Flawed Economic Planning in Sub-Saharan Africa and its Consequences

A Political-Economic History of World Bank Policies in Malawi

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Maps, Graphs and Tables

1. Introduction

The prominent role of the World Bank (WB) in designing and implementing development policies in Sub-Saharan Africa (SSA) has been heavily discussed within development economics for the last 30 years. Because the Bank's policies largely failed to produce economic growth in the region till the mid-1990s, SSA became an important case study in the debate on what went wrong. This came close to an existential crisis in the profession.[1] Continued WB involvement, the unstable and unequal nature of economic growth in SSA since the early 2000s and the sustained precariousness of debt levels (despite large scale debt relief in 2005) have made the debate all the more relevant in recent years.[2]

The policy failures of 'market-fundamentalism' in the 1980s and 1990s seemed to shift the WB towards a more contextualized development approach throughout the 2000s. This included a larger possible role for the state and more attention to national peculiarities in development, in contrast to the earlier 'one-size-fits-all' approach for which the WB had come to be known. This development has been taken as cause for celebration.[3] However, from a critical point of view, this optimism seems unfounded. While the WB has slowly acknowledged the importance of institutions and the state for economic development, much of this has merely been discursive and the fact that politics lie behind these institutions hasn't been readily recognized. Despite a prolific debate, little has truly changed considering the actual implementation of development policies because of the continued improper attention to the inherent political nature of development.[4]

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[1] Jayati Ghosh, "A Brief Note on the Decline and Rise of Developments Economics", *Rethinking Development Economics Draft Paper* (Cape Town, 2001), http://www.unrisd.org/unrisd/website/document.nsf/(httpPublications)/2DA5AEC5C09E51E7C1256BC900459735?OpenDocument [last consulted 11-12-2019].

[2] William Battaile et al., "Debt Sustainability in Sub-Saharan Africa: Unravelling Country-Specific Risks", *World Bank Policy Research Working Paper* 7523 (Washington, 2015); Keith Palmer, "Why are sub-Saharan Economies Not Growing Sustainably?", *Enterprise for Development Discussion Paper* (2017).

[3] Joseph Stiglitz, "Is there a Post-Washington Consensus Consensus?", in: Narcís Serra and Joseph Stiglitz (ed.), *The Washington Consensus Reconsidered: Towards a New Global Governance* (Oxford, 2008); Carlos Lopes, "Economic Growth and Inequality: The New Post-Washington Consensus", *Revista Criticia de Ciências Sociais* 4 (2012).

[4] Thomas Carothers and Diane de Gramont, *Development Aid Confronts Politics: The Almost Revolution* (Washington, 2013); K. Sarwar Lateef, *Evolution of the World Bank's Thinking on Governance* (2016), http://pubdocs.worldbank.org/en/433301485539630301/WDR17-BP-Evolution-of-WB-Thinking-on-Governance.pdf [last consulted 11-12-2019].

The problem is that much scepticism still exists among practitioners on how useful more politically aware approaches can be.[5] The idea that development requires relatively straightforward technical solutions seems deeply engrained within the development community.[6] This has fostered a stubborn adherence to 'best practice' approaches that continues to ignore the inherently historical and political rooted nature of countries' socio-economic problems, which decisively influence the implementation and consequences of economic policies in practice.[7]

This thesis seeks to engage with this scepticism by **asking why the World Bank's stated goals have not matched the actual consequences of its policies in Malawi since 1981.** The hypothesis is that many economic policies have been ineffective or had unforeseen adverse effects because they were implemented without proper attention to historically rooted socio-economic and political structures. This lack of attentiveness to local political economy has meant that little real improvements have been made to Malawi's society and economy, despite years of WB involvement. This hypothesis is tested through an historical analysis of the implementation and consequences of WB development policies in Malawi. The analysis will also look at the political-economic legacy of Malawi's colonial era as it is underlies the country's contemporary development problems.

If the hypothesis is correct, it will mean that historical experience contradicts the existing scepticism towards the possible benefits of more politically aware development approaches. This would mean that elite interests, historical socio-economic structures and (in)formal institutions intersect to have a defining impact on the way development policies play out, therefore requiring proper attention in future policy design. These insights would be applicable beyond Malawi as many SSA countries seem to suffer from context-specific impediments to equitable, sustainable growth, as they have been subject to comparable 'best practice' WB policies with differing, but often detrimental effects.[8] In

[5] Alina Rocha Menocal, *Getting real about politics. From thinking politically to working differently* (ODI London, 2014).
[6] Ibid.; Carothers and Gramont, *The Almost Revolution*; Kate Bridges and Michael Woolcock, "How (Not) to Fix Problems That Matter. Assessing and Responding to Malawi's History of Institutional Reform", *World Bank Policy Research Working Paper* 8289 (December 2017, Washington).
[7] Ibid.; OECD-DAC, *Lessons Learned on the Use of Power and Drivers of Change Analyses in Development Co-operation* (Paris, 2005);
[8] Thandika Mkandawire, "Maladjusted African Economies and Globalisation", *Africa Development* 30:1&2 (2005), 1-33; Jeffrey Sachs et al., "Ending Africa's Poverty Trap", *Brookings Paper on Economic Activity* 1 (2004); David Williams, "Managing Sovereignty: The World Bank And Development in Sub-Saharan Africa", *Mondes en Dévelloppement* 123:3 (2003), 5-21.

the end, this would strengthen the recent demand for more contextualized socio-economic development, increasing pressure on the WB and other practitioners to change their ways.

2. Literature Review

The proposal that the lack of attention to political economy in WB programmes harms development raises two questions. Firstly, is it true that the WB pays inadequate attention to non-economic factors in policy design, despite its own rhetoric? Secondly, if that is the case, why is that a problem and what's the alternative? A review of the evolution of the WB's paradigm helps to illuminate the lack of actual change in relation to the criticism expressed in the wider debate. Meanwhile, political-economic analyses which have explicated this issue also offer an alternative.

2.1 The World Bank's Paradigm: From the Washington to the (New) Post-Washington Consensus.

The rise of neoclassical economics in the late 1970s presented a sharp turn away from the WB's earlier state-focused development approaches. Neoclassical economists argued that SSA economies were performing poorly because their markets were over-regulated and over-taxed *due* to extensive state interference. On the basis of econometric models and free trade theory did they point to the benefits of comparative advantage in the production of economic growth. The awesome powers of the market just needed to be unleashed to lift Africa out of poverty. The Structural Adjustment Programs (SAPs) which aimed to do so were generally designed to be as apolitical as possible. This was caused by a sincere belief in economics as an objective science and distrust of state interference, but was also instrumental in pushing through unpopular reforms as policies were presented as unavoidable.[9] When the SAPs failed to produce growth, neoclassical economists argued that this was because liberalizing policies had not been correctly implemented.[10] Adherents of adjustment pointed at the widespread neo-patrimonial nature of SSA states – informal patron-client relations in which state resources are used to secure the loyalty of clients – as an obstacle to economic transformation. While price liberalization, deregulation and monetary reform were commonly implemented, few regimes indeed were willing to risk their own position by privatizing significant state enterprises or

[9] James Ferguson, *The Anti-Politics Machine. "Development", Depoliticization and Bureaucratic Power in Lesotho* (Cambridge, 1990);

[10] Paul Collier and Jan Willem Gunning, "Why Has Africa Grown Slowly?", *The Journal of Economic Perspectives* 13:3 (1999), 3-22; David Dollar and Aart Kraay, "Trade, Growth and Poverty", *The Economic Journal* 114:493 (2004), 22-49; World Bank, *Adjustment in Africa* (Oxford, 1994).

reorganizing the civil sector.[11] Resultingly, a small shift occurred within what was then called the Washington Consensus from 'purely' economic measures to institutional economics in the early 1990s.[12] Apart from opening up to the global economy, loans were now also made conditional on political reforms, such as the implementation of a multi-party system. This stemmed from the belief that development will occur through the combined growth of economic and political freedom.[13]

The shift to institutional economics presented a first look at the potential role of politics in development. However, it remained limited to the attempted imposition of a prefabricated Western democratic model, instead of an analysis of local politics.[14] This was problematic, because the implementation of such 'best practice'-policies led to an almost exclusive focus on the institutional determinants of economic performance. As the policies were assumed to be sound, a lack of growth had to be caused by incorrect implementation or corruption. As a result, the lack of growth in SSA was largely blamed on African governments.[15] The continuingly unequal and unstable nature of economic growth in the 1990s and early 2000s however made these arguments increasingly inadequate, which generated extensive criticism of the dominant development paradigm.[16]

New analyses showed that the Bretton Wood institutions were accomplices in the implementation failure of policies, for which they had blamed governments. Many development projects had payed inadequate attention to existing economic and political structures within countries, leading to ineffective or even counterproductive measures.[17] The WB, driven by its own internal ideological and bureaucratic logic, had kept allocating funds to programs clearly failing.[18] As such, regimes dragging their feet had been kept in the saddle. They simply implemented neoliberal demands for e.g. budget cuts by lessening their development ambitions, making African citizens bear the costs of these policies. Sam

[11] Pierre Englebert and Kevin Dunn, *Inside African Politics* (Boulder/London, 2013), 238-239.
[12] A typical recent example is: Daron Acemoglu and James Robinson, *Why Nations Fail. The Origins of Power, Prosperity and Poverty* (London, 2012).
[13] Exemplified by Amartya Sen, *Development as Freedom* (New York, 1999).
[14] Ha-Joon Chang, "Institutions and economic development: theory, policy and history", *Journal of Institutional Economics* 7:4 (2011), 473-498.
[15] Jomo Kwame Sundaram et al., "Globalization and development in sub-Saharan Africa", *DESA Working Paper* 102 (2011), 2.
[16] See: Alfredo Saad-Filho, "Growth, Poverty and Inequality: From Washington Consensus to Inclusive Growth", *DESA Working Paper* 100 (2010), 5-6.
[17] Margaret McMillan et al., "When Economic Reform Goes Wrong: Cashews in Mozambique", *NBER Working Paper* 9117 (2002).
[18] Robert Calderisi, *The Trouble with Africa: Why Foreign Aid Isn't Working* (New York, 2006).

Hickey has even argued that the WB ignored Uganda's opposition to multi-party politics as they wanted a success story for their 'new institutional approach', in the process encouraging cronyism and rentier forms of capitalism undermining the productive basis of the economy.[19]

Critics therefore argued that the Bank's policies themselves were to blame for Africa's lack of growth. The great divergence between South-East Asia and Africa since the 1970s stressed the potential power of a dirigist state to encourage growth, in contrast to the state-minimalism of WB programs.[20] Likewise, the case studies of Asian economies presented a strong charge against the democratic bias of the new institutional economics mentioned above, as most of these countries did not have a lot of democratic freedoms yet arguably developed successfully.[21] The impressive economic growth in countries which didn't follow WB guidelines called the universal applicability of the Bank's theories into question. In contrast, the inability of many African countries to respond to most economic incentives, as they lacked the infrastructure and bureaucratic means following enforced liberalization, seemed to stress the need for a more embedded form of development.[22]

The WB slowly picked up on this criticism and started to stress the need for a more contextualized approach throughout the 2000s. Developing from the basic ideas Joseph Stiglitz had proposed in the late 1990s, it publicly declared that one-size-fits-all market-oriented policies are doomed to fail.[23] In contrast, the WB stated that policies should indeed be designed on a per-country basis. This would allow room for experimentation, the possibility of bringing the state back in and paying attention to social, cultural and political factors in development as to create 'inclusive growth'.[24] The unravelling of inconsistencies within neoliberalism during the global economic crisis of 2008 seemed to

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[19] Sam Hickey, "Beyond the Poverty Agenda? Insights from the New Politics of Development in Uganda", *World Development* 43 (2013), 194-206, 195.

[20] Joseph Stiglitz, "Rethinking Development Economics", *The World Bank Research Observer* 26:2 (2011), 230-236; Ha-Joon Chang, *Kicking Away the Ladder. Development Strategy in Historical Perspective* (London, 2003).

[21] Kenichi Ohno, "The East Asian growth regime and political development" in: Kenichi Ohno and Izumi Ohno (ed.), *Eastern and Western Ideas for African Growth* (London, 2013), 37-61.

[22] Mkandawire, "Maladjusted African Economies".

[23] Charles Gore, "The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries", *World Development* 28:5 (2000), 789-804.

