

WORKSHOP REPORT

THE BRIEFING AND FORMATION OF THE MALAWI PARLIAMENTARY COALITION ON INTERNATIONAL FINANCIAL INSTITUTIONS

**MALAWI INSTITUTE OF MANAGEMENT
11TH – 12TH JUNE 2005**

TO ACTIONAID MALAWI

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About the facilitating Consultant

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THE REPORT

INTRODUCTION

The first Malawi Parliamentary briefing workshop on the International Parliamentary Petition for Democratic Oversight of the International Monetary Fund (IMF) and the World Bank was held at the Malawi Institute of Management on 11th through to 12th June 2005. The workshop was organised by the Interim Committee of the Malawi Parliamentary Coalition on International Financial Institutions (MAPCOI) with assistance from Actionaid Malawi and Malawi Economic Justice Network (MEJN). The process was facilitated by a local consultant, Kelvin Kanswala Banda.

The purpose of the workshop was to mobilise support and consensus around the need to challenge the selected practices and policies advocated by International Financial Institutions (IFIs). This was envisaged to asset support for Parliamentary sovereignty and to ensure that Parliamentarians are meaningfully involved in the development and scrutiny of IMF, World Bank and other IFI policies.

The workshop was attended by twenty five (25) members of Malawi Parliament from all political parties and independents who represented most of the Parliamentary Committees of the Malawi Parliament. (List of participants is provided in Annex 1). The workshop was honoured with the presence of the Deputy Speaker of Malawi Parliament who delivered the opening speech.

WELCOME REMARKS

Honourable Ted Kalebe MP and Chairman of the Budget and Finance Committee of Parliament made welcoming remarks at the workshop. He informed honourable participants that the workshop marked the beginning of a new era in Malawi which calls for more involvement of the Legislature in the dealings of the Executive arm of Government and the International Financial Institutions (IFIs) in promoting transparency and accountability and ensuring country ownership of economic and development policies pursued by Government. This, he said, was envisaged to assert support for Parliamentary sovereignty and ensure that Parliamentarians are meaningfully involved in the development process of the country.

Honourable Ted Kalebe informed the honourable participants that the initiative has won widespread support World wide with over 3,600 MPs subscribing to it in over 60 countries across the World. Notably, the Parliamentary Network on the World Bank (PNoWB), and the Committee of the Parliaments of the Americas (COPA) are some of the organisations behind the initiative. Support is also available from International Civil Society Organisations such as Actionaid International, Third World Network and the Bretton Woods Project. He stressed that Parliamentarians are elected to represent the public hence have to be fully involved in the development, scrutiny and monitoring of the implementation of policies in order to ensure country ownership.

OPENING REMARKS

The Deputy Speaker of Malawi Parliament, Honourable J.V. Chingola, recognised that there is democratic deficit in the dealings of the Executive and the IMF and the World Bank as well as other International Financial Institutions in Malawi and other developing countries. Often Parliaments have been ignored and completely left out in the discussions regarding economic development policies, conditionalities for loans and other forms of foreign aid. Yet Parliamentary oversight is a key plank of good governance which the very organisations proclaim to champion. In his remarks, the Deputy Speaker, reiterated the need to mobilise support from Parliamentarians to challenge the process in order to ensure true ownership of economic development policies. Members of Parliament present were reminded of the need to come together regardless of political affiliations to fight for the same cause of ensuring Parliamentary oversight in the process of economic development and poverty reduction in Malawi. (The full speech is attached as Annex 3).

BRIEF ON THE MALAWI PARLIAMENTARY COALITION ON IFIS (MAPCOI)

Honourable Austin Mtukula MP, briefly outlined the process of the formation of MAPCOI. He informed the workshop that in Malawi the process was initiated by Actionaid Malawi who provided information to the Malawi Parliament through the Speaker regarding the formal start of the campaign at the IMF and World Bank annual meetings in October 2004. Recognising the importance of this initiative the Speaker of the Malawi

Parliament took it upon himself to inform the Chairman of the Budget and Finance Committee and the Deputy Chairman of the Health Committees of Parliament and urged them to follow up on these developments and ensure that Malawi was part of this international initiative.

Through the two members of Parliament, Honourable Ted Kalebe and Honourable Austin Mtukula, over sixty (60) signatures of Members of Parliament were collected and a Malawi Petition was firmed up. The two MPs travelled to Washington in the United States of America to join other Coalitions from over 30 countries in the World and presented a formal Petition at the spring meetings of the IMF and World Bank in April 2005. Following the launch of the Petition, country activities were expected to start hence one of the objectives of this workshop was to mobilise MPs for the cause and kick start the process in Malawi.

It was with this background that this workshop had been organised to mobilise support from Parliamentarians and establish an interim committee that would spearhead the formation of all institutional arrangements that would be agreed upon by the end of the workshop. This would include the objectives, terms of references, legal documents, formation of an executive committee and a secretariat.

WORKSHOP OBJECTIVES AND EXPECTED OUTCOMES

The workshop objectives were as follows:

- To provide information and achieve a common understanding of the Bretton Woods Institutions. (BWIs or IFIs).

