



UNITED NATIONS
UNIVERSITY

UNU-WIDER

World Institute for Development
Economics Research

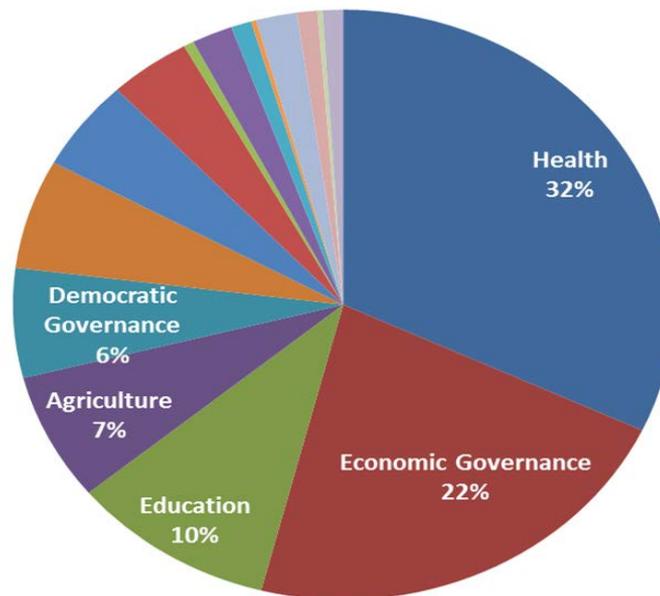
Foreign Aid's Uneven Influence on Malawi's Democratic Consolidation

Danielle Resnick

Accra, 8 June 2012

Background on Malawi

- Extremely poor and agrarian economy
- Grants account for 35% of Government revenue
- Budget Support is preferred modality
 - Accounted for 21% of aid in FY2008/2009
 - CABS donors: AfDB, DfID, EU, GIZ, NORAD, and World Bank
- By Sector:



Source:
Malawi Aid Atlas

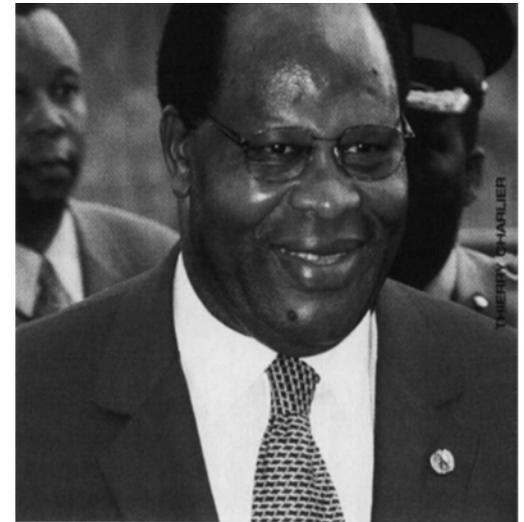
Background on Malawi

- Political conditionality placed on Hastings Banda in early 1990s
- Donors re-establish support to Malawi in 1994 under Muluzi
 - Consultative Group pledge \$1.25 billion between 1998-2000
 - Budget support disbursed in FY 2000/01 for PRSP I
- But...
 - Infringements on media, NGOs, and MEC (1998)
 - Attempts to amend the Local Government Act (2000)

Background on Malawi

- In 2001, doubts due to corruption & privatization
 - EU suspends aid and demands reimbursement of \$7 million
 - USAID reduces aid , DfID delays on \$17.9 million
 - IMF refuses support under PRGF, causing CABS donors to suspend assistance
 - Denmark closes down its program entirely