[24] World Bank, *Economic Growth in the 1990s: Learning from a Decade of Reform* (Washington, 2005); Stiglitz, "Is there a Post-Washington Consensus Consensus?".

accelerate this policy shift, leading some to cheerfully declare that a '(New) Post-Washington Consensus' had been achieved.[25]

2.2 The Political-Economic Alternative

However, from a critical perspective, this enthusiasm seems ill-founded. While the WB has paid more attention to the role of institutions and politics in economic development, much of this has been merely discursive.[26] The Bank has failed to meaningfully include social, political and cultural factors in project design, as the alterations to its actual approach have been severely limited.[27] This can be seen in the continuingly detailed prescriptions of 'correct' economic policies in its documents, despite claims from the WB that it no longer wishes to present strict blueprints. These policies still stress the need for market access, integration into the world economy and economic growth, while largely ignoring the nature of such growth and questions of equity and distribution. Policy failure is still explained through an ignorance of 'correct' policies or through deviousness of governance (such as corruption). This disregards other possible causes of policy failures (such as bad implementation design) and the WB's own role in sustaining political-economic impediments to development.[28]

In contrast, Paul Cammack's criticism that the WB's increased attention to the role of the state in economic development has focused on creating a more deeply embedded form of neoliberalism still seems to apply today.[29] While the proponents of the Post-Washington Consensus have presented it as a distinct break with the Washington Consensus, it is fair to point out that the WB has remained fundamentally pro-market. Instead of truly diversifying its methods, the Bank has merely brought the state back in as a complementary factor to the market. Any government's main goal is to create market-friendly institutional frameworks, such as stability, infrastructure and a sound judicial system, to allow the market to produce economic growth. Toby Caroll likewise pointed

[25] Ibid.; Lopes, "The New Post-Washington Consensus".
[26] Saad-Filho, "Growth, Poverty and Inequality".
[27] Richard Peet, *Unholy Trinity. The IMF, World Bank and WTO* (London/New York, 2009); Kate Bayliss et al., *The Political Economy of Development: The World Bank, Neoliberalism and Development Research* (London, 2011); Ali Burak Güven, "Whither the post-Washington Consensus? International financial institutions and development policy before and after the crisis", *Review of International Political Economy* 25:3 (2018), 392-417.
[28] See: Saad-Filho, "Growth, Poverty and Inequality", 14-15; World Bank, *What is Inclusive Growth?* (Washington, 2009), 7-11, http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf.
[29] Paul Cammack, "What the World Bank means by poverty reduction, and why it matters", *New Political Economy* 9:2 (2004), 189-211, here 200.

out that the WB's understanding of 'social factors' has been limited to the utilization of social capital in establishing capitalist citizens. By providing debt-based funding through village councils, groups and individuals were stimulated to both think and work as market participants.[30] Economic and political ties among countries' elite, the ownership of the means of production or culture-dependent forms of social behaviour are still largely seen as redundant in project design and treated superficially.[31] Instead, the task of poverty reduction is conflated with a technical process designed to foster market forces.

Although one could take issue with the sustenance of a neoclassical capitalist system, the WB's policies could also be taken as sound if they achieved their own goals of inclusive, sustainable socio-economic growth. The problem is that they don't. Despite the discursive acceptance that politics matter, the *de facto* continuance of neoclassical economics has meant that markets have retained ontological priority as the "natural means of creating economic order".[32] This has likewise meant that political power relations continue to be regarded as somewhat of an externality, implying a separation between economics and politics. As a result, WB analyses of institutions have remained overtly simplistic and its policies therefore shallow.[33] They address the outcomes of political-economic structures with technocratic means, failing to engage with the underlying concentration of power and resources in the hands of political and economic elites. This has hindered socio-economic development by misunderstanding the causes of developmental problems, inadvertently fostering predatory rent-creation and overlooking how technocratic reforms fail due to political-economic structures.[34]

Critical authors have doubted whether (WB) development can help SSA at all.[35] I however belief this goes too far, as they criticize the current approach without really considering how development could be made to work. The reason why the shift towards a more politically and historically aware development approach has stunted lies in what Carothers and Gramant have called the 'Almost Revolution'. While there has been a

[30] Toby Carroll, "'Social Development' as Neoliberal Trojan Horse: The World Bank and the Kecamatan Development Program in Indonesia", *Development and Change* 40:3 (2009), 447-466.
[31] Consider for example: Richard Record et al., *From Falling Behind to Catching Up. A Country Economic Memorandum for Malawi* (Washington, 2018), 1-11, 47-60.
[32] Frank Stilwell, "From Economics to Political Economy: Contradictions, Challenge and Change", *American Journal of Economics and Sociology* 78:1 (2019), 35-62.
[33] Chang, "Institutions and economic development".
[34] Carothers and Gramont, *The Almost Revolution*, 4-5.
[35] William Easterly, *The Tyranny of Experts: Economists, Dictators and the Forgotten Rights of the Poor* (New York, 2013); Gilbert Rist, *The History of Development* (London, 2019).

growing discursive acceptance that non-economic factors play a role in socio-economic development, development agencies in general have proven to be hesitant to alter their policies. While there are numerous factors at play (see Bridges and Woolcock in detail), the biggest issue seems to be that practitioners are not convinced about the benefits of a more contextualized, less technocratic approach due to a lack of analytical proof.[36] Malawi, as a clear example of best approach failure, can provide part of this analytical proof and help to alter the status quo. We will now first take a look at the used methodology, before analysing the history of Malawi's political economy in detail.

[36] Carothers and Gramont, *The Almost Revolution*; Bridges and Woolcock, "How (Not) to Fix Problems That Matter".

3. Methodology and Relevance

3.1 Research Question

As has likely become clear from the literature review, criticism of the WB's lack of attention to historical local circumstances and politics is not new. However, both the debate and the WB's attention to other perspectives have developed significantly over the last twenty years. As the problems associated with the dominant best-practice approach are slowly becoming apparent within the mainstream, it seems fair to suggest that this offers an opportunity to finally produce a fundamental shift in the way the WB practices development by strengthening the political-economic criticism entering the mainstream. The history of economic development in Malawi clearly shows the effects of technocratic development and as such substantiates the thesis that the lack of attention to political-economic specifics has severely hampered development efforts in Malawi (and elsewhere, as many SSA countries have been subject to comparable 'best practice'-policies).[37] The historical analysis of WB policies in Malawi (more on case selection below) is therefore helpful in problematizing contemporary development in SSA by explicitly relating policy failure to political-economic factors, in the process contributing to a better approach.

3.2 Political-Economic Approach

The above mentioned lack of historical awareness has partly resulted from a preoccupation with technical solutions and quantitative analysis within mainstream (development) economics. While very useful in its own right, econometric analysis is somewhat ill-equipped to take into account the diverse and numerous social, economic and political variables which are relevant to the implementation of development policies and the nature of poverty if taking a general country view.[38] This has generated an excessive reduction of the complexity of reality, which by extension has led to the treatment of Malawi and other SSA countries as cases merely needing comparable economic and democratic fine tuning. This has been reflected in the lack of attention to

[37] Williams, "Managing Sovereignty".

[38] Martha Starr, "Qualitative and Mixed-Methods Research in Economics: Surprising Growth, Promising Future", *Journal of Economic Surveys* 28:2 (2012), 238-264; Michael Bamberger (ed.), *Integrating Quantitative and Qualitative Research in Development Projects* (Washington, 2000).

the nature of African growth since the early 2000s, as an overt focus on statistical data and GDP diverted attention from its unequal and unsustainable characteristics.[39]

In this regard, political-economic analysis is a powerful tool for improving the effectiveness of development economics, as it explicitly focuses on the distribution and contestation of power and resources over the years.[40] As such, it lays bare the economic and political structures which have for an important part determined Malawi's socio-economic development, revealing the underlying interests, incentives and institutions that have enabled or frustrated development. This helps illuminate the context into which WB policies were implemented, allowing for their fair assessment. This thesis therefore uses a political-economic macro-level country analysis, aimed at engaging with said structures underpinning Malawian society and economy. While mostly qualitatively driven, this approach is augmented by datasets on GDP growth, agricultural production, government budgeting and fiscal deficits, among others, as to present a comprehensive picture of the concurrent socio-economic and political development of Malawi since 1964. This data has been drawn from the statistical office of Malawi, the WB databank and a range of earlier works on the subject.[41]

To give a representable assessment of the WB policies which have been implemented in Malawi over the span of almost 40 years, I have chosen to take the main projects of the two dominant WB development paradigms as objects of analysis. The first one concerns the SAPs of the 1980s and early 1990s, which focused on industrial and especially agricultural liberalization and macro-economic stabilization as to foster socio-economic development. The second one is the mentioned shift to institutional economics with the good governance agenda from the early 1990s onwards, for which we will focus on the consequences of the shift to a multi-party democracy till the present day. The effect of WB policies will be measured against the goal of shared/inclusive socio-economic growth as stated by the WB itself.[42]

[39] Palmer, "Not Growing Sustainably"; Morten Jerven, *Africa. Why economists get it wrong* (London, 2015), 74-102.
[40] OECD-DAC, *Lessons Learned*.
[41] Such as: Frederic Pryor, "Income Distribution and Economic Development in Malawi. Some Historical Statistics", *World Bank Discussion Papers* 36 (Washington, 1988).
[42] World Bank, Report and Recommendation for a Third Structural Adjustment Operation to Malawi No. P-4172MAI (25-11-1985), http://documents.worldbank.org/curated/en/911651468046778153/text/multi0page.txt [last consulted 11-12-2019], 17-19; World Bank, Report and Recommendation for an Industrial and Trade Policy Adjustment Program to Malawi No. P-4778-MAI (25-05-1988), http://documents.worldbank.org/curated/en/374081468272377234/text/multi0page.txt [last consulted 11-12-

By focusing on these two broad programmes, I do leave out some variables on development in Malawi. The first one is AIDS, a disease widely spread and with adverse socio-economic consequences. However, as pointed out by Conroy et al., AIDS does not really cause economic downturn, but simply exacerbates the poverty trap Malawi finds itself in.[43] Also considering that there already has been extensive work on that subject by Conroy, I deem it fair to ignore this factor considering the political-economic focus of this inquiry. The other one is ethnicity, which at times has been discussed as a potential impediment to broad development in Malawi since the onset of a multi-party system.[44] However, although electoral results indeed often follow ethnic and regional lines, the extent of collective elite capture of politics and economics in Malawi arguably diminishes the importance of ethnicity as a factor in this regard.[45] Furthermore, as there have also been electoral results to the contrary (such as in 2009), I do not deem ethnicity a fundamental variable for development in Malawi at this time.

3.3 Why the World Bank in Malawi?

The choice to focus on the impact of WB policies is based on the central role the bank has fulfilled in development in Malawi since the country made its first loan request in 1981. The extensiveness of this influence is not to be underestimated. Donors on average provide between ⅓ and ½ of the government's funds (consider figure 1), and 80% of the development budget. Around the beginning of the 2000s, aid formed a quarter of annual GDP.[46]

While the WB provides a decent amount of these funds, this is not the primary reason for analysis, as we could have taken any large donor in that case. Instead, both the influence and leverage of the WB is greater than the funds it provides, as it largely works in tandem with other bilateral and multilateral donors.[47] Without WB involvement or

2019], 24-26; Luis Lopez-Calva and Carlos Rodriguez-Castelán, "Pro-Growth Equity: A Policy Framework for the Twin Goals", *Policy Research Working Paper* No. 7897 (Washington, 2016).

[43] Anne C. Conroy et al., Poverty, AIDS and Hunger. Breaking the Poverty Trap in Malawi (New York, 2006), 81-82.

[44] Eunice Sahle, *Democratisation in Malawi: State, Economic Structure and Neo-Liberal Hegemony* (PHD Thesis, Kingston, 2001); Arne Tostensen, Malawi: A Political Economy Analysis (Oslo, 2017).

[45] Diana Cammack, "Malawi's Political Settlement: Crafting Poverty and Peace, 1994-2014", *Journal of International Development* 29:5 (2017), 661-677.