The International Monetary Fund

The World Bank

- To mobilise support for the Malawi Parliamentary Coalition and Petition
- To provide skills for policy and budget analysis
- To map out a comprehensive strategy for the way forward in an attempt to institutionalise MAPCOI

The workshop expected Outcomes were as follows:

- To enhance capacity of the Legislature to analyse IFIs policies.
- Legitimise and market the coalition for increased membership required for policy reform.
- Equip MPs with alternative models and skills for budget analysis that facilitates the broadening and deepening of debates.
- To consolidate and map out the way forward for the establishment of MAPCOI

PRESENTATIONS AND DISCUSSIONS

Three presentations were made at the workshop and are presented in Annex 5 of this report. An outline of the presentations and general comments made are as follows:

- a) *Tools for Budget Analysis: “How Government can kill: In the eyes of the IFIs vs. the eyes of the Communities”. Presentation by Collins Magalasi the Executive Director of Malawi Economic Justice Network.*
- b) *A brief on the IMF & World Bank and their relationship with Government (Executive). How can the Legislature play its role? Presented by Kelvin Kanswala Banda a technical expert on IFIs.*
- c) *Current Processes in Contracting Loans. Presented by Perks Ligoya, Consultant of the Budget and Finance Committee of Parliament.*

GENERAL COMMENTS

The following were the pertinent comments that came out during the discussions.

Honourable participants at the workshop were of the view that the formation of MAPCOI and pursuance of this initiative may lead to conflict between the Legislature and the Executive arms of Government. In his response, the Interim Chairman, said that it was necessary that such conflict be minimised by keeping the right channels of communications

between the two arms of Government. The Legislature should not perform functions of the Executive neither should the Executive perform functions of the Legislature but should work together on matters that affect the public. Much work of MAPCOI will have to be done through the normal Parliamentary Committees such as the Budget and Finance Committee. As a starting point the MAPCOI will engage in dialogue with the all stakeholders which include the Executive, Judiciary, IFIs, Civil Society organisations and the media to ensure that the objectives of MAPCOI are clear and understood. A sensitization workshop of all these stakeholders will be organised in the near future in order to sell the idea and determine a possible direction on how the various arms of government would work together without creating conflict among them. However, the possibility of some conflicts cannot be completely overruled but that should only occur on a good cause and in the interest of all Malawians. It was therefore important that the process was not politicised.

The need for proper linkage between the work of MAPCOI and Parliamentary Committees

The Honourable Participants recognised that there may be some overlaps between the work of the MAPCOI and those of Parliamentary Committees hence there is need that such areas be explored more to avoid duplication of efforts and conflict. The workshop resolved that it would be important that in such matters the Coalition should work through the Parliamentary Committees.

Current Involvement of Parliament in Government discussions with the IFIs.

The Honourable Participants were of the view that the involvement of Parliament in discussions with the IMF or World Bank regarding policy matters and loan or aid conditions has been minimal and in most cases absent. This may be one of the reasons so many economic programmes pursued by Government have often failed because they lack country ownership and there is no proper scrutiny and monitoring of their implementations. The workshop recognised that this would be avoided in future with the establishment of the MAPCOI. It was then agreed that conditionalities of all money bills should be attached to all bills that go to Parliament seeking approval.

ESTABLISHMENT OF MAPCOI

After discussions on the petition and the three presentations the honourable participants were organised into three groups to consider the following three main issues:

- The institutional set up of MAPCOI:
Issues included the structure, membership, and secretariat of MAPCOI.
- The overall objective of MAPCOI and
- The terms of reference for MAPCOI.

After deliberations in the groups and plenary session the workshop resolved and agreed to the following:

Institutional Set up

It was agreed that the structure of MAPCOI should have an Executive Committee and a Secretariat. The Executive committee would be composed of eleven MPs and would mainly be a policy body directing the activities of MAPCOI. The Secretariat would be an administrative and professional office that would undertake the day to day work of MAPCOI. It was also agreed that membership of MAPCOI should be limited to Parliamentarians in the mean time but may be reviewed in the near future to consider possible inclusion of other interest groups such as the media and civil society. An interim Executive Committee was elected and it is provided in Annex 4 of this report.

Regarding the Secretariat it was recognised that there is an urgent need for a Secretariat to run the day to day activities in the interim. It was agreed that Actionaid Malawi and MEJN would liase as soon as possible in order to provide the secretariat duties as an interim measure. However, it was also recognised that there will be need for computer equipment with email facilities, and office furniture.

Overall Objective of MAPCOI

The workshop agreed that the overall objective of MAPCOI would be to enhance Parliamentary oversight in the dealings between Malawi and the

International Financial Institutions in order to ensure transparency and accountability.

Terms of Reference of MAPCOI

The workshop agreed to the following as the main terms of references for MAPCOI.