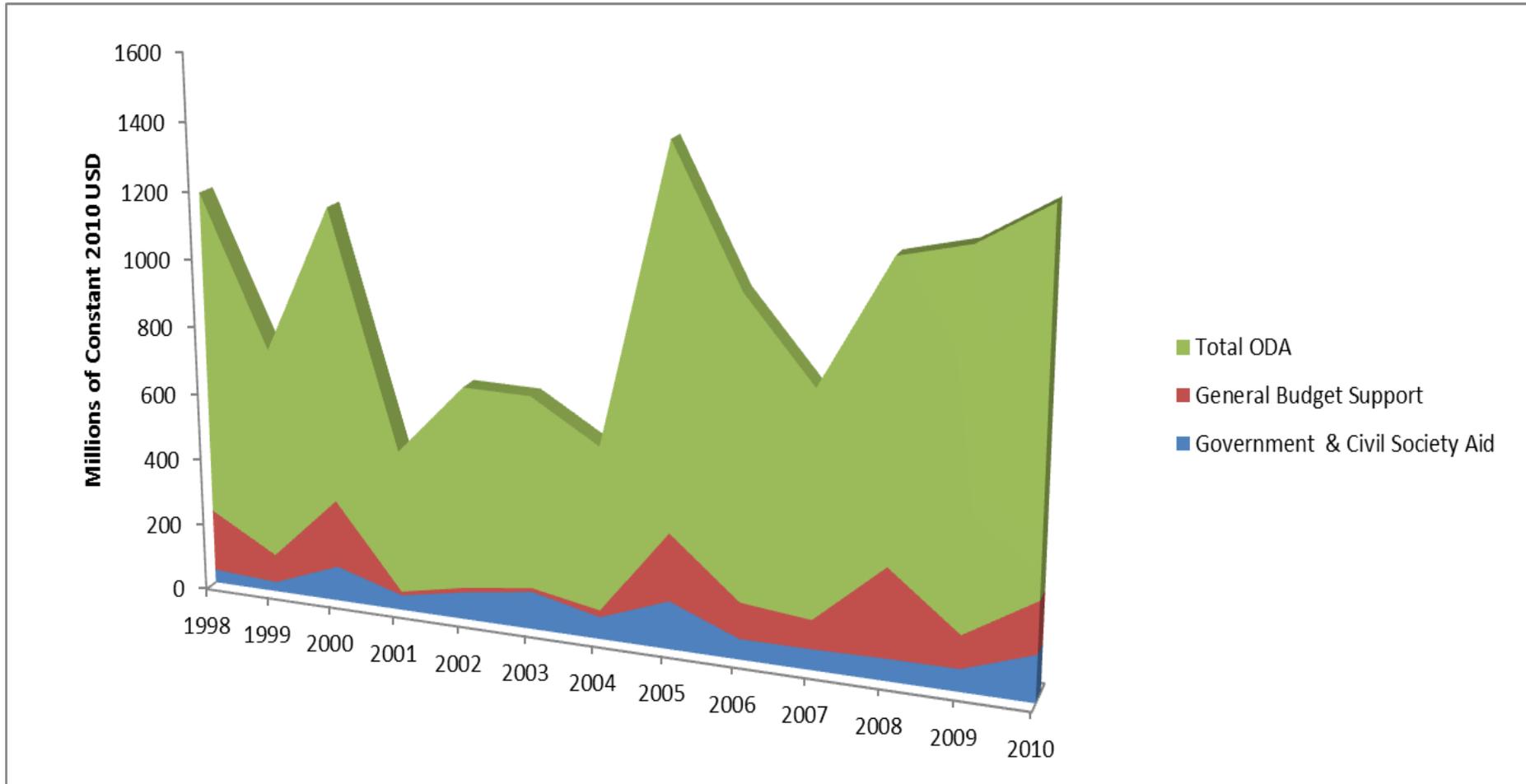
- Open Terms Bill (Early 2001)
 - Donors issue joint statement and threaten to cut aid if Bill passed (2002)
 - Bill tabled but not passed due to party fragmentation and domestic resistance