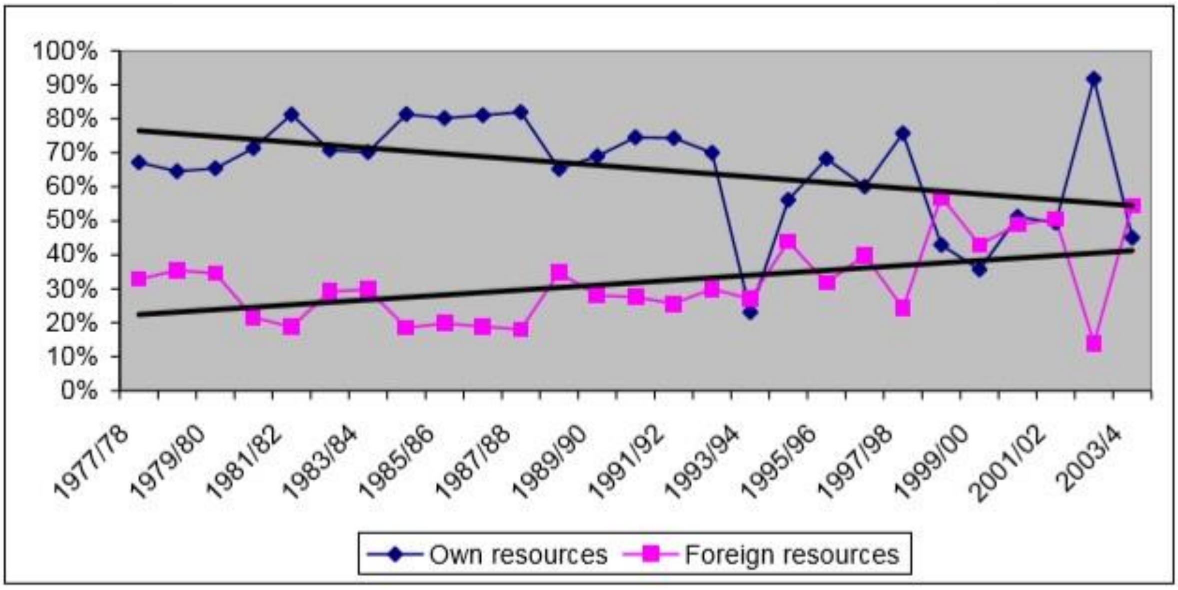
[46] Diana Cammack, "Poorly Performing Countries: Malawi, 1980-2002", *ODI Background Paper 3* (London, 2004), 15-16.

[47] See: Michael Hodd, "Africa, the IMF and the World Bank", *African Affairs* 86:344 (1987), 331-342, also for exceptions to the rule.

approval, other donors are likely to abstain from funds provision. This happened for example in 1992, when the World Bank Consultative Group, as the leading representative of the transnational lending community, decided to withhold non-humanitarian aid until the Malawian government showed signs of moving towards the establishment of a multi-party democracy.[48]

The importance of the WB as an object of analysis is further strengthened by the fact that it has largely coordinated development in Malawi since 1981. In contrast to the IMF, the WB has dedicated itself to long-term development projects. It coordinates these with the IMF, but primarily for the latter to be involved in shorter term loans to prop up budget deficits in cases of emergency. The WB's influence is further enhanced by its decisive impact on which ideas in development become dominant, as the Bank employs the largest group of development economists in the world and has strong ties with many governments.[49] As such, the WB is beyond doubt one of the most important actors in influencing Malawi's development since the early 1980s and its policies are therefore the primary object of analysis for this thesis.

Figure 1 **Foreign and local resources as part of budget expenditures.**



Source: Cammack, "Malawi, 1980-2002", 16.

[48] Sahle, *Democratisation in Malawi*, 237.

[49] Hodd, "Africa, the IMF and the World Bank", 340-341; Susan Park and Antje Vetterlein (ed.), *Owning Development. Creating Policy Norms in the IMF and the World Bank* (Cambridge, 2010).

Finally, Malawi is an interesting case study, as it adopted a form of 'managed capitalism' with a strong primary commodity export-orientation at independence. The WB spoke very enthusiastically about these 'realistic' liberal economic policies when it got involved in 1981, and since then Malawi has ranked first in WB documents when it comes to the implementation of their policy recommendations and forms of economic liberalization.[50] However, Malawi also still ranks as one of the poorest countries in the world, with very unstable economic growth. This conundrum of ostensibly successful policy implementation and sustained underdevelopment offers a clear opportunity to scrutinize the consequences of WB policies in practice as they were successfully implemented according to the Bank's own statements.[51]

[50] Mkandawire, "Maladjusted African Economies", 12; Jane Harrigan, "Book Reviews", *Journal of African Economies* 1:1 (1992), 151-163.

[51] World Bank, *Third Structural Adjustment Operation* No. P-4172-MAI (25-11-1985); World Bank, *Industrial and Trade Policy Adjustment Program to Malawi* No. P-4778-MAI (25-05-1988).

4. Malawi's Economic History, 1891-1979

This section explores the long-term implications of the economic and political structures relevant to socio-economic development which were established in Malawi under British rule between 1891 and 1964. While Malawi indeed achieved political independence in 1964, its political economy remained inherently colonial. As such, this chapter sketches the context in which WB policies were implemented and the assessment which was made of these circumstances. What I consider to be the continued colonial economy consists of 3 main elements. Firstly, the country became incorporated into the international economy with a narrow estate-based export sector, making the country dependent on external revenue and setting the basis for Malawi's continued vulnerability to price shifts on the world market. Secondly, post-1964 ownership of these estates simply shifted from a European to an African elite. As the preferential economic treatment that these plantations received continued, revenues accrued mainly within this elite. Thirdly, the undemocratic centralized state which had dominated the colony continued post-independence, with a large amount of power concentration in the figure of the president (replacing the governor) and the mentioned elite. As such, the colony's political economy came to define Malawi's 'postcolonial' state and economy with little structural alterations.

4.1 Building the Estates, 1891-1961

Nyasaland, which would later be named Malawi, became a British 'protectorate' in 1891, marking the onset of 73 years of British rule. The colonialization of the region followed a standard pattern. Ambiguous treaties were made, troops were used to make resistors 'come to their senses' and the creation of the colonial administrative structure transferred political power to the British, marginalizing Africans in economic and political decision making.[52]

The colony's first governor, Harry Johnston, saw himself faced with a large financial challenge as the British foreign office had informed him that the treasury would not provide revenue to support the protectorate, except for the salaries of civil servants. A lack of available mineral resources led the administration to pursue an agriculture-

[52] Consider for a detailed (and biased) first-person description by the colony's first governor: Harry Johnston, *British Central Africa* (London, 1897), 80-151, https://archive.org/details/britishafrica00johnuoft/page/n17 [last consulted 11-12-2019].

based export economy to generate revenues. Most indigenous agriculture in the region at the time however consisted of subsistence farming, with limited trade and exports. A capitalist export culture thus had to be created, which was done by introducing the notion of private (instead of communal) land and a habit of land alienation. This process had already started prior to the establishment of colonial rule, with small numbers of Europeans (57 in 1891, 300 by 1896) acquiring land through trade, warfare and treaties with chiefs (which promised them protection from Portuguese colonists and explorers).[53] This process was accelerated by the Johnston administration, which introduced a new land ownership structure between 1892 and 1894.[54] Land was classified in two ways, either as 'freehold' (which basically meant that it was held by Europeans) or as 'crown land', which meant that it belonged to the British state. In practice, this meant that European estates could fairly easily accrue the most fertile land through the support of the colonial administration, leading to a clear-cut division of the country's agriculture in two sub-sectors: the European estate sector, producing export crops, and an African peasant or 'smallholder' sector, mainly producing foodstuffs. At the end of 1894, 15% of cultivated land was already held by a small number of Europeans, with 72% of these acres belonging to a mere 11 estate holders.[55]

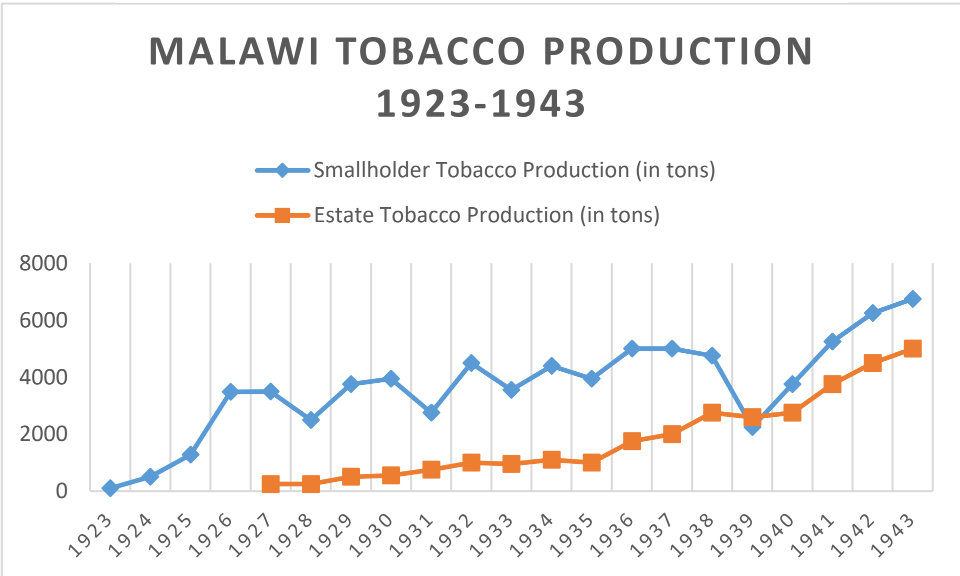
The plantations enjoyed benefits beyond owning the best land. In contrast to the smallholders, they faced no restrictions on the crops they could grow. The most lucrative ones, such as flue-cured tobacco and tea, were even the exclusive domain of the estates as to maximize their possibilities of generating revenue.[56] Furthermore, estate owners had access to cheap labour, which was commonly drawn from the African population whose villages and farms happened to be on the bought properties. The indigenous notion of *thangata*, which in pre-colonial times had meant as much as reciprocal agricultural help between members of the same community, was basically reinterpreted as a form of forced labour. Colonial commissions argued that '…what first brought the native and the European together was a contract of labour in exchange for ground on which the native could make his garden and build his hut … this system is purely native life and its

[53] Sahle, *Democratisation in Malawi*, 60.
[54] Johnston, *British Central Africa*, 112-113.
[55] Pachai Bridglai, "Land Policies in Malawi: An Examination of the Colonial Legacy", *The Journal of African History* 14:4 (Cambridge, 1973), 681-698, here 683.
[56] John Pike, *Malawi: A Political and Economic History* (London, 1968), 174.

continued existence ... shows that it has practical convenience for both sides".[57] The African population logically did not agree, but despite various uprisings such as the Chilembwe riot of 1915, the regime's labour policy saw little true alterations.[58]

While the smallholder sector was not completely neglected, it remained vitally subdued to the primacy of the estates and the financial needs of the colonial administration. For example, following a severe cotton shortage in 1902 (due to unstable prices caused by speculative trading in the USA), Britain sought to reduce its dependence on US grown cotton and started encouraging its production in the colonies.[59] The colonial state in Malawi therefore stimulated peasant cotton production through e.g. tax rebates. Such policies however lasted only two growing seasons, because it led to a reduction in the labour supply for the estate sub-sector as most African farmers preferred growing their own cotton.[60] Despite such unreliable and often restricting state intervention, cotton and especially tobacco production (low-earning types such as dark-fired western leaf, as

Figure 2 **Numbers by estimate, data for earlier years lacking.**



Source: Vail, "Malawi's Agricultural Economy", 63; Martin Prowse, "A history of tobacco production and marketing in Malawi, 1890-2010", ***Journal of Eastern African Studies*** **7:4 (2013), 691-712, here 697.**

[57] 1921 Land Commission of Nyasaland, as quoted in: J.A.K. Kandawire, "Thangata in Pre-Colonial and Colonial Systems of Land Tenure in Southern Malawi", *Africa* 47:2 (1977), 185-191.
[58] See for a discussion: Jenny de Nobel, *A right to land? Population density and land rights in Malawi, Zambia and Zimbabwe, 1923-2013* (MA thesis, Leiden, 2016), 53-54.
[59] See: Allen Isaacman and Richard Roberts (eds.), *Cotton, Colonialism and Social History in Sub-Saharan Africa* (Portsmouth, 1995).
[60] Leroy Vail, "The State and the Creation of Colonial Malawi's Agricultural Economy", in: Robert Rotberg (ed.), *Imperialism, Colonialism and Hunger: East and Central Africa* (Lexington, 1983), 39-87, here 61.

prime tobacco was reserved for the estates) within the smallholder sector grew rapidly (see figure 2).