- To seek support for the principle of Parliamentary autonomy, and the role Parliamentarians should play in national policy formulation
- To ensure that the Legislature is fully involved in scrutinizing and monitoring all policies related to IFIs activities in Malawi.
- To maximise country ownership of economic and development policies in Malawi through the provision of an oversight role of the Legislature.
- To broaden and deepen debate on poverty reduction policies through the mobilisation and participation of all Parliamentarians.
- To ensure Parliamentarians, the public and media access to important information on loan and debt relief conditions there by extending informed debate more widely in society.
- To be part of and participate in activities of the International Parliamentarians Petition for democratic oversight of the IMF and World Bank
- Networking with other similar Parliamentary coalitions on IFIs
- Mobilise support and financial resources to engage a legal consultant to draft a Constitution and Articles of Association of MAPCOI.

THE WAY FORWARD

The following were agreed as steps of action and activities that need to be pursued after this workshop:

- Hold a sensitization workshop for all MPs
- Elect an executive committee
- Hold a sensitization workshop for all stakeholders. (Parliament, Executive, Judiciary, Civil Society, Media etc).
- Set up a Secretariat
- Officially Launch MAPCOI

WORKSHOP RECOMMENDATIONS

The workshop made the following recommendations as issues that need to be pursued as soon as possible.

- A planning meeting should be organised at which the terms of reference and the specific objectives of MAPCOI would be refined and clearly outlined. This will assist in identifying the activities and the implementation plan. Actionaid Malawi, MEJN, representatives of the interim Executive Committee and the workshop facilitating consultant should all be present at this planning meeting.
- Organise a Study Visit to one of the countries where a similar coalition or network has been established to learn on how MAPCOI can be institutionalised and undertake its duties.

- Hold a consultative workshop for all stakeholders including the Parliament, the Executive, Judiciary, Law Commission, Civil Society Organisations, Media organisations, the IMF and the World Bank. The objective would be to sell the idea of MAPCOI and seek views on how best MAPCOI can play its role.
- Engage a constitutional lawyer to develop a Constitution and Articles of Association for MAPCOI and follow through other legal procedural requirements.
- Set up a Secretariat and provide it with the necessary personnel and office equipment.
- Organise a short term training in Computer Applications for the Interim Executive Committee to improve and enhance their computer skills which will be required for the day to day running of MAPCOI.

**ANNEX 1: LIST OF PARTICIPANTS AT THE BRIEFING
WORKSHOP**

Name of MP	Constituency	Political Party
S. Chingola	Deputy Speaker of Parliament	
L. Mangulama	Zomba Chingale	UDF
J. Njovuyalema	Lilongwe Mapuyu South	MCP
M.J. Sato	Ntcheu N. East	UDF
O.AL. Banda	Chiradzulu South	UDF
E.Z. Munthali	Rumphi	AFORD
W.A. Makala Ngozo	Lilongwe Mpenu	MCP
B.Z. Kachala	Dedza Central	MCP
K. Kachali	Mzimba S. West	Independent
A. Lipande	Ntcheu North	UDF
V.G. Dzoole Mwale	Lilongwe Msou South	MCP
R. Mwaila	Blantyre West	Independent
S.V. Kaunda	Nkhata Bay Central	AFORD
S.T. Sitsi Nkhoma	Kasungu South	MCP
B.S.B Kutsaila	Lilongwe Msinja North	MCP
T. Kalebe	Lilongwe North East	MCP
S. Chimphonda	Lilongwe Msozi North	MCP
W. Gwengwe	Lilongwe South East	MCP
N. Chuthi	Dedza N. West	MCP
S.S.J. Malamba	Nsanje Lalanje	RP
A. Shawa	Mzimba East	RP
Mrs M. Ngaunje	Ntcheu Bwanje South	Independent

B. Lijenda	Zomba Mtonya	UDF
A. Mtukula	Ntcheu Bwanje North	UDF
S.D.J. Gulule	Kasungu West	MCP

Other People Present

Collins Magalasi	Executive Director MEJN
Dr Perks Ligoya	Consultant of the Budget and Finance Committee of Parliament
Mc Bride Nkhalamba	Actionaid Malawi
Kelvin Kanswala Banda	Facilitating Consultant & Technical Expert on IFIs

ANNEX 2: WORKSHOP PROGRAMME
MALAWI PARLIAMENTARY COALITION ON INTERNATIONAL
FINANCE INSTITUTION MAPCOI

Parliamentary Committees Briefing/Workshop
Malawi Institute of Management
11th and 12th June 2005

Agenda Day 1: 11th June 2005		
Time	Activity	Responsible
09:00 – 09:20	Introductions <ul style="list-style-type: none"> • Opening Remarks • Key Note Remarks 	Hon Ted Kalebe Speaker of Parliament UNDP Representative
09:20 - 9:30	Brief on workshop objectives and Housekeeping Matters	Kelvin K. Banda
09:30 - 9:50	Brief on Parliamentary Petition: (Recent developments and current position) “The case of IMF, World Bank and HIV/AIDS – Blocking Progress”	Hon. Mtukula
9:50 – 10:30	Socio – economic frameworks for budget analysis: “The trade-off between Macro-economic stability policies and investment in public social services”	Collins Magalasi (MEJN)
10:30 – 10:50	Tea Break	
10:50 – 11:20	Role of the executive in dealing with IFIs – mandate, practice and deficiencies	Kelvin Banda
11:20 – 11:45	Parliamentary oversight/ Role in Malawis dealings with IFIs – mandate, practice and gaps	Dr P. Ligoya
11:45 – 12:30	Plenary Discussions	Collins Magalasi
12:30 – 13:30	Lunch Break	
13:30 – 14:30	Proposals for Reform -	Kelvin Banda

