all crop outputs and fertilizer use, and assessed the impact on the real incomes of smallholders and urban consumers, ADMARC's surplus from crop trading activities, and net foreign exchange earnings from agriculture." (Gulhati. 1989. p. 50)

5.2 Donor-Government Relations

Donor relations with the Banda regime during SAP I were predictably uneven and progressively more tense as reform efforts focused more tightly on concrete policy and institutional actions. Banda's resolute defiance on the issue of maize pricing, which constituted his only intransigence to the conditions of lending, was not merely tolerated, but covertly supported by advisers who recognized that there had indeed been a "food security gap" in earlier program formulations.

SAL I had been viewed by the donor community as a necessary first step toward obtaining the data and technical consensus required for a more aggressive reform effort. With the completion of studies and action plans called for under SAP I, a second Structural Adjustment Loan (SAL II) was approved in December 1932 which provided $55 million in financing.

Under the second SAL, conditionality was tighter overall, mandating actions that would significantly erode President Banda's autonomy and his personal sway over the economy. These included annual reviews and greater transparency in the financial accounts of the quasi-official holding companies (referred to in the SAP as parastatals); maintenance of positive real interest rates in the commercial banking system; consumer price decontrol; surveillance and improvement of the government debt-monitoring system; and establishment of a system of 3-year forward budgeting. In addition, the President's own personal interests were placed at stake in a mandate to restructure Press Holdings (totally owned by the President) and the MDC.

A source of disappointment to the President was the fact that, over time, donors had begun to lose interest in the NRDP, based on their concern about its effectiveness in reachingsmallholders, and because they gravitated, instead, toward support of the SAP.[43] Although theprogram was not abandoned, it succumbed to inertia, inadequate funding, and a shift in the focus of development priorities.

[43] Lele argues that donors had, on one hand, taken an inappropriate top-down approach in the design of the NRDP and, on the other hand, failed to recognize the large number of risk-averse, below-subsistence households in need of its assistance. Although the NRDP ultimately made improved maize production available to 20 percent of Malawian smallholders in the midst of price uncertainties and significant market intervention, she makes the incongruous observation that "the NRDP experience has demonstrated the unresponsiveness of the lower half of Malawi's agricultural sector to conventional project assistance or structural adjustment measures."(Lele. 1990. p. 1216)

TABLE 5.1: MALAWI MAIZE AVAILABILITY 1976-1988

Year	Production ('000 MT)	Implied change in stocks ('000 MT)	Net Exports ('000 MT)	Total consumption ('000 MT)	Production per capita (kg/capita)	Consumption per capita (kg/capita)
1976/77	1321	69	-21	1102	245	204
1977/78	1428	27	0	1213	257	219
1978/79	1393	-54	-1	1253	244	220
1979/80	1198	-45	0	1076	204	183
1980/81	1237	52	-11	1036	204	171
1981/82	1244	218	-56	937	200	150
1982/83	1369	111	1	1090	214	170
1983/84	1398	46	76	1105	212	168
1984/85	1355	-24	180	1038	200	153
1985/86	1295	-180	46	1238	185	177
1986/87	1211	-171	32	1169	168	162
1987/88	1427	173	-140	1207	193	163

Sources and notes:
These figures do not include the refugee population.
The table is adapted from Sahn and Arulpragasam. June 1991. p. 227, and is based on data obtained from Ministry of Agriculture crop estimates and from ADMARC purchase records.

TABLE 5.2: MAIZE AND TOBACCO PRODUCTION AND RELATIVE PRICE INDICES 1978-1989 (1980=1.00)

	----Production----				----Price of crop: price of maize----			
Year	Maize	Small-holder Tobacco	Groundnuts	Cotton	Tobacco	Small-holder Groundnut	Cotton	Rice
1978	---	---	---	---	1.28	0.88	1.32	1.32
1979	---	---	---	---	1.26	1.32	1.32	1.32
1980	---	---	---	---	1.00	1.00	1.00	1.00
1981	0.91	0.90	1.00	0.67	1.01	1.03	1.00	1.00
1982	0.92	0.62	0.92	0.41	0.64	0.94	0.74	0.60
1983	1.01	0.65	0.85	0.97	1.08	1.08	0.99	0.69
1984	1.03	1.29	0.85	0.98	0.96	1.14	1.08	0.81
1985	1.00	1.00	1.00	1.00	1.15	1.21	1.17	0.92
1986	0.96	0.87	1.42	0.64	1.09	1.21	1.17	1.03
1987	0.89	0.79	1.47	0.65	1.16	1.21	1.29	1.19
1988	1.05	0.66	1.20	0.65	0.97	0.90	1.12	1.07
1989	1.11	---	0.59	---	---	---	---	---