In response, the marketing of peasant produce was monopolised by state marketing boards, a practice which would be continued after independence. The 'Native Tobacco Board' was first established in 1926, while cotton was regulated through state sanctioned traders until 1951, when a cotton board was created. In the following year, a marketing board for foodstuffs was also set up. These boards would be merged in 1956 to create the Agricultural Production and Marketing Board, which formed the basis for the post-independence Agricultural Development and Marketing Corporation (ADMARC). All of this is important, because the boards were used by the colonial and postcolonial regime to siphon revenues from the smallholders to the government and the estates, basically constituting a bottom-to-top income redistribution. The given rationale of the colonial state was that this kind of agricultural marketing would be more efficient and stabilise prices for peasant producers. However, by determining 'reasonable prices' for peasants and paying them well below true market profits, the board put great limits on the possibilities for smallholders to develop their farms, while once again favouring the estates.[61]

Underlying this approach to smallholder farming were racist and paternalistic attitudes, which both favoured the idea of Africans working for the European elite and considered African agriculture too underdeveloped to be enabled to develop on its own (despite the clear growth in production).[62] The tensions this system logically created between the African and European population grew markedly after the Second World War. In response, the colonial state sought to expand its political base among rural producers by creating a class of so called 'yeoman' or 'master farmers'. The idea was that the best individuals among the smallholders would be encouraged to develop their plots through cash bonuses and the availability of free seeds, fertiliser and advice.[63] However, as Sahle has pointed out, "little success was achieved in the long run since these policies did not address the fundamental issues … such as the monopolisation of peasant production and availability of land".[64]

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[61] R.W. Kettlewell, "Agricultural Change in Nyasaland: 1945-1960", *Studies in Tropical Development* 5:3 (Stanford, 1965), 229-285, here 248.
[62] Sahle, *Democratisation in Malawi*, 71.
[63] Kettlewell, "Agricultural Change", 274-275.
[64] Sahle, 71.

4.2 Independence and State-led Capitalism, 1961-1979

As such, by the late-1950s, Nyasaland had developed into an elite-led undemocratic state with a narrow economic and political basis. Despite the administration's conviction that the estate sub-sector would be the engine of growth, its development policy had largely benefited the social and economic elite with limited trickle-down effects. This resulted in a poor country with a highly illiterate population and a lack of economic opportunities and arable land for smallholders, which was further exacerbated by a growing population. The skewed socio-economic structure this created provided the anti-colonial movement with its main ammunition to criticise the colonial state.[65] It is therefore somewhat surprising that the emerging elite of the independence movement in practice focused almost exclusively on political independence. Despite a strong socio-economic rhetoric, little actual regard was given to the social and economic structures which made up the country or the question how the country should be run after independence. Instead, the nascent African elite which would take over the country in 1964 mirrored the autocratic tendencies of the colonial state, showcased by an intolerance of dissent and an advocacy of the concentration of power in one national party on the grounds that this was consistent with local cultural norms.[66] This put constraints on personal freedom and civic liberty in the post-independence state, while in the long run also leading to a government once again largely serving an economic and political elite with limited responsiveness to the needs of the broader population.

This is not to say that no attempts at all were made to foster smallholder production in the first years following independence. The government launched four integrated rural development programmes with some WB support as to increase the production of cash crops by smallholders.[67] These programmes consisted of considerable investments in rural infrastructure, land improvement, farmer education and the provision of services and credit. The general logic behind this approach was sound, in the sense that successful agricultural development required a comprehensive approach which tackled not just agricultural projects themselves but also connected issues, such as infrastructural constraints. Yet, despite significant investments and a relative decline in the importance of estate agriculture till 1966 (see figure 3), increase in smallholder

[65] See for a more detailed discussion of the anti-colonial struggle; Sahle, "Democratisation in Malawi", 74-88.
[66] John McCracken, *A History of Malawi, 1859-1966* (Woolbridge/Rochester, 2012), 374-375.
[67] Frederic Pryor, *The Political Economy of Poverty, Equity and Growth. Malawi and Madagascar* (Oxford, 1990), 72-75.

production disappointed for a variety of reasons. Firstly, most of the technology and credit packages offered were unsuitable for everyone but the largest smallholders, because of the required investments in capital goods and the need for trained personnel. Secondly, the still enforced requirement to sell export crops to the Farmers Marketing Board for a relatively low price limited growth, as this meant fewer opportunities and incentives for farmers to invest money in their farms. Thirdly, constraints on the availability of land, especially in the southern and central regions of the country, remained unaddressed, hindering effective supply-side response from smallholders. Together, these factors meant that the grand agricultural projects mainly benefited richer farmers, inadvertently contributing to the former colonial 'wager-on-the-strong' development policy.

Figure 3 **Estate Sector Data, 1955-1984.**

Year	Average annual number of hired workers (excludes tenants)[a]	Planted land (hectares)[b]	Gross crop production (thousands of 1978 MK)[c]	Estate share (percent)[c]	
				Gross crop production	Exports
1955	54,240	31,467	17,895	18.6	41.7
1956	62,960	31,731	19,074	19.0	32.2
1957	63,390	30,678	18,574	18.3	33.7
1958	61,810	30,936	21,870	20.8	35.5
1959	61,210	29,937	23,084	19.7	36.4
1960	60,300	29,523	24,873	19.6	40.0
1961	57,400	30,682	25,873	19.5	42.7
1962	53,050	27,940	25,487	16.9	29.6
1963	50,023	25,569	23,394	15.5	25.4
1964	49,250	25,355	21,538	16.0	25.9
1965	49,700	25,293	23,351	13.7	24.1
1966	50,150	24,726	25,708	13.7	26.8
1967	50,600	25,522	29,086	14.4	23.5
1968	51,044	24,466	29,672	18.4	29.1
1969	55,821	28,612	31,703	17.8	31.3
1970	62,081	31,521	40,720	21.4	39.7
1971	66,341	35,304	43,501	20.0	41.4
1972	73,699	36,369	49,619	21.2	40.9
1973	88,159	38,779	58,998	26.6	46.8
1974	92,934	41,610	59,091	25.9	52.1
1975	107,551	44,649	76,277	32.9	59.0
1976	120,118	50,839	83,728	31.1	61.5
1977	154,696	53,652	98,597	31.9	63.2
1978	169,334	58,356	101,943	32.0	66.2
1979	182,295	63,150	118,807	34.7	66.1
1980	181,137	67,808	130,408	39.3	65.0
1981	157,195	67,402	128,430	40.7	71.7
1982	158,200	n.a.	151,085	44.3	74.3
1983	197,200	n.a.	160,318	45.0	76.4
1984	177,700	n.a.	151,244	41.9	65.6

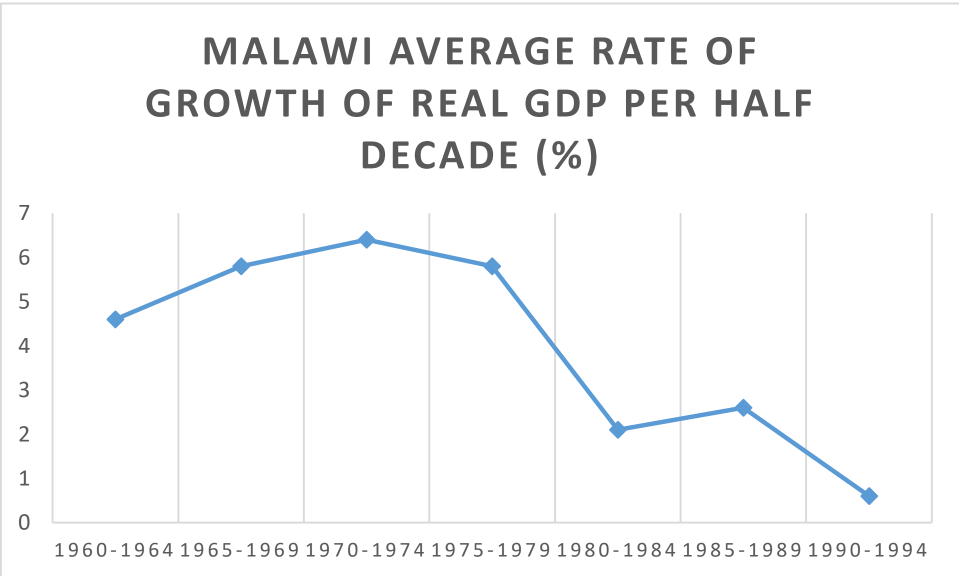
Source: Pryor, *Poverty, Equity and Growth*, 86.

In response, the regime of president Hastings Banda shifted its developmental focus to the estates once again, continuing the favourable treatment they had received under colonial rule. The official aim was to create a propertied elite, which would take the lead in development and inspire their countrymen to do the same. This however also handily served to consolidate Banda's political base by creating socio-economic ties and political debt between his regime and wealthy Malawians.[68] Estate support took a wide variety of forms. For starters, legislation which would have allowed smallholder production of burley tobacco and other 'estate' cash crops was cancelled in 1965. This meant that the smallholder sub-sector was largely directed to focus on low-profit food production. A whole bunch of Land Acts were introduced between 1965 and 1967, which allowed the Minister of Agriculture to convert customary into private land, inherently transferring smallholder land to the estate sector and allowing its acquisition by people with capital or enough political sway to obtain the necessary credit.[69] The credit came from two sources; firstly, the country's only two banks were controlled by Banda and his political allies, which instructed the banks to provide credit to the estates.[70] Secondly, the Farmer Marketing Board remained in place, paying smallholders by one estimate as little as 40 to 60% of actual crop value, investing the profits made this way in the estate sector.[71] As such, it should be no surprise that Banda and close allies also bought a bunch of estates for themselves. Together with a boom in crop - especially tobacco - prices on the world market did these economic-political arrangements set the stage for the great expansion of the estate sector from the late 1960s onwards and an impressive record of economic growth.

[68] Ibid., 81.
[69] See: Sahle, *Democratisation in Malawi*, 175.
[70] Prowse, "A history of tobacco", 701.
[71] J. Kydd, "Malawi in the 1970s: Development Policies and Economic Change", in: Kings Phiri et al. (eds.), *Malawi, An Alternative Pattern of Development* (Edinburgh, 1985), 333.

While estimates differ, GDP grew around 6% per year between 1965 and 1979 (see figure 4), with the estate sector, being its engine, growing at 17% per year.[72] Despite these numbers, which also compared favourably to other SSA countries at the time, growth proved both highly uneven and inherently unstable. On the former, the concentration of investment in and the preferential treatment of the estate sector indeed led to the creation of a small, wealthy elite. However, the predicted trickle-down effects, both in a material sense and the hope of technological and entrepreneurial fertilisation through example, didn't materialise. This was largely due to the above mentioned constraints on the smallholder sector, which meant that few non-estate farmers could respond to or even received viable economic incentives to increase production. Land alienation for the estate sector was also to blame, as it had meant a reduction of land available to smallholders. This was exacerbated by a rapidly growing population, which led to the accelerating fragmentation and degradation of plots (a process which continues till this very day).[73] As such, due to the government's focus on an elite-led economic, rather than social development approach, most of the wealth from Malawian exports accrued within an economic-political elite which had "well vested interests in the state control of the economy".[74]

Figure 4



Source: C. Chipeata and M. Mkandawire, *Explaining African Economic Growth Performance: A Case of Malawi* (Research Paper, Zomba, 2002), 2; Conroy et al., *Poverty, AIDS and Hunger*, 17.

[72] Jane Harrigan, "U-Turns and Full Circes: Two Decades of Agricultural Reform in Malawi 1981-2000", *World Development* 31:5 (2003), 847-863, here 848.
[73] Conroy et al., *Poverty, AIDS and Hunger*, 18.
[74] Guy Mhone (ed.), *Malawi at the Crossroads: The Post-Colonial Political Economy* (Harare, 1992), 44.

Economic growth was also unstable, due to the deeply interconnected structure of Malawi's political economy and a lack of sources of income other than tea and especially tobacco exports. Since 1964, the Banda regime had steadily increased its control over the Malawian economy. A mere three companies - namely the Malawian Development Corporation (MDC), Press Holdings (Banda's personal conglomerate) and ADMARC (the aforementioned marketing board which was created out of the Farmer's Marketing Board in 1971) – were controlled by the political elite and heavily involved in all sectors of the economy. As both banks were also state-owned, Malawi's entrepreneurial landscape was effectively dominated by these 3 elite-owned, inherently parastatal companies (consider Sahle's tables on the next few pages).[75] Not only is it likely that this limited private investment and industrial development, but it also meant that the country was made very vulnerable to recessions. MDC, Press, ADMARC and the banks all had large outstanding investments and debts in one another. When the economy went sour from 1979 onwards, Malawi's entire economy including the state's budget was affected in a domino-like fashion.

The country's conscious dependency on agricultural exports also meant a structural economic risk. Industrialization didn't really take off in the relatively open Malawian economy, a sector which only grew slightly from 8% of GDP in 1964 to 12% in the early 1980s.[76] Industrial growth was also thwarted by low levels of effective consumer demand in the internal market, which for an important part resulted from the vast social inequalities realised by Malawi's elitarian economy. As a significant portion of the existing industry was also agriculture-related (e.g. tobacco processing), it didn't offer an alternative source of revenue when cash crops faltered.

As such, by 1979 a state-backed elite preceded over an inherently colonial and centralised 'capitalist' economy, occupying all key positions in the agrarian, commercial and industrial sectors. A range of external shocks would however plummet the narrow basis of the Malawian economy into structural problems in that year, leading to the continued involvement of the WB from 1981 onwards. The assessment made of these circumstances by the WB and the then implemented policies are the subject of the next chapter.