	Group Work	
14:30 – 15:15	Group Presentations	Kelvin Banda
15:15 – 15:30	Tea Break	
15:30 – 16:00	Plenary Session	Collins Magalasi
16:00	Closing Remarks Invitation to a Reception	Hon. Ted Kalebe

“A Better Malawi is Possible”

Agenda Day 2: 12th June 2005		
Time	Activity	Responsible
09:00 – 09:15	Welcome Remarks – Day 2	Hon Mtukula
09:15 - 9:30	<ul style="list-style-type: none"> • Brief overview of Day 1 activities – focus on recap of proposals for reform • Outline of Day 2 activities 	Kelvin Banda
09:30 – 10:00	Proposed TORs for MAPCOI	Kelvin Banda
10:00 – 0:30	Group discussions on TOR for MAPCOI	
10:30 – 10:45	Tea Break	
10:45 – 11:30	Presentations and discussions	Collins Magalasi
11:30 – 11:45	Way Forward and Action Plan for MAPCOI	Hon. Mtukula
11:45 – 12:00	Closing Remarks	Hon. Ted Kalebe
12:00 – 13:30	Lunch	

“A Better Malawi is Possible”

ANNEX 3: OPENING SPEECH

OPENING SPEECH BY THE DEPUTY SPEAKER OF THE MALAWI PARLIAMENT TO THE WORKSHOP ON PARLIAMENTARY BRIEFING ON THE COALITION FOR DEMOCRATIC OVERSIGHT OF THE IFIs POLICIES AT MALAWI INSTITUTE OF MANAGEMENT 11TH – 12TH JUNE, 2005

Honourable Austin Mtukula Acting Chairman of the Malawi Parliamentary Coalition Network,
Honourable Ted Kalebe Acting Secretary of the Malawi Parliamentary Coalition Network and Chairman of the Budget and Finance Committee
Honourable Parliamentary Committees Chair persons
Honourable Parliamentary Committees Deputy Chair persons
Honourable Members of Parliament
The Country Director Action aid Malawi
The Executive Director Malawi Economic Justice Network
Distinguished ladies and Gentlemen.

It is a great honour to stand before you this morning to deliver an opening speech for this important briefing and workshop on the roles the Legislature can play in promoting transparency and country ownership of economic and development policies implemented by Government.

Honourable participants, extensive analysis around the World has indicated that there is democratic deficit in the dealings between countries and the International Monetary Fund (IMF) and the World Bank, the so called Bretton Woods Institutions. Indeed, the institutions themselves acknowledge that there is lack of effective involvement of Parliaments, with formal mechanisms for engagement often completely absent, or too weak to be meaningful. Yet parliamentary oversight is a key plank of good governance, and there cannot be true country ownership of the conditions attached to loans and debt relief without it.

Honourable participants, in light of this, Parliamentarians all over the World with support from concerned Civil Society Groups mobilised themselves to launch an International Petition that calls for more involvement in the dealings between Governments and the Bretton Woods Institutions. The idea and need for a Petition was conceived and announced in October 2004 at the IMF and World Bank meetings and a target of 3,600 Mps from 60 countries was announced. The Petition was launched in April 2005 (this year).

Honourable participants, hundreds of MPs from over 30 countries have already signed the Petition, and the initiative has won widespread support including some from the Parliamentary Network on the World Bank and other national and international Parliamentary groups.

It is pleasing to note that Malawi has taken the opportunity to engage on the matter seriously. Over 60 signatures from MPs were solicited and subsequently the Malawi Parliamentary Coalition on IFIs (MAPCOI) has been formed. Representatives of MAPCOI with support from ActionAid Malawi were in the USA in April this year to participate and be part of the formal International launch of the Petition.

Honourable participants, the purpose of this meeting today is to mobilise support and consensus around the need to challenge the selected practices and policies advocated by International Financial Institutions. This is envisaged to asset support for Parliamentary sovereignty and to ensure that Parliamentarians are meaningfully involved in the development and scrutiny of IMF, World Bank and other IFI policies.

Honourable participants, I do not need to re-emphasize the importance of this initiative. It is important then that MPs from all parties participate fully without politicizing the process. This will be particularly necessary if we are to achieve our collected and overall objective towards the struggle for poverty reduction and economic development.

I would like to take this opportunity to thank the interim Secretariat of MAPCOL and Actionaid Malawi for organising this briefing workshop. While I appreciate this meeting and all the support Actionaid has provided towards this initiative, it still remains necessary that the continuation of this initiative calls for more support interms of Secretarial personnel, office equipemt and of course financial support. It is my expectation that Actionaid will continue to support us and that other well wishers will join on the way.