Notes and Sources: Tobacco production is the sum of all smallholder varieties, and tobacco price is the simple average of northern and southern fire-cured and sun/air cured leaf. The table is adapted from Sahn and Arulpragasam. 1991. p 226 and is based on data from the Ministry of Agriculture, the National Statistical Office, and ADMARC.

5.3 Fertilizer Subsidy Withdrawal

SAL II reiterated conditionality tied to smallholder crop pricing and, to the Government's chagrin, added a new conditionality in the form of a program to remove fertilizer subsidies: these were to be reduced by 80 percent in the 1983-1984 agriculture campaign, and eliminated by 1986-1987. This provision was, by far, the most controversial element of the new accord and was a catalyst for disagreement between donors and the Government and within the Government itself. Also brought into the fray was the U.S. Agency for International Development, which agreed to support the reform effort: "With little previous policy dialogue in Malawi, with grave concerns but inhibiting ignorance about smallholders' markets, A.I.D. piggy-backed onto the SAL program".[44]

Harrigan has noted that negotiations between donors and the Government on the fertilizer subsidy removal program were not merely tense, but also driven by the Government's need for rapid-disbursing finance. This resulted in a compression of the time and effort needed to devise appropriate conditionality and to negotiate a schedule of implementation that would be satisfactory to all necessary parties. "In short, there was a complete failure, by both Bank and Ministry of Finance staff, to view the fertiliser subsidy issue in the broader context of the Government's <u>multiple</u> policy objectives and to quantify the opportunity costs and trade-offs between these objectives."[45]

Malawi's fertilizer subsidy for smallholders was originally designed to buffer the effects of high transport costs and to encourage the adoption of improved technical packages for hybrid maize production. Donor objections were based on several arguments: that theforeign exchange costs of fertilizer imports were too high; that ADMARC could ill afford to sustain the cost of subsidies; that the principal beneficiaries of the subsidy had been the larger *Achikumbe* farmers; that a significant proportion of subsidized fertilizer was being "leaked' to commercial estates; and that farmer response to subsidy withdrawal would be compensated by the introduction of high-analysis fertilizers and would accelerate adoption of more productive hybrids.

Conditions attached to donor assistance required ADMARC to phase the fertilizer subsidy out over a three year period while simultaneously increasing the volume of high analysis fertilizers (HAF) as a proportion of all imports. Tranche disbursements where to be made separately, as ADMARC met its subsidy reduction ahd HAF targets each year. Although ADMARC had no trouble meeting its first year target of reducing the subsidy to 22.6 percent of total delivered cost, it encountered second-tranche difficulties when a World Bank team approved an ADMARC fertilizer price list with subsidies on low analysis fertilizer (LAF) twice those on HAF. Given that implementation of the reform had begun a year later than originally scheduled, A.I.D. overlooked this violation of its covenant with the government based on a promise that corrections would be made in the following year.

[44] Atukorala *et al.* 1990. p. 8.

[45] Harrigan. 1991. p. 226. Emphasis in the original.

5.4 Bureaucratic Interaction

The ambitious program of studies and action plans undertaken in SAP I strengthened the technical capacity of many working groups in the bureaucracy and brought them into direct communication with highly competent expatriate advisers with whom they exchanged frank views on matters of political and economic significance. Policy proposals were debated, encouraging the emergence of technical factions within various Government ministries that only became evident later, during the difficult efforts to implement the removal of fertilizer subsidies and to liberalize tobacco marketing.