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[75] Sahle, *Democratisation in Malawi*, 189-190.
[76] Ben Kaluwa, "Malawi Industry: Policies, Performance and Problems", in: Mhone, *Malawi at the Crossroads*, 204.

Figure 5 **MDC and its Subsidiary Companies**

MALAWI DEVELOPMENT CORPORATION AND ITS SUBSIDIARY COMPANIES

Shareholdings in Subsidiary Companies, 31 December 1979 **Direct sub-group**	**Equity (percentage)**
Development Finance Company of Malawi Limited	88.0
Freshcold Fisheries Limited	85.0
The Import and Export Company of Malawi Limited	51.0
Indirect sub-group	
Malawi Hotels Limited	54.0
Direct Subsidiaries	
Can makers (MDC) Limited	100.0
Cold Storage Company Limited	100.0
Jacaranda Properties Limited	51.0
Malawi Restaurants Limited	100.0
Merolga Knitwear (MDC) Limited	51.0
Plastic Products Limited	100.0
Brick and Tile Company Limited	67.0
Indirect subsidiaries	
Nzeru Radio Company Limited	69.0
Packaging Industries (Malawi) Limited	85.0
The Portland Cement Company (1974) Limited	50.0
Shareholdings in Associated Companies **Held by Corporation**	
Agrimal (Malawi) Limited	40.0
B & C Metal Products Limited	25.0
Bookers (Malawi) Limited	20.0
Carlsberg Malawi Brewery Limited	27.0
Commercial Bank of Malawi Limited	20.0
David Whitehead & Sons (Malawi) Limited	29.0
Encor Products Limited	23.0
Malawi Distilleries Limited	41.0
The National Insurance Company Limited	20.0
National Oil Industries Limited	30.0
United Touring Company Limited	26.0
Held by subsidiaries	
The Match Company (Malawi) Limited	30.0
Pipe Extruders Limited	30.0
Nzeru Record Company Limited	40.0

Source: Data compiled from *Malawi Development Corporation, Annual Report, 1979.*

Figure 6 **ADMARC's Commercial Investments**

ADMARC'S COMMERCIAL INVESTMENTS

Company	Share (percentage)
Bata Shoe Company	49.0
Cory Mann George	50.0
Finance Corporation of Malawi	100.0
Investment and Development Bank of Malawi	25.0
Lever Brothers	25.0
Manica Freight Services	50.0
National Insurance Company	20.0
Portland Cement Company	50.0
The Oil Company of Malawi	10.0
Commercial Bank	10.0
National Bank of Malawi	32.6

Source: Data adapted from Robert E. Christiansen, "Financing Malawi's Development Strategy", ir *Malawi: An Alternative Pattern of Development* (Edinburgh: University of Edinburgh, 1984), p. 452.

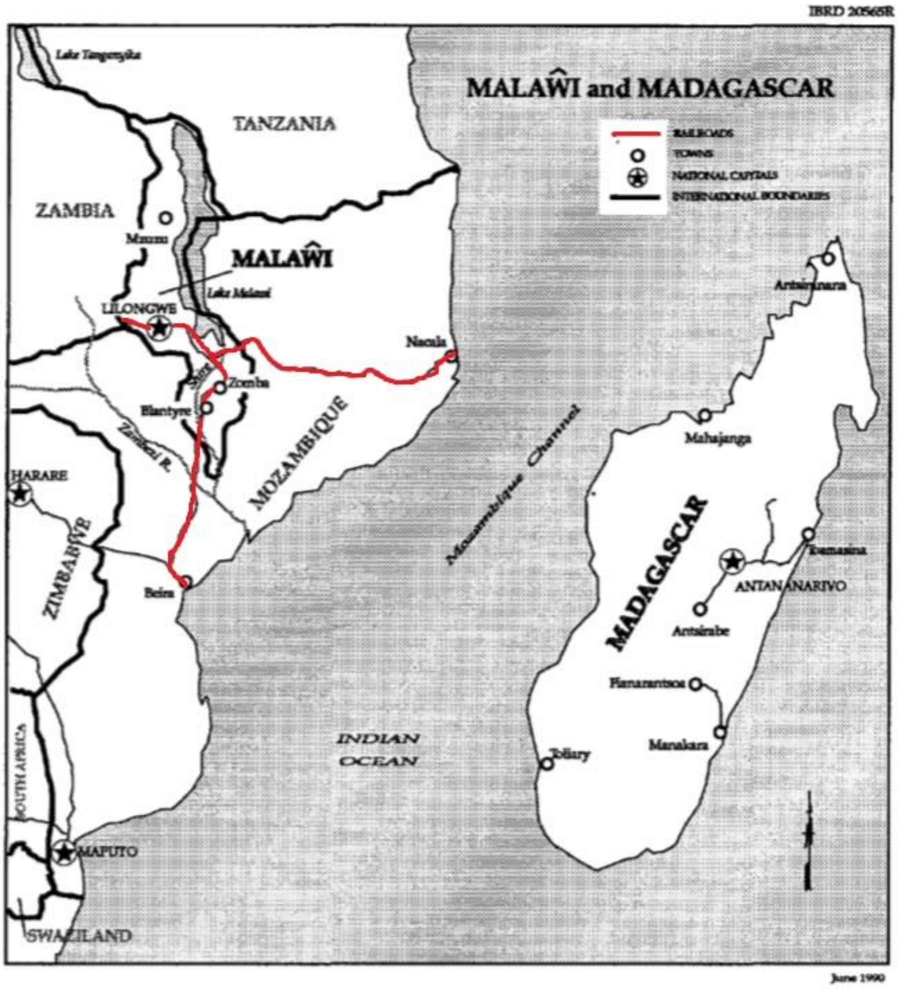
Figure 7 **Other MDC-Press-ADMARC Investments**

MDC-PRESS-ADMARC INTERLOCKING COMPANY OWNERSHIP, 1979

Company	MDC equity (%)	Press Holdings (%)	ADMARC (%)	Other (% and name)
The Portland Cement Company (1974) Limited	41.6		50.0	8.4 The Development Finance Company of Malawi (Definco)
Commercial Bank of Malawi Limited*	20.0	40.0	10.0	30.0 Bank of America
Malawi Distilleries Limited	40.8	20.0		39.2 International Distilleries and Vintners Limited
Carlsberg Malawi Brewery Limited	27.0	24.0		49.0 United Breweries of Denmark
Agrimal (Malawi) Limited	40.0	40.0		20.0 Massey Ferguson
David Whitehead and Sons (Malawi) Limited	29.0	20.0		51.0 David Whitehead and Sons Technical is a subsidiary of Lonrho
The Import and Export Company of Malawi Limited	51.0	49.0		

Source: Data compiled from *Malawi Development Corporation, Annual Report 1979*, pp. 7-18.

5. Economic Adjustment without Structural Change, 1979-1991



The external shocks which derailed the Malawian economy in the late 1970s were threefold, and came in quick succession. Due to the Second Oil Crisis and the corresponding rise in transport costs, trade declined with 35% as at the same time cash crop prices on the world market contracted. While this would prove to be the onset of the broader SSA debt crisis of the 1980s, Malawi's situation was exacerbated by the escalating civil war in Mozambique (partly caused by the Banda regime itself, because it supported Mozambican rebel groups), which disrupted its two main export lines (see map and the rise of freight costs throughout the 1980s in figure 8). The collapse of income was then finished off by a drought in 1980 and 1981,

Figure 8

MALAWI INTERNATIONAL TRANSPORT ROUTES AND TRAFFIC
('000 Tonnes)

	1980	1982	1983	1984	1985	1986	1987	1989	1990
Beira/Nacala	742	471	259	6	2	11	83	36	
Durban (road)	NS*			634	827	636	636	790	780
Dar es Salaam (road)	NS			NS	27	23	40	100	141
Total traffic	742			773	860	660	587	891	956
Freight costs (MK million)	80	113	130	153	197	191	361	532	601
* NS = not in service									

Source: Ben Kaluwa, *The Structural Adjustment Programme in Malawi: A Case of Successful Adjustment?* (Harare, 1992), 4. Note: High inflation occurred in Malawi in the late 1980s, which largely explains the ostensible explosion of freight costs from 1987 onwards.

leading to severe food shortages and forcing the government to import maize, prompting budget deficits and increasing debt.[77]

In response, Banda opened negotiations with the WB for a two-year Structural Adjustment Loan (SAL-1), which was agreed on in June 1981. Eventually, this would lead to a whole range of adjustment programmes (including 5 SAL's) throughout the 1980s, which all sought to encourage productivity, diversify the export base and further promote exports through agricultural liberalisation and stabilization of Malawi's macro-economy. They aimed to do so by strengthening government policy making while also reducing government spending.[78]

The general problem with all these Adjustment Programmes however is the limited assessments on which these policy recommendations were based. Most WB reports from this period spoke highly of the development policies pursued by the Banda regime since independence. The economic downturn was therefore regarded as the unforeseen consequence of external shocks, which could be solved by further removing market impediments. Fostering market forces would boost economic growth by presenting Malawians with more incentives to produce export commodities and diversify their export base. Policy reform mainly focused on agriculture because of its economic dominance. The WB however did not fully understand the structural constraints placed on smallholders by the historic duality between the smallholder and estate sector, nor did it consider the economic-political power structures which kept this duality in place. This generated some fundamental problems for its programme of agricultural liberalization to succeed and actually allowed the estate sector to expand even further.

[77] World Bank, *Third Structural Adjustment Operation* No. P-4172-MAI (25-11-1985), 2.
[78] Ibid.; World Bank, *Industrial and Trade Policy Adjustment Program* No. P-4778-MAI (25-05-1988).

5.1 Agricultural Liberalization

The WB correctly noticed that relative smallholder export production largely lagged behind the estate sector and saw this as an opportunity for renewed economic growth. The problem is that the WB almost exclusively considered ADMARC price controls as the main market impediment to increased and diversified production. As mentioned, it is very true that ADMARC's policy of paying smallholders below world market prices had meant a bottom-to-top income redistribution, largely to the benefit of the estate sector. It therefore made sense to reduce such implicit export taxes by decontrolling prices and removing or limiting ADMARC's monopoly, as the possible increase in income for smallholders could foster production. To make the most out of this policy, maize prices were held down and fertiliser subsidies targeted for removal to further the incentive to increase and diversify export crop production in the smallholder sector.[79] However, price liberalization did not generate the desired effect, as other fundamental constraints remained ignored, presenting a continuation of earlier 'colonial' policies and inhibiting most smallholders to respond effectively.

For starters, smallholders strangely remained precluded from the production of prime tobacco, tea and sugar, which were maintained as estate-crops. Instead, they were supposed to increase production of cotton, groundnuts and 'lesser' forms of tobacco. WB reports from this time period do not even mention this constraint, merely focusing on price controls.[80] Whether completely overlooked or deemed not important enough, the continued reservation of the most profitable cash crops for the estate sector allowed the elite to keep constraining smallholder production in this area, thus limiting both competition and plausible changes in income.[81] The possible benefits which could have been generated can be illuminated by the early 1990s, when prime tobacco production was finally liberalized. Districts with a concentration of smallholder production saw an economic boom, and the WB even claimed that "…smallholder profits from burley sales have provided the largest ever cash injection of income in rural Malawi".[82]

The issue of land shortage and alienation, which had been a topic throughout Malawi's colonial history, was likewise ignored by the WB. The Land Acts introduced in

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[79] Conroy et al., *Poverty, AIDS and Hunger*, 94.
[80] E.g. World Bank, *Program Performance Audit Report* No. 6833 (Washington, 1987), 9, 52.
[81] Prowse, "A history of tobacco", 702.
[82] Ibid.; World Bank, *Accelerating Malawi's Growth: Long-Term Prospects and Transitional Problems* (Washington, 1997).