Having said this, Honourable participants, it is my humble duty to declare this workshop open. I wish you fruitful deliberations. THANK YOU

ANNEX 4

INTERIM EXECUTIVE COMMITTEE OF MAPCOI

Chairman	Hon. Austin Mtukula
Deputy Chairman	Hon. Ted Kalebe
Secretary	Hon. Marjorie Ngaunje Mrs
Deputy Secretary	Hon. A Shawa
Treasurer	Hon. Oliver A. Lewis Banda
Deputy Treasurer	Hon. Simon Kaunda
Publicity Secretary	Hon. Stanley Chimphonda
Deputy Publicity Secretary	Hon. E. Zizwa Munthali
Executive Committee Members	Hon. Steven Malamba
	Hon. Khumbo Kachali
	Hon. Richard Mwaila

ANNEX 5: WORKSHOP PRESENTATIONS

Annex 5.1

Tools for Budget Analysis “How Government can kill: In the eyes of the IFIs vs. the eyes of the Communities

Presented to
Malawi Parliamentary Coalition on IFIs
Malawi Institute of Management
Lilongwe, Malawi, 11-12 June 2005
By Collins Magalasi, Malawi Economic Justice Network

Introduction

- Before the budget, Government gets people's views on what must be considered in the budget [Consultations, Submissions, ...]
- BUT government agrees with the IMF on the macroeconomic targets [macroeconomic stability, resource envelop, taxation, acceptable inflation rate ...]
- Objective is: DO NOT KILL

The IFI way:

How Governments can Kill Growth: Fiscal and Monetary Policies

Hyperinflations

- Fiscal disarray leads to PRINT MONEY
- Money Printing leads to Hyperinflation
 - French Revolution and American Civil War
 - Versailles Treaty and the HP of the 1920s
 - Post WWII (China, Greece, Hungary (*))
 - 1980s: Bolivia, Israel, Argentina, ...
 - 1990s: Former Socialist Countries
- [Therefore spend within the budget. Q? in times of emergencies??? Better get a loan and consume??]
- *Inflation can come also without fiscal mismanagement. Insufficient revenue > >*
(*) World Record, inflation = 10^{27}

Black Market Premium

- Governments want to fix the Exchange Rate Market at e^* (say, $e^*=80$ Kwacha/\$)
 - It forces all exporters to sell dollars at 80
 - But an (illegal) Black Market develops and pays 160 Kwacha/\$ (the difference is the Black Market Premium)
 - There is a shortage of \$ (at $e^*=80$, demand is larger than supply) so importers who need dollars need to buy them in the black market at 160.
 - The BMP is, effectively, a tax on exporters.
- *Q? What happens when prices of our exports (tobacco) go down? Who decides on the prices? Does free floating exchange rate mean nobody is controlling it?*

BMP (continuation)

Financial Repression (Killing Banks)

- Governments force banks to issue loans to them at below market rates (so Banks lose money)
- Governments impose CAPS on interest rates the bank can charge or pay EVEN IF INFLATION IS HIGH

- E.g. If Interest Rate = 5% and inflation is 50%, the saver gets a negative return of 45%. IMPLICATION: No Savings in Financial Sector
- Financial Repression is, effectively, a tax on Savings so it affects growth adversely
- *K5 billion loan with interest rate at 15% vs. the commercial bank rate of 27%?? Is 15% low? If at 27% will the the poor (voters) have credit at 27%*

Financial Repression
(Killing Banks, Continuation)

Large Budget Deficits

- Ricardian Equivalence Theorem says that if taxes are LUMP SUM, then Budget Deficits are equivalent to current taxes so deficits do not matter
- But taxes are NOT lump sum. They are distortionary.
 - And budget deficits today mean more distortionary taxes tomorrow (including more hyperinflations, financial repression, Black Market Premium etc).
 - This lowers incentives to invest today and reduces growth rates today
- **But World Bank study (2002) of 27 countries showed the following:**

Budget Deficits (continuation)

Bureaucracy, Corruption and Red Tape

- [Hernando de Soto in “The Other Path” (referring to the Peruvian terrorist group, “The Shining Path”, he calls government bureaucracy, “The Other Path”)]
- Tried to set up a clothing factory in Lima without paying any bribes to see how long it took.
 - He could not.
 - In order not to halt experiment, he bribed twice (he was asked 10 times by government officials)
 - It took 10 months.
 - NOTE: it takes 4 hours to do the same thing in New York City
- *Is corruption a third world issue? (UN Oil for Food Programme, the Lesotho Dam involving World Bank gurus)*

From Wolf...

Closing The Economy

- Import Substitution (infant industry)
- Picking Winners by Government Officials
- *If you open expose your infant companies to the multinationals, what happens?*
- *In the face of capital flight*

Government ‘Services’ (or Disservices)

- Governments are usually in charge of providing: roads, law and order, electricity, water and sanitation.

- In many countries, governments are also in charge of phone companies, trains, airlines, postal service, irrigation, waste disposal
- In most developing countries, governments fail to provide any of these things,... yet they do not allow the private sector to do it either.

The People's way:

How Governments can Kill Its Citizens:

Wait for Growth, Macroeconomic Stability, Attract Investments, then we will reduce your poverty

Who bears the trade off?