If, in the pre-adjustment era, Malawi's bureaucrats could be counted on to march lockstep with Presidential concerns, SAL I and II ushered in an era of conflicting mandates and technical rivalries. President Banda's decision to break with SAL I price policy took place just as ADMARC and Ministry of Agriculture staff had successfully negotiated a new price monitoring and adjustment methodology to be used by the Interministerial Producer Price Advisory Committee in setting relative smallholder prices. Banda, in his capacity as Minister of Agriculture, announced his own price policy without consulting either his own technical staff or, for that matter, donors. Similarly, the ADMARC mandate to create, maintain and replenish the Strategic Food Reserve was carried out with complete disregard of ADMARC financial staff, who recognized that this could push the agency to the brink of insolvency. In this, as in other instances, the concentration of power and autonomy in the Presidency meant that no civil servant—or, for that matter, no Malawian citizen—dare voice reservations regarding Presidential decisions.

A second critical instance of bureaucratic conflict came during negotiations over the program to remove fertilizer subsidies. During the SAL II negotiation process, Malawi's balance of payments and public finance situations were in dire straits, enforced by tight budgetary controls that were a condition of an IMF Extended Fund Facility signed in September 1983. The foreign exchange needs of the Government and the potential relief offered by suppression of fertilizer subsidies (which constituted 6 percent of the budget deficit, through transfers to ADMARC) led the Ministry of Finance to view this reform as highly advantageous. At the same time, Ministry of Agriculture officials were fearful of the potential impacts of reform on smallholder productivity and adoption rates for improved varieties. In the end, the short-term financial concerns of the Government overruled the well-reasoned objections of the Ministry of Agriculture. The net outcome was to be a reform effort that engendered serious backpedaling by the Government itself.

5.5 Mass Political Pressure

Little can be said about this subject that does not relate exclusively to how well smallholders fared under adjustment. For Malawi's rural masses, opportunities for political participation appeared smaller than ever. President Banda had defied the donors over the issue of price policy. Even though conditions in rural areas continued to worsen, most Malawi's perceived the President and the bureaucracy to be working in their interest.

Producer response to Banda's increase in ADMARC maize prices left no question that Malawi's smallholders were highly price responsive. But non-price constraints on rural production were certain to remain, or worsen, in the absence of other aggressive interventions. Even changes in relative price incentives for export crops could do little to ease the problems of land hunger, high transport costs, and increasingly endemic undernutrition.

6. SUSTAINABILITY OF REFORM

6.1 Donor-Government Relations

SAL III was approved in December 1985, providing the Government of Malawi with US $70 million, with additional bilateral financing of $34 million from development agencies in Japan, Germany and the United States ($15 million).

Many of the program elements of SAL III represented continuation of earlier reform efforts, including fertilizer subsidy withdrawal, which was extended two years beyond the original target date of 1986-1987.

SAL III also included a number of new elements, including the redefinition of ADMARC's role, privatization of some of its non-non-marketing related subsidiaries, and measures to expand private trading in the smallholder subsector of agriculture. Overall, conditions attached to lending were relatively small in number and carried over from earlier phases of the adjustment process.

6.2 Political Elites

SAL III represented a major departure from the past, in which President Banda was obliged to cede increased autonomy not only to the policymaking apparatus, but also to the very organizations in which he had a personal financial interest. Although his political authority and that of his closest allies was not significantly diminished—he remained the ultimate arbiter and decision-maker—the increasingly tight focus of reform efforts had the effect of strengthening government technocrats, who were in regular contact with a broadening array of foreign advisers and donor agencies. In order to ensure the flow of donor financing, Banda had no choice but to move forward on government commitments, even where he perceived these to run against his own personal interests.

6.2.1 Reform of Quasi-Official Institutions

Beginning in 1983 the Government had enacted management reforms within ADMARC and, in keeping with the advice of donors, begun to divest itself of properties unrelated to ADMARC's marketing mandate. The hand of President Banda was greatly evident in the method by which this was done: ADMARC simply transferred ownership to the MDC and Press Holdings. ADMARC equity in six joint ventures (Dwangwa Sugar, Sugar Corporation, PEW Ltd., David Whitehead, Lever Brothers, and United Transport) was slated for private sale by August 1986; however, only two had been sold even three years beyond that date.

Although the Government was wary of the impulse toward ADMARC privatization, it could take comfort in the favorable light that this cast on its efforts: decentralized, private marketing would no doubt appeal to the masses. At the same time, Banda could take comfort in the fact that capital to fund private activities would continue to be managed through a banking system that he, through the quasi-official holding companies, managed.