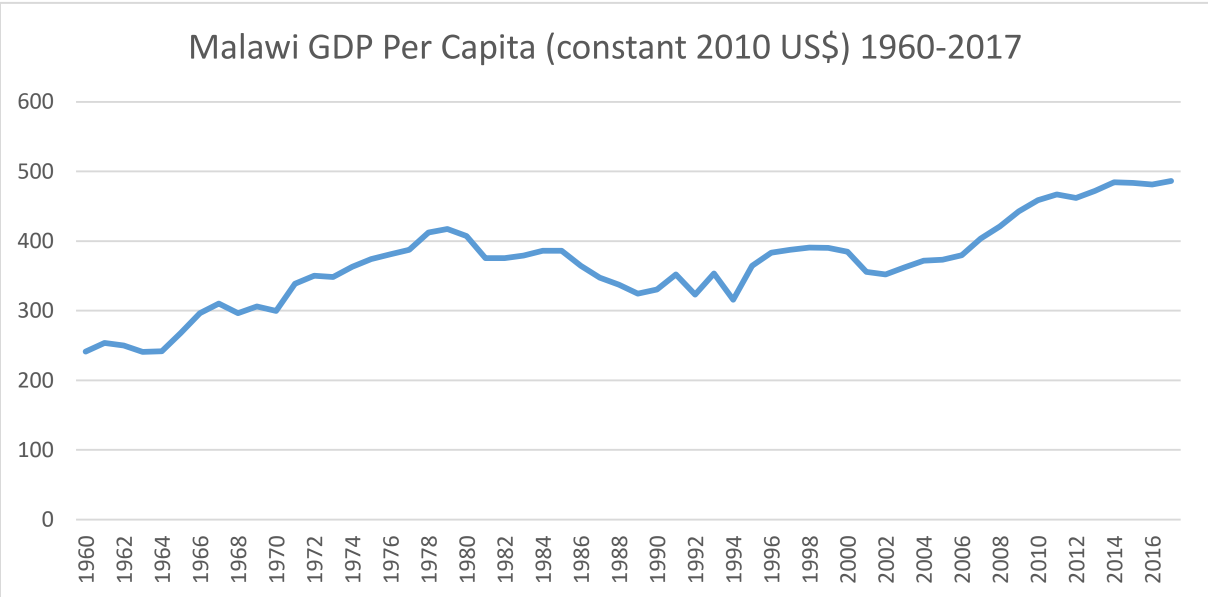
the 1960s had allowed the Banda regime to provide Malawi's economic-political elite with leased estates, as ministers could easily convert customary land into private land. Together with the preferential treatment the estates received, the sector had expanded greatly from the mid-1960s onwards (see figure 3, P24), withdrawing land from the customary sector and thus reducing the lands available to smallholders. While this logically caused disruption and unrest in several areas of the country, it was not generally known abroad due to Banda's tight grip on the media.[83] However, when the WB got involved from 1981 onwards, it allowed the Banda regime and its 'subsidiaries' to continue this process of land annexation to the benefit of the estate sector. While the estates had absorbed some 300,000 hectares of customary land during the 1970s, they managed to carve out another 400,000 hectares between 1980 and 1993.[84] In contrast to the 1970s, however, did the further expansion of the estate sector not lead to a recurrence of high economic growth. This was partly because of the slump of cash crop prices on the world market and rising transport costs, but also followed from the mismanagement of the estates themselves. Many members of the elite weren't particularly concerned with the most efficient or extensive development of their estates as profits still accrued. As such, they lacked incentives to invest or develop all their plots, which lead to inefficient production considering the total amount of estate land.[85] The latter explains the large divergence between the hectares of planted land and the total amount of hectares the estates annexed over the years.[86] More problematically, however, did the intensifying process of land alienation under the not so watchful eye of the WB combine with an ever growing population to increase land shortages for the population at large. Available plots became smaller as they were divided at inheritance and land degraded at an alarming rate (both through inadequate fallows and extensive homogenous crop cultivation), further exacerbated by the necessitated usage of land not suitable for extensive agriculture.

This proved detrimental to the goal of broad development behind agricultural liberalization. In the early 1990s, a mere 25% of all smallholder holdings exceeded 1.5 hectares, the necessary amount to be able to grow cash crops next to food crops. Many smallholders only had enough land to secure their subsistence (0.7 to 1.5), with no acres

[83] Pauline Peters and Daimon Kambewa, "Whose Security? Deepening Social Conflict Over 'Customary' Land in the Shadow of Land Tenure Reform in Malawi", *The Journal of Modern African Studies* 45:3 (2007), 447-472, here 451.
[84] Cammack, "Malawi, 1980-2002", 48; Nobel, *A right to land?*, 62.
[85] Conroy et al., *Poverty, AIDS and Hunger*, 93.
[86] Compare Pryor's table on P22 with Cammack and Nobel above.

available to grow and sell surpluses. 35% of them even held less than 0.7 ha and were as such often incapable of producing enough food to make it around till the next harvest season.[87] As a result, when the WB successfully pushed the Malawian government to increase producer prices and downsize ADMARC, only larger farm owners could respond effectively. WB analyses from this period stand in stark contrast with later assessments. While the WB argued in 1985 that "*about 75 percent of the rural population are receiving higher incomes*",[88] David Sahn pointed out in 1994 that producers had not really received a higher income, but that implicit tax decreases at best had served to stabilize real producer prices in the face of falling world prices.[89] Pauline Peters stated that market liberalization did indeed provide some new income opportunities through the sale of tobacco and maize, but that the profits solely went to elite business leaders and larger farmers. Middle- and low-income groups in contrast experienced a deterioration in their income and food security.[90] As contemporary WB data bases also show a contraction of GDP per capita in this period, the WB reports from the 1980s seem strangely inaccurate and overtly optimistic (see figure 9). The benefits some farmers and traders experienced

Figure 9



Source*: World Bank, *World Development Indicators*, https://databank.worldbank.org/data/reports.aspx?source=2&country=MWI# [last consulted 11-12-2019].

[87] Ben Kaluwa, *The Structural Adjustment Programme in Malawi: A Case of Successful Adjustment?* (Harare, 1992), 50.
[88] World Bank, *Third Structural Adjustment Operation* No. P-4172-MAI (25-11-1985), 17.
[89] David Sahn and Jehan Arulpragasam, "Malawi: Adjustment without Structural Change", in: David Sahn (ed.), *Adjusting to Policy Failure in African Economies* (Ithaca and London, 1994), 196-233.
[90] Pauline Peters, "Failed Magic or Social Context? Market Liberalization and the Rural Poor in Malawi", *Harvard Institute for International Development Report* (Cambridge (MA), 1996).

were also divided unequally across the country; areas with sufficient infrastructure were much better able to sell of surpluses, while the closure of ADMARC depots in less connected areas meant that farmers saw their trade opportunities and therefore income diminishing. Most private traders and smallholders likewise lacked the credit and infrastructure support ADMARC had held, further inhibiting an effective private sector response.

5.2 The Big 3

While the adjustment programmes in Malawi were heavily focused on the agricultural sector, limited attention was also given to the concentration of economic power in the hands of MDC, ADMARC and Press Holdings, Malawi's 3 biggest conglomerates. However, the steps taken in response to their monopolistic position were once again based on faulty assessments and as such led to detrimental policies.

At the start of the SAPs in 1981, the WB knew that there was an excessive concentration of ownership. However, because of the severe interconnectedness between MDC, ADMARC and Press and their close ties with the financial sector, all 3 companies were deemed 'too big to fail' for the Malawian economy. Under SAL-I conditionality, studies were therefore commissioned to develop 'detailed plans' for the restructuring of these companies.[91] Starting in 1984, major assets that had previously been controlled by the state through the parastatal sector were sold to 'private investors' under a privatisation programme. As Sahle has pointed out, from the WB's point of view, "the privatisation programme was not only a way of reducing state's involvement in the economy, thus reducing opportunities for rent-seeking activities, but was also a means of encouraging the growth of entrepreneurs who were not closely tied to the state".[92] However, the WB failed to see that the only people able to buy these assets were members of the state-backed elite. For the strangest of reasons, Banda's own Press Corporation, at the time officially heavily indebted to the government, was even allowed to become one of the biggest buyers.[93] In pushing for the privatisation programme, the WB had naïvely assumed that the lines between the public and private spheres in Malawi were clearly drawn and that as such private entrepreneurs would pop up and take over companies.

[91] World Bank, *Third Structural Adjustment Operation* No. P-4172-MAI (25-11-1985), 15.
[92] Sahle, *Democratisation in Malawi*, 219.
[93] Ibid., 219-222; World Bank, *Performance Audit Report Malawi. Industrial and Trade Policy Adjustment Program* No. 12156 (30-06-1993), 7-8.

The WB completely failed to understand the historical intertwinement of Malawi's economic and political elite, as it had also failed to acknowledge the historical duality in the agricultural sector.

Stupendously, neither this assessment nor Malawi's political economy really improved over the years. In 1988, ADMARC and MDC still owned 80% of the National Bank of Malawi and 70% of the Commercial Bank of Malawi.[94] A WB report from 1993 mentions that:

"It has been argued that the excessive size, access to resources, and monopolistic/oligopolistic position in an array of economic activities of a particular industrial conglomerate, coupled with the smallness of Malawi's domestic market, limits the scope for the development of a more competitive private sector and the growth of an entrepreneurial class".[95]

This however was no call to action. Instead, the report goes on to argue that 'larger and more subtle questions' should be answered instead and that the focus of any inquiry should not be a particular conglomerate. Later on, the concentration of economic power and control of the major banks by 'particular business groups' is once again discussed. However, the WB's remedy is that this issue "…though sensitive, need[s] to be addressed in earnest by the political authorities".[96] This simply presents a continuation of the failure to truly understand Malawi's social formation and political economy, as the political authorities are inherently connected to the business groups it should address. The WB even went as far as to shed responsibility. Noel Kulemeka, a senior WB economist in Malawi, declared in 1998: "Look, as far as the bank is concerned, once a country establishes a Privatisation Commission, we do not take the extra step to check who is buying off the assets formerly owned by the parastatal sector. You have to remember that we take the issue of sovereignty very seriously".[97] This seems highly arbitrary, as the privatisation of parastatal companies and far ranging price deregulations would as likely

[94] World Bank, *Industrial and Trade Policy Adjustment Program to Malawi* No. P-4778-MAI (25-05-1988), 8.
[95] World Bank, *Performance Audit Report Malawi* (30-06-1993), IX-X.
[96] Ibid., XIV.
[97] Eunice Sahle, *Interview with Noel Kulemeka* (Lilongwe, Malawi, 11-05-1998) as quoted in Sahle, *Democratisation in Malawi*, 220.

qualify as sovereign issues. The WB didn't seem concerned with sovereignty when it addressed these.

The WB was more successful in reducing ADMARC's agricultural monopoly, but failed to see the marketing board's importance for food security. While ADMARC had indeed over the years siphoned money away from smallholders, the profits made this way had enabled both ADMARC and the government to subsidise farm inputs (such as fertilizer) and control maize prices (through maize reserves). This way, ADMARC had managed to keep the production and consumer costs of maize low, although artificially. While the Malawian government had voiced its concerns with the effect of subsidy removal on food security, the 'prudent' elimination of fertilizer subsidies remained a condition for the SAL's.[98] Although the subsidies indeed took a toll on the government's budget, their removal had nasty implications. In 1987, three simultaneous events catapulted Malawi from a routine national food surplus into a famine. The cassava meal bug decimated the north of Malawi, the central Shire valley was hit by a severe drought and increasing numbers of Mozambicans fleeing from the civil war (up to 1 million) increased the demand for food. Long accustomed to be able to buy low-priced maize in ADMARC markets, Malawians now found themselves queuing for rationed supplies. A household monthly maize consumption came to cost the equivalent of 40 days' average wages.[99] The reform processes between 1981 and 1987 ensured that ADMARC did not have the resources anymore to tackle these issues; in contrast, 1987 was the very year that ADMARC lost its official monopoly and the company was making losses, despite its financial connections.

The severe maize shortages did not only lead to human suffering, but had a detrimental effect on Malawi's macro-economy as well. Food scarcity lead to hefty price increases, which fostered inflation, further increasing the price of imports such as fertilizers and industrial input. The shortages also led the government to import maize. The extra pressure this put on the budget led to raising interest rates, which pushed inflation further upwards. The WB thus became partly responsible for both a famine and a general failure to stabilize Malawi's budget and trade balance.

[98] Conroy et al., *Poverty, AIDS and Hunger*, 19.
[99] Ibid., 95.

Overall, the WB's policies failed to accomplish their general goals of stimulating smallholder production and export diversification as to reignite and stabilize economic growth. In contrast, GDP per capita contracted in these years, while the profits which were made generally continued to accrue within the elite. If we take this into consideration, Malawi's government is as much to blame for the economic woes of the 1980s and early 1990s as the ill-advised policies the WB brought forth, as Banda and his allies intensified their self-aggrandizing schemes. However, the problem is that throughout the years the WB maintained that most policies were effectively implemented, WB supervision was steady and that the Malawian government was collaborative and strongly committed to the adjustment effort.[100] The results in practice however stand in stark contrast with these confident statements. The WB continually failed to engage with the structural impediments to economic development in both the smallholder and industrial sector, which limited an efficient supply-side response to the supposedly increased market incentives and allowed Malawian's elite to sustain itself. It was only at the beginning of the 1990s that a shift started to occur within the WB's development approach, as the Bank started to acknowledge some of the constraints politics put on economic development. In Malawi, the New Institutional approach translated in a growing belief that the 'iron triangle' of Banda, his state apparatus and the pro-Banda clientelist class of agricultural and commercial entrepreneurs had to be removed or reformed to enable economic restructuring in earnest.[101] The major political-economic transformation that was being advocated and its consequences for economic development are the subject of the next chapter.