Muluzi: This country is not controlled by donors

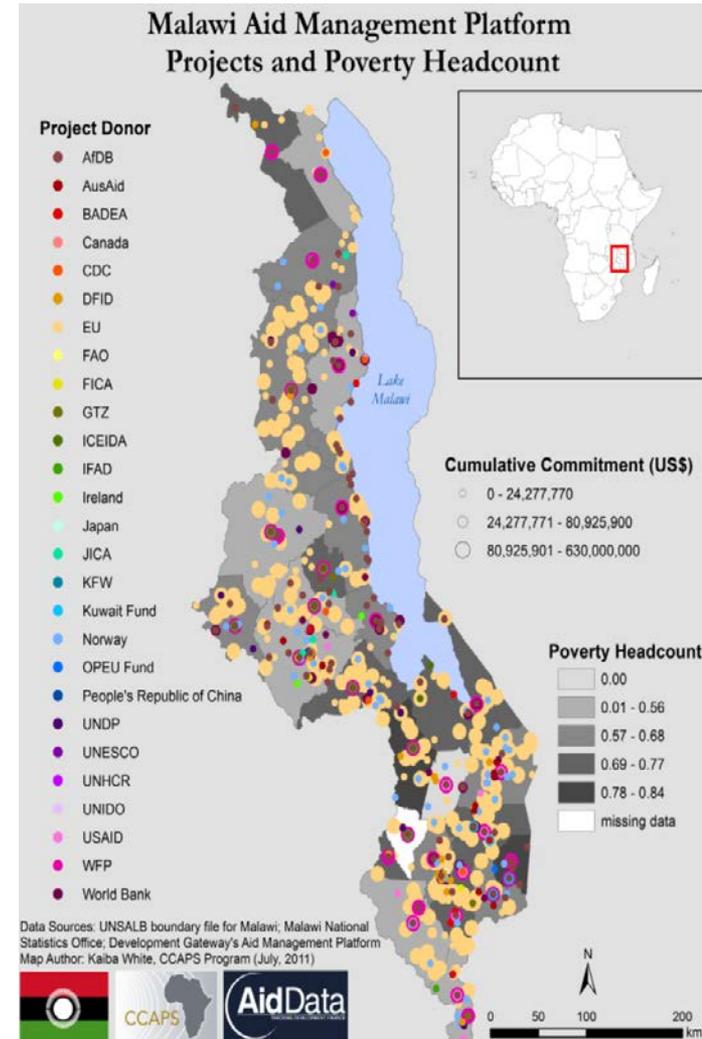
Donors and Mutharika: *Déjà vu?*

Aid to Malawi over the last decade



Donors and Mutharika: *Déjà vu?*

- Promised technocratic management of the economy
- Adopted PRSP II with a focus on “governance”
- Repaired relations with IMF & PAF established with CABS
- Commitment to aid transparency



Vertical Accountability

- Democracy aid supports MEC, voter education
 - 20 million USD spent on 2009 elections UNDP
 - Support to MEC resulted in new electronic voters' roll
 - GIZ, USAID, DfID, and UNDP were all supporting local elections in 2011

- Democracy aid relatively targeted around elections
 - “Elections are seen as an event” (KAF Coordinator)

Horizontal Accountability

- Parliament thus far has provided little meaningful oversight, lacks research capacity, sitting time, and access to information
- Democracy aid has been inconsistent
 - UNDP: Democratic Consolidation Program (1996-2001)
 - GIZ: Forum for Dialogue and Peace (2002-2009)
 - DfID: Formerly under Voice and Accountability Program