ADMARC's financial condition was critical by 1986 due to a number of different factors: increased marketing costs attributable to overstaffing and maintenance of superfluous buying stations; increased costs of external transport; poor performance of its investment portfolio and subsidiaries; inadequate storage facilities that necessitated the shuttling of crops between purchasing and sales efforts, and Government constraints on the use of competitive private transport. These problems were compounded by a 33-percent drop in tobacco prices at auction and maize production shortfalls. The severity of the crisis created an operational financing gap, for which it received supplemental SAL funding of US $42 million, both to facilitate its reorganization and to provide it with liquidity for marketing services in remote areas.[46]

For its own part, ADMARC began withdrawing from some of the rural areas where gaps resulting fromcutbacks in its operations could be filled by private traders: 120 of AD ARC's nearly 1,400 markets were closed between 1986 and 1987, with all but 11 of them located in the Southern region. During the same period, however, 19 new seasonal markets were opened in the sparsely populated north, largely for the sale of maize.

Although donors had recommended that smallholder marketing be opened to further private competition as early as 1983, it was not until December 1986 that the Government issued a decree that confirmed the legality of private trade in all crops other than tobacco and cotton. The law placed certain restrictions on trade, including requirements for cash purchases, fixed trading hours, licensing, and restriction of trading privileges to Malawian nationals and transactions conducted on-site at ADMARC facilities. (It was the donors' position that, in time, ADMARC should become merely the buyer of last resort, in competition with private traders both in the countryside and at the export dock.)

Reform of Press Holdings and the MDC was necessary because of their deep reach in the economy and their technical insolvency. At the donors' insistence, the decision to reorganize Press was made by President Banda in December 1983, and implemented the following year in a manner that was not only satisfactory to him, but that evidenced his transactional genius: Press's debts to Malawi's commercial banks were converted to specially registered equity, and swapped against equivalent preferential shares and income notes. Press's shares in agroindustrial businesses were sold to ADMARC, with the proceeds used to retire Press debts. Even after this transaction, Press remained in debt to ADMARC in the amount of K 40 million. Although Banda was ultimately required to surrender much of his authority over the day to day operations of Press, he was able to negotiate an agreement with donors that provided that he receive an annual payment of K 1 million, to be paid from Press revenues before debt service. He was also permitted to remain the company's senior trustee.[47]

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[46] Christiansen and Stackhouse. 1989. p. 730.

[47] Gulhati. 1989. p. 45.

President Banda's stake in the reform of Press Holdings played a considerable role in complicating an already complex series of transactions and, at one point, delays in meeting timetable commitments held up disbursement of a tranche by the World Bank for a period of six months.

MDC reform was no less complex. The company was permitted to retain an interest in only 18 of 32 subsidiaries and ventures in which it held equity, with the remainder being sold or swapped to Press and ADMARC.

Reorganization of the quasi-official holding companies was, in the end, largely successful, allowing Press to return to pre-tax profitability in 1985. MDC continued to break even or carry annual losses from a number of its operations; however by 1986 the Banda regime decided to fully reorganize the company again, converting most of its constituent parts to fully-commercial entities.

In one domain, the holding companies were successful in fending off what they perceived to be excessive control. As part of SAL I, the Government had agreed to establish a Department of Statutory Bodies to provide oversight of all parastatals and quasi-official holding companies. By the end of the decade this organization was neither adequately-staffed nor fully empowered to fulfill its mandate.

6.2.2 Fertilizer and Food Price Reform

In 1987, after two years of tentative cooperation with donors, the Malawian Government reneged on its commitment to proceed with the complete removal of fertilizer subsidies, leading A.I.D. to terminate its support for the reform program. Concerns about national food security, reduced government food stocks and a massive increase in the numbers of refugees from Mozambique provided it with adequate justification to withdraw from its agreement. Immediately, subsidies on fertilizer were raised by 25 percent. The following year an additional 11-percent subsidy was enacted to complement a 44-percent rise in maize prices.

These events underlined the contradictions inherent in donor reform strategy: the insistence that maize purchase prices be held constant during periods of rapidly increasing fertilizer prices squeezed producers in a manner perceived by the Government to be not only unfair, but dangerous in light of food insecurity. The Government presented evidence to donors that the effect of the price squeeze on progressive farmers, the *Achikumbe*, was prompting a displacement of maize production by non-food export crops, *even during a period of weak prices for tobacco*. Additional evidence was drawn from the NRDP, whose purpose was to promote the adoption of fertilizer-sensitive hybrids; there the share of maize varieties in total production had declined by more than 50 percent between 1984 and 1987.