[100] World Bank, *Third Structural Adjustment Operation No. P-4172-MAI* (25-11-1985); World Bank, *Industrial and Trade Policy Adjustment Program to Malawi No. P-4778-MAI* (25-05-1988); World Bank, *Performance Audit Report Malawi* (30-06-1993).

[101] Diana Cammack and Tim Kelsall, "Developmental patrimonialism? The case of Malawi", *Africa power and politics Working Paper* 12 (London, 2010), 24.

6. Political Reforms without Structural Change, 1991-2018

Since independence, Banda's regime had relied on the support of an indigenous elite, a strong suppressive security apparatus and the promise of affordable maize for its political stability. As the 1980s went on, the faltering economy and increasing budget deficits caused a failure of the postcolonial state to sustain these pillars. This eventually culminated in the relatively peaceful abdication of Banda in 1994 and the shift to a multi-party democracy.[102] The WB fulfilled a crucial role in this process, as Malawi's high dependence on external aid had provided a useful leverage point to pressure the government into moving towards a multi-party system, in line with the recommendations of the WB's new 'good governance' development agenda.[103] However, the official political shift didn't lead to sustained and shared economic growth. In contrast, the WB once again overlooked historical political-economic power relations, which have severely impeded socio-economic development till the present day.

6.1 A Critique of the "Good Governance" Agenda

The central problem for achieving success through the 'good governance' agenda has been the superficial nature of the democratic revolution which took place in Malawi with the elections of 1994, under the supervision of the international lending community. Although the regime change led to the diminishing importance of the pro-Banda section of the country's bourgeoisie, the process towards a democracy with a new constitution remained highly elitist. In practice, this has translated into a mere 4-year reshuffling of self-interested members of the dominant class through a multi-party electoral competition, instead of a genuine democracy responsive to the needs of the broader population.[104]

Indicative of this elitist character has been the constitutional reform process. No one involved in the writing of the new constitution made any concerted efforts to include popular pro-democracy movements in the debate on its contents, despite of their importance for the eventual end of Banda's rule. One of the points of issue which have

[102] See in detail: Sahle, *Democratisation in Malawi*, 214-258; Jane Harrigan, From Dictatorship to Democracy: Economic Policy in Malawi, 1964-2000 (Aldershot, 2001).
[103] Lateef, *World Bank's Thinking on Governance*.
[104] David Booth et al, "Drivers of Change and Development in Malawi", *Overseas Development Institute Working Paper* 261 (London, 2006).

come to the fore was a clause that put 'fluency in English' as a condition to be allowed to run for parliament, while the second national language (Chichewa) is widely spoken. As Eunice Sahle has pointed out, this represented a "…blatant continuation of dominant class control of the political power structure with all its overt and implicit benefits".[105] The role of the WB in this process was noticeably absent, as it didn't question the social and political power structures under which liberal human rights or the separation of powers were to be implemented. In contrast, the international lending community under the head of the WB came to predominantly support emerging elite-dominated parties - e.g. by funding radio election coverage - who were likely to win the elections.[106] This way, donors mainly stimulated an elite driven procedural form of democracy as to ensure stability and continuity. While the intentions of avoiding further social unrest in a somewhat politically unstable environment were perhaps commendable, this approach helped create an unsubstantiated form of democracy as it presented no fundamental break with the past by allowing various groupings of the state-backed elite to take the reins. Although the following intra-elite competition for official political power generated some power diversification, it also largely reinforced the pre-existing structures of social and economic power by allowing the elite to continue and expand its economic activities.[107] This has hindered economic growth in both a direct way, through the costs of political competition, and an indirect way, through the maintenance of structural constraints on socio-economic development.

6.2 The Costs of Political Competition

The 1994 elections made Bakili Muluzi the first chosen president in Malawian history. Despite the difficult circumstances of 1994 (characterised by strikes, political unrest, low levels of aid and drought-induced hunger), his cabinet initially managed to improve socio-economic performance.[108] Between 1995 and 1997, investment and public finances recovered, partly thanks to the restoration of aid and investor confidence with the shift to democracy. The prior removal of cash crop restrictions fostered growth in the

[105] Sahle, *Democratisation in Malawi*, 265.
[106] Ibid., 290.
[107] Ibid., 299-323;
[108] Booth et al, "Drivers of Change", 31.

smallholder sector, and there were early signs of economic diversification.[109] However, progress was stunted by political competition and personal greed.

In contrast to Banda, who had kept a strong centralised control over both the state and the economy, Muluzi saw himself confronted with an insecure, temporal power base (as he could actually lose elections) and a diversified parliament in which his party held no absolute majority. Lacking both Banda's discursive legacy (as the country's 'founding father') and repressive powers, Muluzi felt the need to underpin his political influence through extensively redistributing resources and buying loyalty. This ranged from putting loyalists on parastatal boards to increasing the size of his cabinet to create jobs for 'friends', while also allowing the withdrawal of state funds by senior party members for political and personal ends.[110] While self-enrichment was also widespread under the Banda regime, the socio-economic consequences were different. Banda had combined economic and political gestures with a clear development agenda in his attempt to promote economic growth through an elite-led estate-based model. In contrast, Muluzi acted ad-hoc from his more unstable power base to be able to exercise and cling on to political power. Bureaucrats and politicians were given influential positions to support Muluzi, which they in turn used to acquire farms, companies, hotels, schools and hospitals. Government jobs became 'stepping-stones' to business opportunities for Malawi's well-connected elite.[111] The civil service also disintegrated throughout those years, as discipline broke down, staff prioritized its own business interests, rampant corruption spread and public-service provision declined.[112] While it has been said that Banda and consortium 'ate' the profits, Muluzi's regime ate both the profits and the country's capital assets.[113]

The socio-economic consequences were detrimental, especially after the elections of 1999 when electoral competition led to large budget deficits. Interest payments rose from 9.1% in 1998-1999 to 28.4% in 2003-2004.[114] Food insecurity increased, with one of the most poignant examples being the private sale of grain from the national grain

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[109] Harrigan, *From Dictatorship to Democracy*.
[110] Booth et al, "Drivers of Change", 30.
[111] Gerhard Anders, "Freedom and Insecurity: Civil Servants between Support Networks, the Free Market and the Civil Service Reform", in: Harri Englund (ed.) *A Democracy of Chameleons: Politics and Culture in the New Malawi* (Uppsala, 2002), 43-61, here 53-55.
[112] Ibid.
[113] Booth et al, "Drivers of Change", 12.
[114] Conroy et al., *Poverty, AIDS and Hunger*, 125-130.

storage, which contributed to the famine of 2002-2003 and forced the government to borrow $28 million to make up for the resulting food shortage.[115] Corruption became nearly all-encompassing in Malawi's politics and civil service. Environmental degradation worsened, deindustrialization and joblessness rose and fiscal instability (interest and exchange rates, overspending, debt and inflation) increased.[116] While there were improvements in education and literacy levels, as schools were built and primary education became free, Malawi's HDI stagnated, mostly due to worsening health indicators (e.g. life expectancy fell from 46 in 1987 to 37 in 2005).[117]

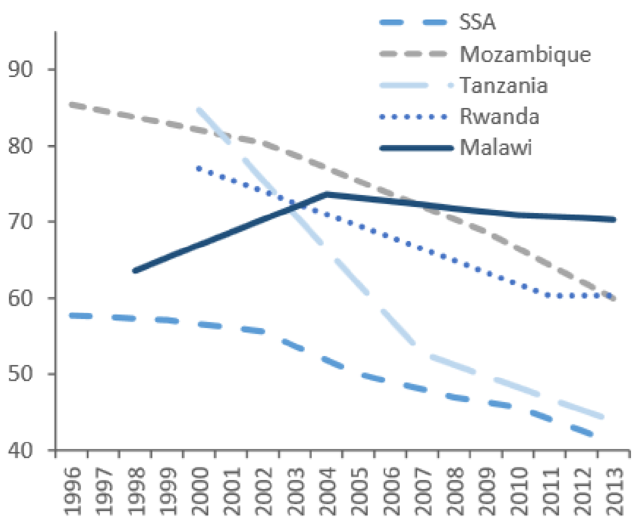
Under Bingu Mutharika, who succeeded Muluzi in 2004, things seemed to improve, with a more growth-oriented development approach. Government finances were stabilized, economic growth steadily increased and top levels of the civil service were targeted in an anti-corruption drive.[118] Inflation and interest rates were low, largely due to the Multilateral Debt Relief Initiative of 2005, and smallholder production increased thanks to an internationally celebrated input subsidy programme (mostly seeds and fertilizer).[119] However, growth and poverty reduction were once again short lived and turned out to mostly serve political goals. Malawi's increased food security and economic performance between 2004 and 2009 helped Mutharika win a landslide victory in the 2009 elections. As pointed out by Chinsinga and Poulton, the achievement of political security opened up different avenues of political control than governmental performance and as such diminished the political incentives which turned out to underpin the subsidy programme. Mutharika reverted to the 'politics-as-usual' mode, reducing the subsidy programmes, appointing friends and family members to high positions and started spending money on unnecessary things, such as a private jet.[120] When donors withdrew their aid in response, the Malawian economy went into a tailspin. Mutharika's sudden death in 2012 luckily did not lead to civil strife, but it coincided with the end of increased GDP growth from 2004 which had been sustained by high commodity prices on the world

[115] Cammack and Kelsall, "Developmental patrimonialism", 27.
[116] Timothy Frankenberger et al., "Livelihood Erosion Through Time: Macro and Micro Factors that Influenced Livelihood Trends in Malawi Over the Last 30 Years", *CARE* Report (2003).
[117] IMF, "Malawi: Poverty Reduction Strategy Paper – Growth and Development Strategy", *IMF Country Report* 7:55 (2007), 9.
[118] Cammack and Kelsall, "Developmental patrimonialism", 32.
[119] Joseph Messina et al., "Re-evaluating the Malawian Farm Input Subsidy Programme", *Nature Plants* 3 (2017).
[120] Blessings Chinsinga and Colin Poulton, "Beyond Technocratic Debates: The Significance and Transience of Political Incentives in the Malawi Farm Input Subsidy Programme (FISP)", *Development Policy Review* 32:2 (2014), 123-150.

market.[121] Since then, the situation has improved little. In contrast, food insecurity has once again abounded and government debt risen greatly since 2008 and especially 2011.[122] Corruption has mostly worsened, despite donor pressure and the existence of an anti-corruption bureau, diminishing the effectiveness of public spending and severely impeding public sector reform and development goals.[123] In retrospect, even the higher growth of the 2004-2010 period, which has been designated as an exception to Malawi's recent history, has proven to be highly unequal.[124] Income growth mostly benefited the urban population (a mere 16% of the country) and the higher income percentiles, reflected in both a slump in the pace of poverty reduction and an actual decrease of consumption among +-65% of the rural population (see figure 10 and 11).

Figure 10

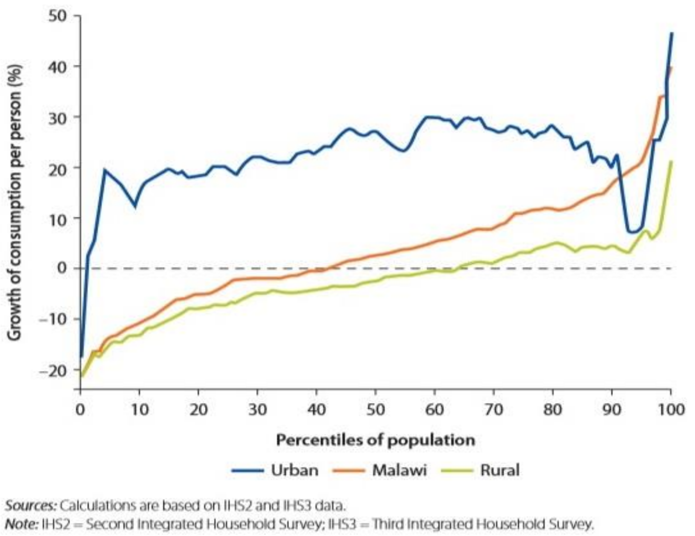
Malawi's pace of poverty reduction has been very slow in comparison to its neighboring countries
Poverty headcount rate (percentage) measured at US$ 1.90/day/ capita in 2011 PPP terms



Source: World Bank, *Malawi Systematic Country Diagnostic: Breaking the Cycle of Low Growth and Slow Poverty Reduction* (Washington, 2018), 14.