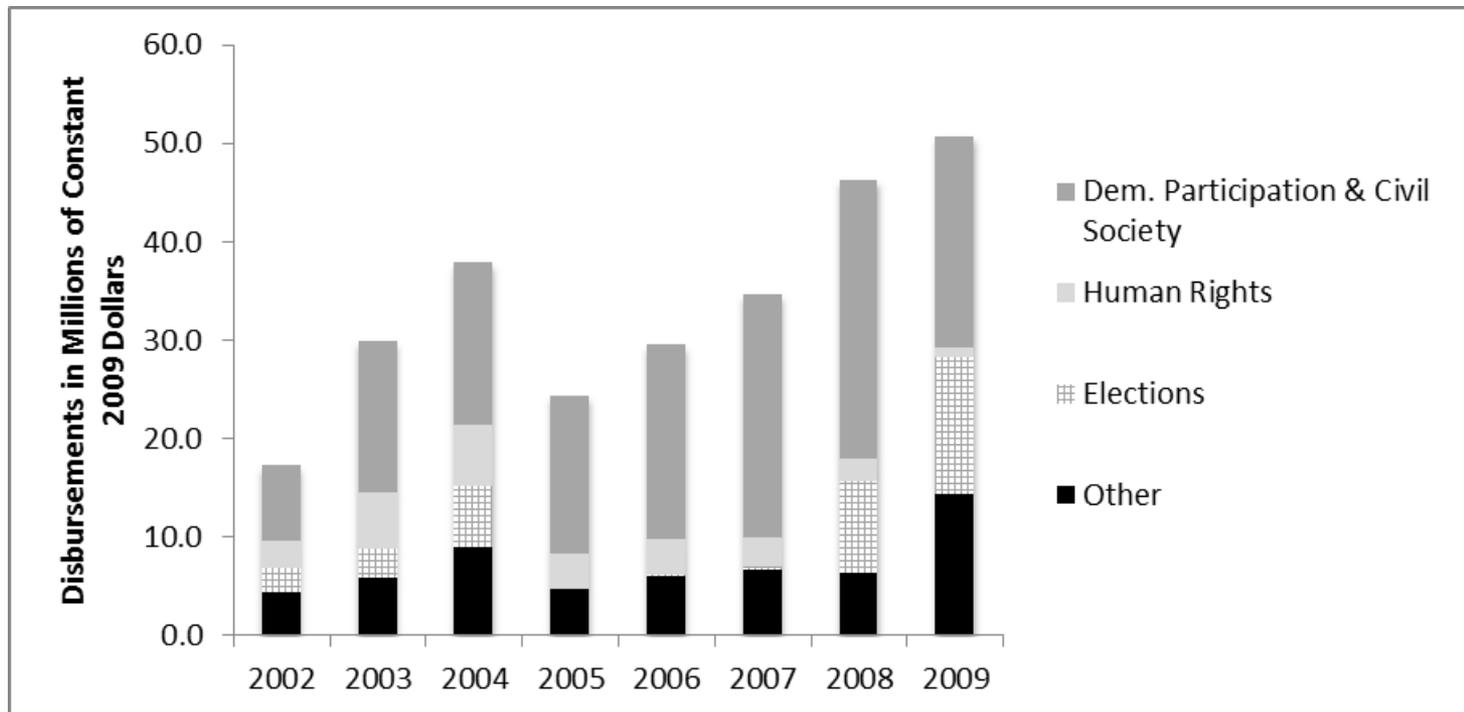


Horizontal Accountability

- Development assistance has been more concerned about efficiency than effectiveness
 - Floor-crossing episode in 2005 was institutional crisis
- Little sharing by donors of their activities with MPs:
“I would propose that donors share more information with us [MPs] rather than just informing the Government. Donors must take an initiative to call my committee and tell us what they’re doing and update us so we can know who to blame about disbursements. Donors usually do not contact us. We normally have to go to them to find out what is going on.” (Chair of Budget and Finance Committee)

Competitive Party Systems

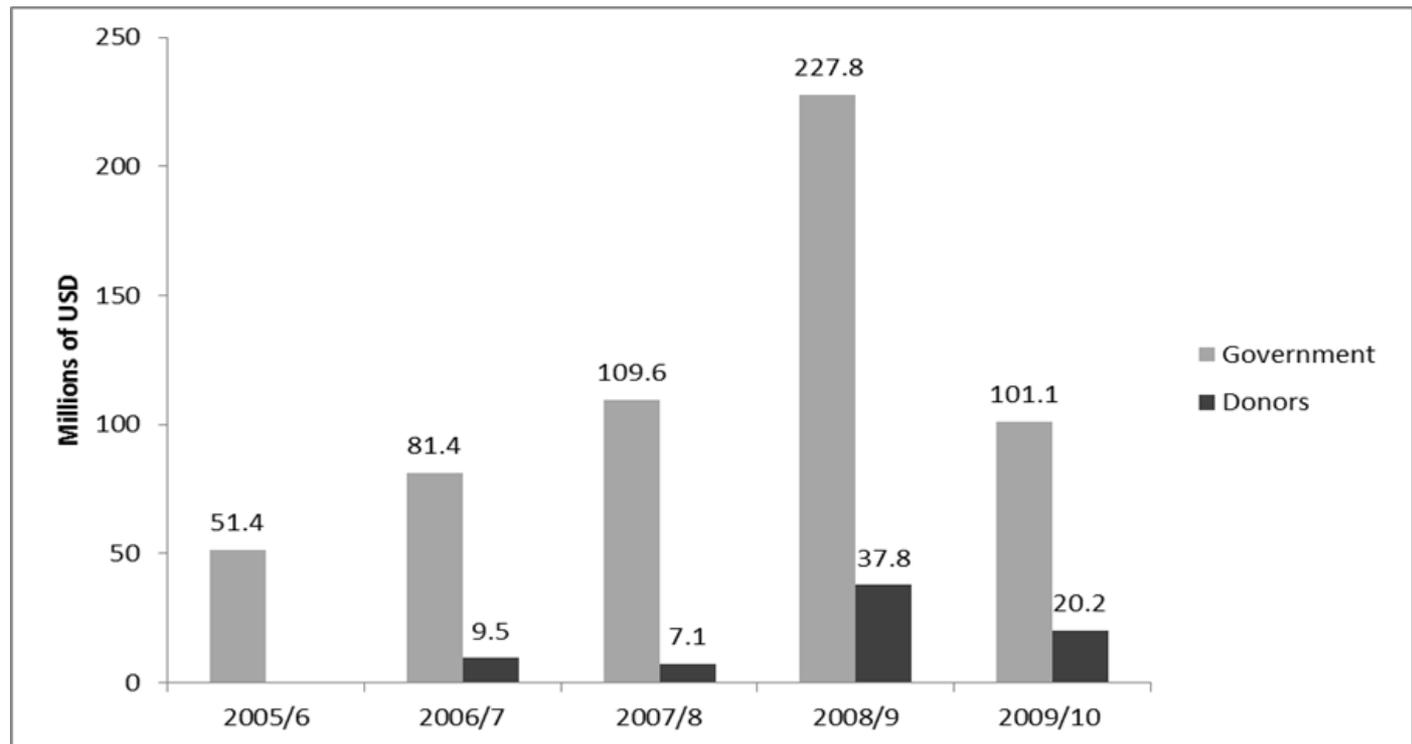
- Main parties include MCP, UDF, DPP, and now PP
- Predominant donor focus on the “demand-side” of the party-voter relationship



