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:

  ![Pie chart showing distribution by sector]

  Source: Malawi Aid Atlas
• 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
Donors and Mutharika: Déjà vu?

Aid to Malawi over the last decade

Source: OECD, Creditor Reporting Database
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)
  - 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

Source: OECD Creditor Reporting Database
Competitive Party Systems

• Development aid inadvertently favors incumbent

• Most evident with respect to the FISP
  – Supported heavily by budget support

Distribution of Contributions for the FISP

Source: Dorward & Chirwa 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Government</th>
<th>Donors</th>
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<tbody>
<tr>
<td>2005/6</td>
<td>51.4</td>
<td></td>
</tr>
<tr>
<td>2006/7</td>
<td>81.4</td>
<td>9.5</td>
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<tr>
<td>2007/8</td>
<td>109.6</td>
<td>7.1</td>
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<tr>
<td>2008/9</td>
<td>37.8</td>
<td>227.8</td>
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<td>2009/10</td>
<td>101.1</td>
<td>20.2</td>
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Democratic Erosion, 2010-2011

Germany withholds K1.4 billion LDF aid
Repeal Penal Code Section 46—MHRC
NGOs attack church on gays
NGOs BASH GOVT ON ABUSE OF PUPILS
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Donor Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar. 2010</td>
<td>• Arrest of gay couple</td>
<td>• CABS expresses opposition</td>
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<td>• World Bank offers $54 million in budget support when couple released</td>
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<tr>
<td>July 2010</td>
<td>• Mutharika unilaterally changes flag</td>
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<td></td>
<td>• Church leader arrested</td>
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<td>Dec. 2010</td>
<td>• Parliament passes amendment to Section 46 of Penal Code</td>
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<td>Jan. 2011</td>
<td>• Parliament tables Injunctions Bill</td>
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<tr>
<td>Feb. 2011</td>
<td>• Mutharika signs into law the amendment to Penal Code</td>
<td>• Seven bilaterals issue statement</td>
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<td></td>
<td>• Protests over fuel &amp; forex shortages are banned</td>
<td>• Germany suspends half its budget support</td>
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<td>• Professor at Chancellor College arrested</td>
<td>• Germany suggests revision of the Joint Framework agreement</td>
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<td>• Local elections suspend</td>
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## Democratic Erosion

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<tr>
<td>April 2011</td>
<td>• MCC signs compact with Govt.</td>
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<td>May 2011</td>
<td>• British High Commissioner expelled</td>
<td>• DfID suspends all new aid pledges until it reviews its bilateral relationship</td>
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<td>July 2011</td>
<td>• Mutharika ignores judiciary &amp; signs Injunctions Bill into law</td>
<td>• DfID announces end of general budget support</td>
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<td>• <em>Failure to devalue MK</em></td>
<td>• <em>IMF suspends ECF &amp; all CABS donors forced to halt budget support</em></td>
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<td>• Police crackdown on protests by “Concerned Citizens” &amp; 18 people killed</td>
<td>• MCC decides not to release $350 million for energy sector</td>
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<td>August 2011</td>
<td>• Mutharika reduces size of cabinet by 14 members</td>
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<td>December 2011</td>
<td>• Minister of Justice states that number of controversial laws would be reviewed</td>
<td>• EU noted that this was not sufficient</td>
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<td>February 2012</td>
<td>• Mutharika claims devaluation would only make ‘Washington people’ happy</td>
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## Why Mixed Reactions?

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<tr>
<th>CABS donor</th>
<th>Preconditions for budget support disbursements</th>
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| **AfDB**   | • 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**   | • Evidence of commitment to reducing poverty, improving public financial management, and upholding human rights |
| **EU**     | • Macroeconomic stability, evidence of a commitment to economic growth and poverty reduction, and sound public financial management |
| **Germany**| • 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** | • 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** | • 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.