Figure 111

Respective Growth and Decline of Consumption per Population Percentile, 2004-2010



Source: Andrew Dabalen et al, *Pathways to Prosperity in Rural Malawi* (Washington, 2017), 6.

Note especially the marginal increase in rural consumption, where most Malawians live but only the richer 35% have seen an increase in their consumption.

[121] Palmer, "Not Growing Sustainably".
[122] Christian Aid, "Malawi food crisis: Nearly 3 million at risk", *Reliefweb* (30-09-2015), https://reliefweb.int/report/malawi/malawi-food-crisis-nearly-3-million-risk [last consulted 11-12-2019]; Record et al., *From Falling Behind*, 21.
[123] Ibid., 23.
[124] WB, *Malawi Systematic Country Diagnostic*, 7.

6.3 Continued Constraints

Apart from blatant corruption and largely unproductive policy making, the lack of broad, sustained growth results from the continued underdevelopment of the smallholder sector, which stems from the persisting elite-capture of political interest. Throughout the years, the WB has tried to stimulate growth through the smallholder sector by opening up new potential incomes streams for poor families to tap into, such as cash cropping. Deregulation and agricultural liberalization were supposed to create market incentives to make this happen. Production however has lagged behind despite these incentives. Even the production growth achieved between 2004 and 2012, thanks to the input subsidy programme under Mutharika, was temporary, with most of the benefits accruing with richer farmers.[125] The agricultural reforms have largely failed because they have never successfully addressed the main problems underlying the lack of an effective supply-side response in the smallholder sector. These are still constituted by a lack of land and complementary investments such as infrastructural improvement.

Throughout the decades, the lack of land for many smallholders has been a recurring issue in Malawi. It was already politicised during Malawi's shift to independence and has become increasingly so with the onset of the multi-party system.[126] The already often mentioned concentration of land in the hands of estate owners has however remained unaddressed, precisely because it is a potentially volatile subject which the elite does not want to address and donors largely try to avoid.[127] The former have their own economic and political interests, while donors often poorly understand the dimensions of agricultural reform and/or try to maintain a polite, workable relation with the Malawian government.[128] Through an ever increasing population has this resulted in continuing land degradation, splintering of holdings, diminishing agricultural output and recurring food insecurity.

The most recent way the WB has tried to address this issue is by circumventing the hot potato of state-led land redistribution and attempting market-driven land reform. A pilot program between 2005 and 2011 (the CBRLDP) aimed to relocate 15,000 land-

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[125] Stein Holden and Rodney Lunduka, "Who Benefit from Malawi's Targeted Farm Input Subsidy Program?", *Forum for development studies* 40:1 (2013), 1-25.

[126] Davide Chinigò, "Re-peasantization and land reclamation movements in Malawi", *African Affairs* 115:458 (2016), 97-118.

[127] Blessings Chinsinga, "The politics of land reforms in Malawi: The case of the Community Based Rural Land Development Programme (CBRLDP)", *Journal of International Development* 23:3 (2011), 380-393.

[128] Conroy et al., *Poverty, AIDS and Hunger*, 179; Cammack, "Malawi, 1980-2002", 19.

deprived families (as landowners in their own regions were unwilling to sell land) and provided them with the cash to acquire plots. The WB published a carefully optimistic assessment, designating the project outcome as 'satisfactory' (measured by increased farm output), although it also mentioned that the chances for further development were slim due to structural constraints which made it ill-advised to scale-up the programme.[129] The WB report does not describe these constraints in detail, but different literature mentions significant elite-capture of the pilot. Local elites gave preferential treatment to allies and friends to be included in the programme, while others had to bribe themselves into the project.[130] The clientelistic selection procedure made possible through a lack of institutional oversight by the WB allowed well-connected beneficiaries to simply reap the (for Malawian standards) huge relocation sum of $1050 while they had no serious land problems to begin with.[131] Likewise, the government went back on its promise to implement taxes on estates and cancel leases on idle plantations without consequences, clearly benefiting the interests of landowners close to central power.[132] Basically, the project only benefited the elite, as it alleviated some land pressure in crowded regions without costing them land or money. As such, the WB report also came to conclude that scaling up of the programme should not be attempted until the government became serious with its commitment to land reform, as without some structural adjustments such as abolishing outdated land leases (resulting from the 1967 Land Act), there might not be enough incentive for landowners to sell their underused estates.[133] This even leaves out conflicts over land between the newcomers and the present population (representing a clash between claims on the basis of ancestry, tribe, local power relations etc. vis-à-vis market rules and individual property rights), which the WB has said did not take place despite reports to the contrary.[134]

The programme's success in increasing agricultural production was also limited. While at first the pilot seemed to have a beneficial effect, both the WB report and other research has pointed out that the increase in farm output was largely caused by the availability of credit as part of the programme, allowing e.g. for the purchase of hybrid

[129] IEG, *Project Performance Assessment Report Malawi CBRLDP* No. 75556 (2013).
[130] Chinsinga, "The politics of land reforms", 388-390.
[131] Ibid.
[132] Davide Chinigò, "Contested Market-Driven Land Reform in Malawi", in: B. Engels and K. Dietz (eds.), *Contested Extractivism, Society and the State* (London, 2017), 219-242, here 236.
[133] IEG, *Project Performance*, 27.
[134] Contrast Ibid, 26 with Chinigò, "Contested Market-Driven Land Reform".

maize.[135] Once the available seed packages and credit ran out, production growth was limited. This part of the reform pilot clearly points out the fundamental constraint which limited infrastructure places on the smallholder sector, both in the sense of transport and market accessibility, together with a lack of resources such as credit, hybrid seeds and irrigation.[136] This has been both the result of donor behaviour, whom have often worked against e.g. seeds subsidies as impediments to the market, and Malawi's historical focus on estate-based agriculture which has continued to circumscribe the necessary investments in smallholder' agricultural infrastructure.[137]

As such, the WB policies in Malawi of the last 24 years have yet to lead to the sustained, broadly shared economic growth which the WB says to aim for in its memoranda. The move to democracy - which under the heading of the 'good governance agenda' was supposed to foster growth by strengthening institutions and making the government responsive to the needs of the broader population – has unintentionally translated into a temporal and more unstable power base for Malawi's leaders, counter-productively fostering short-term, predatory rent-creation. This has hindered Malawi's development agenda, as most policies have come to follow patronage needs instead of those of the broader population, allowing the elite to expand its economic assets. Donors are partly to blame for this ineffective transformation, as they have often poorly monitored political shifts and failed to take a stronger role when necessary. In contrast, their funds make the government's life easier because they step in in when food shortages or budget crises really get out of hand.[138]

Likewise, the central reason why the CBRLD-programme has generated complex and unwanted outcomes is the deliberate ignorance of the political economy in which the pilot was implemented. Scant attention was paid to the social structure in which the programme would function. Instead, the land transfer was designed to be as depoliticised and ahistorical as possible as to avoid the inherent political and social tensions surrounding land reform in Malawi. Precisely this has meant that the programme did not work out so great and actually once again allowed the better-connected to reap the

[135] Ephraim Chirwa, "Land Tenure, Farm Investments and Food Production in Malawi", *IPPG Discussion Paper* 18 (Manchester, 2008); IEG, *Project Performance*, 21, 25.
[136] Dabalen et al, *Pathways to Prosperity*, 13.
[137] Conroy et al., *Poverty, AIDS and Hunger*, 160-184.
[138] Cammack, "Malawi, 1980-2002", 19.

benefits. The central problem "is the persistence of the idea that one technical tool [that is apolitical, purely 'economic' reform] is potentially able to address a wide set of historical, political, and social issues. While in reality this is very seldom the case, the expectations raised by the idea of change that this message conveys is a potent tool with which to hide the power dynamics that lie behind the reproduction of inequality, social exclusion, and marginality".[139]

[139] Chinigò, "Contested Market-Driven Land Reform", 239.

7. Concluding Remarks

This thesis set out to verify the hypothesis that the lack of attention to economic history and political economy has severely hindered WB policies in Malawi to achieve their goals of inclusive and sustainable economic growth. The here presented political-economic analysis of both the SAPs of the 1980s and the good governance agenda from the early 1990s onwards has shown that this has indeed been the case. Despite millions of dollars of aid and loans and intense WB involvement, little true alterations have been made to the mutually reinforcing economic and political structures which have defined Malawian society since the colonial era. The historical focus on primary commodity export and agriculture made the economy vulnerable to external shocks. Meanwhile, the extensive elite capture of the means of production and political control, which mimicked colonial institutions, inhibited economic reform. The WB's failure to acknowledge and therefore address these historically grown structures has allowed for the continued self-enrichment of Malawi's elite, to the detriment of national development since the early 1980s. The effective supply-side response by smallholders which the WB has sought has been blocked by severe infrastructural constraints, which partly resulted from the continued elite capture of economic and political power. Meanwhile, a lack of local knowledge among donors at times actually led to severe food shortages and macro-economic disruptions, going directly against the goals set by the WB.

The shift to the good governance agenda, which was supposed to finally take politics seriously as a factor in socio-economic development, largely failed to do so as the WB (with other donors in tow) was unwilling to directly engage with the political hurdles to successful development. While politics is often at the heart of governance and development failure, especially when it is intimately connected to direct economic interests, the WB has tried to avert these constraints by designing its policies to be as apolitical as possible. Political and economic power relations however do not simply disappear by dancing around them. By largely letting politicians off the hook, the WB has allowed the further expansion and consolidation of elite interests and much of its own efforts to go to waste. While the Bank's Articles of Agreement logically prevent it from interfering directly in a country's politics, it has nowhere been written that the Bank cannot withhold development assistance in whatever form if necessary for the benefit of development. They clearly did so on various occasions, such as during the SAPs and to enforce a move to multi-party democracy (which is quite an interference in a country's sovereignty). At the very least, the WB (and the donor community in general) could have more strictly monitored institutional reform and the actual implementation of development projects. While of course the Malawian government and elite are as much to blame for the lack of inclusive growth, the WB allowed them to and by providing funds actually made it easier. It would go too far to write an extensive policy recommendation for Malawi here, but the above analysis at least suggests the severe necessity to finally, effectively address the structural constraints on Malawi's smallholder sector by redistributing land, improving infrastructure and opening up access to credit, seeds and technical assistance. Above all, this means that donors have to dare to truly engage with the role of politics in socio-economic development, instead of shying away from the complications. They have to finally address the constraints put on development in Malawi by its highly elitarian political economy instead of allowing Malawi's elite to misuse technocratic WB policies.

While Malawi is just a case study, the intense involvement of the WB across the entire SSA-region and its continued tendency to use comparable economic measures, based on general economic theories and 'best practice' models (as discussed in the literature review), means that the Malawian experience can be extended to the general implementation of development economics in SSA. This experience underlines the literature of the past two decades which has extensively criticised the WB's approach, while it also disqualifies the recent enthusiasm over the perceived changes in the WB's thinking. The discursive admittance that local circumstances and politics matter hasn't really affected implementation yet. Increasing the success of development economics in SSA will require proper attention to political economy and both the opportunities and constraints it offers for inclusive growth on a per-case basis. Merely introducing policies such as agricultural liberalization or market-driven land reform because they have worked elsewhere or are supposed to work in theory has proven to be a redundant form of development. Countries simply differ and therefore are in need of adapted, perhaps even wholly different economic policies if sustainable growth is to be achieved. Overall, it has been proven that the existing scepticism towards the benefits of a more politically aware development approach is thoroughly unfounded.

The real question now seems to be how to change the current approach. The Almost Revolution will have to become an actual transformation of development policies in practice. While we have the analytical proof, changing the institutionalised patterns of behaviour and theoretical convictions of the last 40 years will likely be difficult. It will require increased contextual knowledge among donors, the breaking of existing peer-and-client expectations and reforming institutional cultures.[140] It will also require greater humility concerning our economic theories. We'll have to accept that there are clear limits to neoclassical market economics, as it doesn't provide a very good understanding of how institutions and politics which define socio-economic structures develop over time. The recent increase in political-economic analyses is testimony to these shortcomings.[141] This also offers an opportunity for further research, as additional contextualized country-analyses will provide the tools to create change.

Such a transformation will likely face resistance and hurdles along the way. However, the increasingly diverse debate and the incremental acceptance within major development institutions that politics and local circumstances matter are indicative of the broader felt need for change. While this should not give rise to complacency or overt optimism, it does offer the opportunity to change the dominance of neoclassical development which has permeated both the Washington and the (New) Post-Washington Consensus. By no longer viewing the socio-political order underlying market relationships as an isolated given can we change development economics for the better.

[140] Bridges and Woolcock, "How (Not) to Fix Problems".
[141] Stilwell, "From Economics to Political Economy".

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