Competitive Party Systems

- Development aid inadvertently favors incumbents
- Most evident with respect to the FISP
 - Supported heavily by budget support

Distribution of Contributions for the FISP



Democratic Erosion, 2010-2011

REGISTERED AT G.P.O. AS A NEWSPAPER

VOL. 18 NO. 37 TUESDAY, 22 FEBRUARY 2011

WWW.MWNATION.COM

Germany withholds K1.4 billion LDF aid

Repeal Penal Code Section 46—MHRC

NATIONAL 3



NGOs attack church on gays

NGOs BASH GOVT
ON ABUSE OF PUPILS

Democratic Erosion

Date	Event	Donor Responses
Mar. 2010	<ul style="list-style-type: none">• Arrest of gay couple	<ul style="list-style-type: none">• CABS expresses opposition• World Bank offers \$54 million in budget support when couple released
July 2010	<ul style="list-style-type: none">• Mutharika unilaterally changes flag• Church leader arrested	
Dec. 2010	<ul style="list-style-type: none">• Parliament passes amendment to Section 46 of Penal Code	
Jan. 2011	<ul style="list-style-type: none">• Parliament tables Injunctions Bill	
Feb. 2011	<ul style="list-style-type: none">• Mutharika signs into law the amendment to Penal Code• Protests over fuel & forex shortages are banned• Professor at Chancellor College arrested• Local elections suspend	<ul style="list-style-type: none">• Seven bilaterals issue statement• Germany suspends half its budget support• Germany suggests revision of the Joint Framework agreement

Democratic Erosion

Date	Event	Donor Responses
April 2011		<ul style="list-style-type: none"> MCC signs compact with Govt.
May 2011	<ul style="list-style-type: none"> British High Commissioner expelled 	<ul style="list-style-type: none"> DfID suspends all new aid pledges until it reviews its bilateral relationship
July 2011	<ul style="list-style-type: none"> Mutharika ignores judiciary & signs Injunctions Bill into law <i>Failure to devalue MK</i> Police crackdown on protests by “Concerned Citizens” & 18 people killed 	<ul style="list-style-type: none"> DfID announces end of general budget support <i>IMF suspends ECF & all CABS donors forced to halt budget support</i> MCC decides not to release \$350 million for energy sector
August 2011	<ul style="list-style-type: none"> Mutharika reduces size of cabinet by 14 members 	
December 2011	<ul style="list-style-type: none"> Minister of Justice states that number of controversial laws would be reviewed 	<ul style="list-style-type: none"> EU noted that this was not sufficient
February 2012	<ul style="list-style-type: none"> Mutharika claims devaluation would only make ‘Washington people’ happy 	

Why Mixed Reactions?

CABS donor	Preconditions for budget support disbursements
AfDB	<ul style="list-style-type: none">• Government is on track with IMF's ECF programme• Provision of evidence that a revised PFEM Priority Action Plan has been adopted by the Ministry of Finance• Provision that the external audit report has been submitted to parliament
DfID	<ul style="list-style-type: none">• Evidence of commitment to reducing poverty, improving public financial management, and upholding human rights
EU	<ul style="list-style-type: none">• Macroeconomic stability, evidence of a commitment to economic growth and poverty reduction, and sound public financial management
Germany	<ul style="list-style-type: none">• Human rights, good governance, and democratic principles should be upheld• Evidence of macroeconomic stability, which is not just dependent on IMF judgment• Satisfactory reform with implementing reforms under PAF• Reviews should be held on a timely basis
Norway	<ul style="list-style-type: none">• Fundamental principles from the Joint Framework should be upheld: respect for human rights, democratic principles, macroeconomic management, rule of law, sound public financial management, accountability, and effective anti-corruption programmes• Progress with indicators under PAF• Provision that the external audit report has been submitted to parliament
World Bank	<ul style="list-style-type: none">• Government is on track with IMF's ECF programme

From Banda to Banda

- Importance of donors reinforced by moves to devalue the kwacha
- Wanted to normalize relations with “our traditional development partners who were uncomfortable with our bad laws”
- Party fragmentation remains *the* challenge, pointing to a greater role for party aid



Broader Conclusions

- Democracy aid has been key for many actors and institutions but needs to be delivered in more sustainable manner
- While greater efforts to deliver development aid in sustainable manner, less flexibility when democratic erosion occurs
- Malawian case highlights the real tension between country 'ownership' and democratic consolidation in an aid-dependent country