- Citizens demand services: Boreholes, roads, food items, etc
- But you must listen to IFI prescription, otherwise ...
- In Africa (ZAMBIA), the IMF/govt agreed that as condition for HIPC completion point, government should not employ any more teachers (contain the wage bill) vs. need to reduce high teacher/students ratio
- Eastern Europe, the Tiger nations
 - Investment in infrastructure, technology, ... in social sectors: education, health, agriculture, ... were non negotiable
 - Where are they now compared to the 'good abiding boys'

Policy 'Advice' from IFIs

- In Africa (Malawi), the World Bank advised govt to sell off strategic grain reserve (*You are leaving idle on monetised resource*)
- In Africa (Malawi), an emergency Parliamentary session was called on 27th December 2003 to pass the ADMARC Commercialisation bill AND THE US\$63 million LOAN from World Bank to fight hunger!!!!
- Over 30 BWI Operations have occurred in Malawi, with WB over 20. Only 2 IMF operations have completed successfully. And we continue without reflection.

Malawi's Financial Arrangements with the IMF

Malawi: Previous Adjustment Operations with the World Bank Group

Budget Analysis Tools

As representatives of the people, you would not want to be given raw deal

After this paper Hon. Members of Parliament are expected to be able to apply basic calculations to budget information and interpret the results
How does budget analysis fit in the work of Members of Parliament?

How were the figures arrived at?

What can we learn by looking at a budget? (Cont.)

4. Equity: Are resources allocated fairly?

- ☐☐ **Per capita spending across geographic regions**
- ☐☐ **Spending on programmes that benefit disadvantaged groups in particular**
- 5. Efficiency: Is the money spent? And is it spent on the right inputs & programmes?
 - ☐☐ **Allocated vs. actual expenditure**
 - ☐☐ **Comparing funding channels or mechanisms**
 - ☐☐ **Is the right mix of inputs & services used to deliver the outputs in the most efficient way?**
- 6. Effectiveness: Is the money being spent on the right outputs in order to achieve the desired outcomes?
 - Are the interventions which are funded the most appropriate (i.e. do they lead to the desired outcome) and cost effective?**

What can we learn by looking at a budget? (Cont.)

Ratio's, Rates and Inflation

When we want to see whether a ministry is progressively rolling out services of a particular type, we can look at the nominal (no adjustment for inflation) change in the budget over time. We mostly express this change as a percentage of the previous year's budget:

Nominal growth rate = $(Y2 - Y1) / Y1 * 100 = \dots\%$

Sample Activity: Calculating the nominal growth rates for the amounts given in the table budget document

Sample Activity: Simple exercise in output-based or performance budgeting

Thank you for your attention

Annex 5.2

A BRIEF ON THE RELATIONSHIP BETWEEN GOVERNMENT AND THE BRETON WOODS INSTITUTIONS (IMF & WORLD BANK) **By Kelvin Kanswala Banda**

They were conceived in July 1944 at an international conference held at the Bretton Woods, New Hampshire, USA.

Why?

Delegates from 44 countries agreed on a framework for economic cooperation partly designed to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.

The IMF

Created in 1945 after 29 member countries had signed to its Articles of Agreement.

- The IMF was created out of the need to restore order to international monetary relations.
- The Articles of Agreement of IMF was designed to oversee the international monetary system and to promote both the elimination of exchange restrictions relating to trade in goods and services, and the stability of the exchange rates.

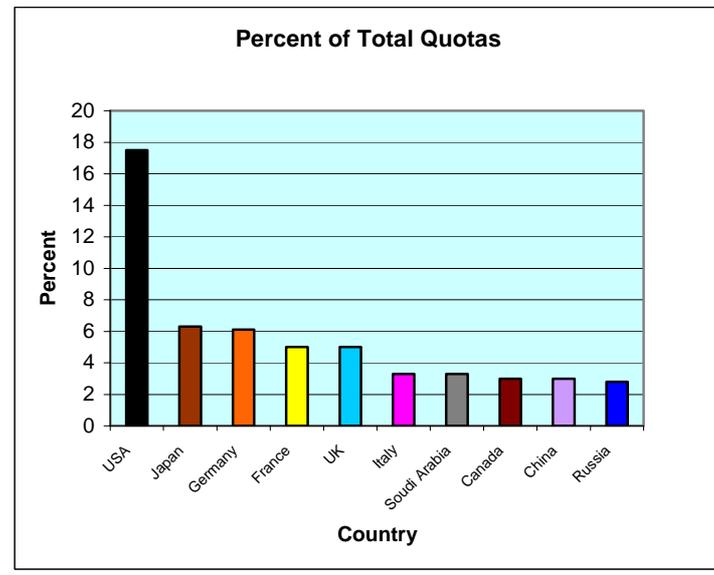
Statutory Purpose of IMF

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultations and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade.
- To promote exchange rate stability and maintain orderly exchange arrangements among member countries.
- To assist in the establishment of multilateral system of payments and the elimination of foreign exchange restrictions.

Membership of the IMF

- Current membership is at 184 countries
- Each member country is represented by a Governor.

- A 24 member Executive Board runs the daily business. On this board the five big shareholders USA, Japan, Germany, France and UK plus Russia, China and Saudi Arabia have permanent seats. The other 16 are elected for a two year term.