Since 1987 fertilizer subsidies have risen nominally, but remained flat as a percent of delivered cost. Relief from donor commitments came in the form of a 1990 IMF endorsement that allowed the Government to maintain subsidies at a level offsetting the extra transport costs entailed by closure of the Beira Corridor (Mozambique), but requiring subsidies to be eliminated at such time when the Corridor is again opened. Total maize production has continued to grow since 1984-1985.

Government concerns over food security remained an obstacle to smallholder price reform. In retrospect, producer price adjustments called for under Malawi's successive SALs between 1981-1986 have been called "excessive" by Lele, who points to the fact that by 1986 producer prices had dropped substantially in real terms. Although relative producer price adjustments succeeded in shifting smallholder production from maize toward groundnuts, this did not altogether resolve the problem of ADMARC losses; it already having difficulty exporting groundnuts in a sluggish market, incurring losses on its groundnut accounts every year between 1984 and 1987.[48]

6.2.3 Burley Tobacco Liberalization

Having realized that their smallholder emphasis in the past was mistakenly too narrow in its focus on food price reforms, beginning under SAL III the World Bank and A.I.D. sought to convince the Government of Malawi to take at least tentative steps toward allowing smallholders to produce burley tobacco and sell it at auction. This initiative encountered reticence on the part of the government, and outright opposition from the Tobacco Association of Malawi, comprised exclusively of estate owners and operators.

In time for the 1990-1991 growing season, the government agreed to the establishment of a pilot project in which smallholder "clubs" would be allowed to produce and market burley tobacco. It did so under considerable pressure from donors, and only after a period of stonewalling negotiations.

Although there is little information available on the success and potential of this reform, its political significance as an inroad to potential further liberalization should not be underestimated.

6.3 Bureaucratic Interaction

The emergence of increasingly-powerful technocrats continued during the late-1980s, as centers of policy oversight and development moved downward in the political structure. Bureaucratics charged with monitoring the newly-privatized trade in food crops reported a large number of problems which seemed to indicate that the regulatory regime for trade had not been adequately thought through. Enforcement of regulations governing private trading was lax

[48] Lele. 1990. pp. 1211-1212.

during the initial period of trade privatization, leading authorities in the countryside to complain about the lag time in the delivery of licenses, the absence of adequate directives on administration of the trade, and emerging speculation in food aid commodities. Officials in the capital complained about intentional violation of trading restrictions, (particularly with regard to sales that took place outside ADMARC facilities and failures to file statistical reports), poor quality control of maize and beans arriving at export docks, and high storage losses due to inadequate private facilities.[49]

The role of the bureaucracy with regard to fertilizer and maize price reforms was somewhat confused by the development of factions within individual ministries, and open conflicts between the Ministries of Finance and Agriculture, and between the ministries and donor agencies. These were attributable not to politicization of the ministries, but rather to the conflicting goals of the programs they managed, e.g. tradeoffs between savings from subsidy removal and shortfalls in food production.

6.4 Mass Political Pressure

Several key openings for broadened participation in the reform process took place during this period: The African Businessmen's Association emerged as an advocate for not only the privatization of agricultural trade, but also for the provision of credit facilities to traders and the right of presumption of renewal of trading licenses. Although the ABA's participation in negotiations with the Government on the privatization regime was of little consequence to the ultimate form of legislation, the simple fact of their presence at sanctioned discussions was a powerful statement about the degree to which the reform process was creating opportunities for broader political participation.

Initial steps toward the liberalization of burley tobacco production are encouraging in a similar way. Not only does this reform reverse the entire thrust of agricultural policy since independence, but it indicates a softening of the government's position regarding the priviliged political position of estate operators vis a vis smallholders. As Gordon has pointed out:

> "The success of many of the clubs participating in the program in marketing their crops through the auction floors and receiving substantial cash incomes has raised overall consciousness of the lack of equity in existing arrangements, and of the viability of small-holder models as options to both the tenant system or the direct labor system as practiced in the estate sector. There is little doubt that this will increase the political pressures for expanding smallholder access to the crop. In parts of the country...this is a major source of the expansion of illegal smallholder production."[50]

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[49] Christiansen and Stackhouse, 1989, pp. 732-734.