Main Activities of the IMF

- Surveillance
Policy advise and dialogue with member countries
- Technical Assistance
Provision of training and technical experts
- Financial Assistance
Concessional lending facility for BoP support (PRGF)

IMF Resources

- Financial resources are mobilized through members country contributions referred to as quotas.

THE WORLD BANK

Origin

- Just like the IMF the World Bank was also created from the Bretton Woods Conference held 1944 and was established in 1945.

Purpose

- To provide development financing and support for the reconstruction of the World following the destruction from World War II.
- The World Bank is a name that has come to be used for the International Bank for Reconstruction and Development (IBRD) and the International Development Assistance (IDA).
- IBRD and IDA together provide low interest loans, interest free credit, and grants to developing countries.

Members

- Has 184 member countries
- Each member is required to appoint a Governor who represents the interests of the member state. (Usually the Central Bank Governor or Minister of Finance)
- Day to Day running of the Bank is under the 24 member Executive Board. Five Board members are from the largest five shareholders. USA, Japan, Germany, France and UK. The others are elected every two years.

Objectives

- The work of the World Bank has over the years transformed to addressing broader development policy issues such as;
 - Trade liberalisation
 - Privatisation of public enterprises
 - Social sector policy reforms and
 - Infrastructure projects
- The focus has now sharpened on poverty reduction as an overarching goal. Millennium Development Goals are the specific targets of the World Bank

- Eradicate extreme poverty and hunger
- Achieve universal free primary education
- Promote gender equality and empower women
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development.

RELATIONSHIP OF IMF AND WORLD BANK

The long-standing relationship between the two institutions is that they each have their areas of expertise for which they are responsible.

- IMF concentrates on macroeconomic stability
- World Bank concentrates on broader development policies

Who is who?

However, the broader development work of the World Bank is often seen as subordinate to the IMF's macroeconomic stability. Generally, countries would have to satisfy the IMF requirements before accessing loans or grants from the World Bank.

YET, the IMF gives relatively much less money than the World Bank.

IMF Signalling effect

- It can be said that the IMF acts as an international credit rating agency that serves as a green light that then opens the doors for more foreign aid.
- If IMF signals a 'red light' foreign aid is cut off.

RELATIONSHIP OF GOVERNMENT AND BRETTON WOODS INSTITUTIONS

By being a member of the Bretton Woods Institutions a Government is expected to follow internationally accepted standards and codes of good practice.

Key Areas of commitment include

- Macroeconomic stability

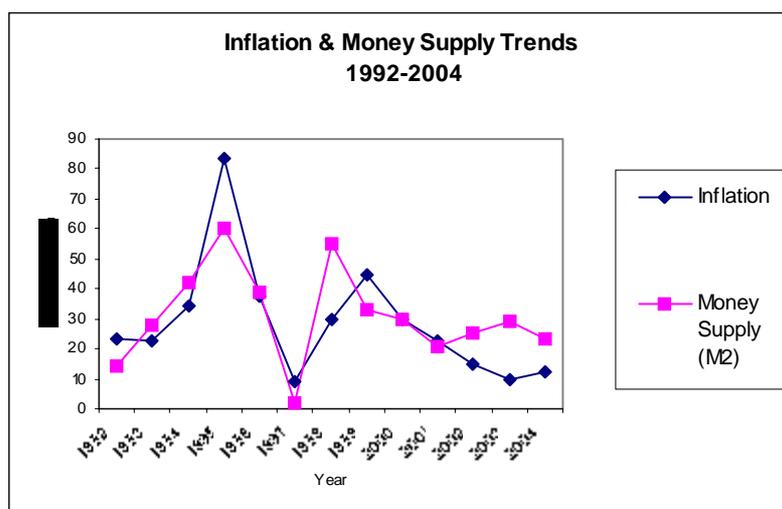
- Low inflation rates
- Competitive exchange rate
- Maintaining sustainable debt levels
- Good corporate governance

- Good governance
 - Democratic politics
 - Political stability
 - Accountability
 - Anti corruption
 - Transparency

- Pursuance of favoured policies such as
 - Trade liberalisation
 - Privatization
 - Poverty reduction
 - Promotion of economic growth

What are the policy implications of Government commitment to Bretton Woods basic thinking?

- Government will aim at achieving macroeconomic stability of which low inflation is a paramount target.
- The low inflation target determines the level of money supply in the economy.



- This filters in the overall resource envelop hence how much can Government spend in the national budget and how much foreign aid can be accepted in a given period?

Policy Outcome

Over emphasis on macroeconomic stability may lead to;

- Government will reduce expenditure there by reducing overall economic activity in the economy for fear that increased spending will result in increased money supply and a rise in inflation rates.

Consequently,

- Lowering economic growth from the possible optimal level,
- Reduced impact on poverty reduction
- Increase in unemployment

Uganda says no to US\$52 million grant.