[50] Gordon, 1993, p. 8.

Administration of the trade privatization regime was fraught with difficulties, including delays in the issuance of licensing until well after the buying campaign had opened in particular regions of the country. Laxity in the enforcement of licensing and requirements for monthly reporting by traders essentially opened the trading process up to all-comers, and carried liberalization to an extreme anticipated only by those who had opposed the policy at its inception.

That no principal voice for rural smallholders has emerged has less to do with the process of economic reforms than it does with the underlying political economy of the nation, in which political and economic power are consolidated in a patrimonial regime that is dedicated to self-preservation. That openings have emerged in the Government's willingness to include emerging economic actors is a sign that there may well be payoffs to the economic reform process. However, in Malawi's case, these have been the result of the committed application by donors of imperfect policy instruments.

7. LESSONS LEARNED

Agricultural price and marketing reforms in Malawi have been, at best, only a partial success. Nonetheless, a number of valuable conclusions can be drawn from the efforts of the Malawian authorities and donors to implement effective reforms.

- **Politics and economics are intrinsically related; an understanding of each is key to the design and implementation of reforms.**

Malawi's experience of adjustment and the agricultural reforms that it entailed, was, in large measure, determined by a failure by donors to fully comprehend the underlying structure of the economy. Relative neglect of the estate sector and its potential for helping to alleviate food shortages, and the relationship between estate and smallholder production patterns led donors to adopt an overly-narrow approach to resolving deeply-ingrained and systemic problems. The high degree of consolidation of economic and political power of the Banda regime was not openly visible to the donors when the reform process began and it has taken donors a decade to begin to comprehend it.

- **Rule-ordered political environments are "user-friendly" for reform initiatives, but it is first necessary to know all of the rules.**

By all accounts, Malawi is a rule-ordered environment where political institutions are clearly defined, where the agencies of the state operate efficiently; where standards of performance are widely known and adhered to, but where economic and political power are consolidated to an exceptional degree.

Institutional reform of quasi-official institutions (MDC and ADMARC) succeeded in stabilizing their finances, without significantly influencing their dominant role in the economy. The inability to establish adequate bodies to provide them with oversight does little to prevent them from resorting to complex and shielded transactions in the future, nor does it prevent them being administered for political purposes.

- **Quick-disbursement assistance mechanisms can present a barrier to frank exchanges between donors and recipients when they are most important: during the initiation of reform.**

Limitations of reform efforts to smallholder income enhancement through diversification and the emphasis on price incentives to promote aggregate supply responses were in conflict with Government strategy and key concerns about food security among the political leadership. This led to delays and interruptions in the rhythm of the reform process. But this very serious difference of priorities did not emerge during the early stages of reform initiation, due in large measure to the government's need for immediate financial relief.

- **Contingency planning can be crucial to the success of reform.**

During the design of reforms few contingencies, such as drought-related food deficits, were anticipated, leading to the appearance of Government intransigence when emerging trends conflicted with social welfare and food security concerns. Contingency planning—including the modification of conditions attached to aid and scenarios for prospective action—would have led to improved understanding among donors and the government on issues of paramount concern to each party.

- **Donor coordination is critical to the prevention of countervailing initiatives. This applies as much to different actors working within the same institution as it does to different agencies.**

Donor *policy* objectives sometimes conflicted with those of the donors' *project* objectives. Against the goal of promoting smallholder adoption of fertilizer-responsive maize hybrids (central to the World Bank-funded NRDP), fertilizer subsidy removal appeared as a contradiction. Excessive reliance on price policy instruments to increase export crop production, in conjunction with the policy of input subsidy removal exacerbated the food crop versus export crop conflict. This reflected not only a difference of theoretical views regarding the best approach to Malawi's agricultural development problems, but also conflicts of political importance. This led to institutional conflicts within the bureaucracy, conflicts between the bureaucrats and the President, and conflicts between donors and the Government.

- **Effective liberalization of trade requires preparation and appropriate sequencing.**

  Possibly inappropriate sequencing of reforms exacerbated internal contradictions of the reform program: price liberalization occurred in advance of market liberalization, placing a financial strain on ADMARC and contributing to the near-collapse of the formal marketing system in 1985-86. The unpreparedness of the bureacracy to administer trade liberalization suggests that the government had caved in to pressure from donors,

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