- *In 2002 Uganda was awarded US\$ 52 million from the Global Fund to fight AIDS, malaria and TB but the Govt refused to accept unless there was a cut of the same amount on the national Health budget.*
- *The fear was that this would increase spending and money supply in the economy resulting in increased inflation. The programme targets would then not be met.*

Countries in delemma

It is widely accepted that increased economic growth is a necessary precondition for poverty reduction yet the insistence on macroeconomic stability for which 'low inflation' is an important factor gives contrary outcomes.

Why do countries still strive to get on IMF programmes then?

- Most poor Governments strive to get an IMF programme because they are desperate for the key to open the door for more resources.

But is there no alternative key?

Perhaps this is an issue for debate in an attempt to identify alternatives. If alternatives would be identified there would be a high possibility that the over insistence on macroeconomic stability could be explored more.

Currently there is no empirical evidence that clearly points to the fact that moderate inflation levels (10 % to 30%) hurts economic growth performance.

ROLES OF THE EXECUTIVE & LEGISLATURE

THE CONSTITUTION OF THE REPUBLIC OF MALAWI

CHAPTER I The Republic of Malawi

Section 7: The Executive shall be responsible for initiation of policies and legislation and for the implementation of all laws which embody the express wishes of the people of Malawi and which promotes the principles of this constitution.

Section 8: The legislature when enacting laws shall reflect in its deliberations the interests of the people of Malawi and shall further the values and duty of explicit or implicit in this constitution.

The Executive

On behalf of the nation, the Executive ratified to the Articles of Agreement of both the IMF and World Bank. This implies that the Executive will ensure that policies implemented are in line with conditions and requirements of the Bretton Woods Institutions.

On the other hand, The Legislature

The important role of the legislature is therefore to exercise their oversight role in to ensuring that policies being pursued and implemented by the Executive do reflect the interests of the people of Malawi.

This will minimise the possibility that the Executive may be or become an end in itself, there by creating a “ a convenient environment for the BWI manipulation”.

What can be done to improve the situation?

- Engage in discussions with the Executive and the BWI to seek clarifications on the contents of macroeconomic programmes such as the Staff Monitored Programmes, the Poverty Reduction and Growth Facility (PRGF), and structural reforms such as privatisation of Government companies.
- Take advantage and participate in the Malawi Constitutional review process
- Participate in the MPRS review process
- Participate in the further development of the Malawi Development Agenda process.

Conclusion

“Countries differ in their status in terms of their poverty levels, HIV/AIDS epidemic, human resource and systems to absorb additional foreign aid, state of play in macroeconomic policy environment, reaction to and effects of external shocks such as drought, floods, oil price increases and changes of international prices of commodities.

Therefore, it is important that policies, programmes and reforms are designed and implemented according to particular country situations to achieve any meaningful results.

Annex 5.3

PROCESS IN CONTRACTING GOVERNMENT LOANS FROM IFIs

Presented by Dr Perks Ligoya

INTRODUCTION

Government has identified priority areas for its development process. The main policy documents highlighting and sometimes derailing the direction of development are the vision 2020, MPSP and the Malawi Economic Growth Strategy.

The focus is on poverty reduction by addressing the key sectors of education, health and agriculture. Through the MEGS government is focusing on moving the economy from being a predominantly consuming economy to a producing export-led economy. Good political and economic governance also take centre stage. In addition, the fight against corruption stands high on Government agenda. The sectors of Agriculture (tobacco, tea, coffee, cotton) Tourism, Mining etc have been identified as priority sectors which can promote economic growth for Malawi.

In coming up with the policy and strategy documents the Government consulted widely throughout the country. This was done to ensure ownership of the policies and strategies by the people of this country.

THE PROCESS

The cycle begins with identification of activities and translating them into policies and strategies. These are then translated into implementation action plans. This is normally done by government (Executive) with little or no involvement of legislature. Once this is finalised they are then discussed with potential donors/financiers at this level the legislature is not involved.

- Ministries/Parastatals: translate the above policies into activities with costs and time span.
- These are transmitted to MEPD to prepare the Public Sector Investment Programme.
- MEPD and Ministry of Finance identify donors. financiers for the activities.
- Agreements are drawn with donors together with Ministry of Justice on behalf of government.
- Once agreements have been reached Ministries of Finance and Justice prepare bills on behalf of government.

- It is at this time when the bills are submitted to parliament for consideration and approval.
- What can be seen from this is that all bills come to parliament without consulting them in their formulation. Sometimes they are passed without sufficient debate (bull-dozed)
- The World Bank prepares the country programme without consulting parliament. For example a country programme review was done this year. Some leaders of political parties were invited to the opening ceremony but not to the meetings thereafter.
- The IMF has come to Malawi on several occasions this financial year, NO Member of Parliament was invited to attend. The chairman of the Budget and Finance Committee was invited at the tail end of the IMF mission and had problems in following issues and there is little time for further consideration.
- The Ministry of Finance did not invite the Budget and Finance Committee to subsequent IMF missions. Parliament only learns of Letters of Intent between IMF and Malawi Government through newspapers. Letter of intent detail the conditions and the resources to be made available to a county and it is an important document which would be made available to Parliamentarians.
- The process can at best be described as not inclusive although Parliament is an important arm of government in ensuring that resources are properly utilised and policies are country owned.