Revive IMF program or no assistance, donors tell Malawi

By Gregory Gondwe: @Kalipochi

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Malawi's donors under the Common Approach to Budget Support (CABS) have asked the country to revive its International Monetary Fund (IMF) program or forget their financial assistance.

This is one of several resolutions that the CABS donors reached on Wednesday 7 December 2011, in Lilongwe, where high level discussions on strategic issues concerning Malawi's ailing economy were held.

The discussions centred on Malawi's adherence to fundamental principles of budget support, macroeconomic performance, implementation of the national budget, and public finance and economic management (PFEM).

The CABS donors, who prefer being called development partners, have been providing harmonised general budget support to Malawi since 1999.

The group consists of African Development Bank (AfDB), European Union (EU), Germany, Norway, United Kingdom - Department for International Development (UK-DFID), and the World Bank (WB) while the IMF and UNDP participate as observers.

Government has said it is optimistic that it will resume its IFM program with the arrival of IMF technical assistance team last week who are expected to help it implement key commitments of its off-track programme with the fund.

Resolutions made

In the press release, chairperson of the CABS Group of Development Partners and World Bank country manager for Malawi, Sandra Bloemenkamp said the resolutions were made after concluding their October 2011 Review of the country's economic health.

At the conclusion of the review, the CABS members urged Malawi to address economic and non-economic concerns raised by various stakeholders, and earnestly work on reviving the IMF program.

"In appreciating the severity of the situation, CABS DPs [development partners] expressed their preparedness to hold a special CABS meeting with government once it has reached an agreement with the IMF," said Bloemenkamp.

She said the CABS members observed the challenges Malawi faces in implementing their 'zero-deficit' budget and the current macroeconomic instability requires urgent actions on the part of government to address the current downfall.

Members applauded Malawi for the progress on some audits and public expenditure reviews, and the ministerial level commitment to dialogue with the CABS members still felt government needed to hurry up to clean up the current economic mess. Donors under CABS do conduct biannual reviews to discuss government of Malawi's economic development and growth, financial, and governance policies and strategies and assess progress its policy reform agenda.

The October 2011 review was the first for the 2011/12 fiscal year. The main review meeting was held on 26 October 2011.

This was however preceded on 25 October 2011 by a high level pre-CABS review meeting between the Ministers of Finance and Development Planning; Justice; and the CABs Heads of Mission to discuss non-economic issues in line with the underlying principles for budget support outlined in the Joint Framework. The October 2011 review was important for both Malawi and the donors as it took place at a critical moment when none of them were able to provide budget support.

October 2011: Key issues and findings

Bloemenkamp then summed up five key issues and findings of the October 2011 Review.

- The first one she said is where CABS members said are increasingly concerned with the persistent deterioration in the country's macroeconomic environment and called for urgent implementation of reforms to restore macroeconomic stability.

  "While acknowledging efforts currently underway, CABS DPs call for a swift restoration of macroeconomic stability and revival of the IMF Extended Credit Facility (ECF), as a critical step towards the resumption of budget support," she said.

  She however added that it would be best if all the members of the CABS could resume the budget support in the near future, and for this to materialize both economic and non-economic issues will have to be resolved.

- The second one was where the donors under CABS expressed concerns on the realism of the macroeconomic assumptions that underpin the current budget framework as well as the Malawi Growth and Development Strategy number two, considering the current economic and growing supply side bottlenecks.

  "[We] acknowledge challenges the government is faced with in the implementation of the 2011/12 zero-deficit budget, especially with weak tobacco revenues and without budget support," she said.

  Donors have suggested that Malawi should revisit macroeconomic assumptions in light of the ongoing economic problems. It was strongly emphasized the need for critical actions on political and economic concerns to build up credibility and restore confidence in Malawi.

- The third point is where the donors applauded government's statement on the finalisation of the second Malawi Growth and Development Strategy, including costing and monitoring and evaluation framework, pending Cabinet's approval.

  "[We] however noted to government that any further delays in the approval by Cabinet of this development blue print will have negative implications to the [our] formulation of new programs for Malawi," she said.

- On the fourth point, donors commended government on the good progress on some audits that includes audit coverage, public expenditure reviews, and public expenditure tracking survey they nevertheless urged government to strengthen follow-ups and implementation of recommendations.

Government says the financial plan is on track

Although the donors have indicated in their review of the failure of Malawi's zero-deficit-budget, government officials are adamant that the financial plan is on track.

Budget director in the Ministry of Finance and development Planning Dr. Dalitso Kabambe has said the K304 billion 2011/12 zero deficit budget is intact and has not collapsed.

"At the end of the financial year, the fiscal plan will still have no deficit," he argued in an interview with *The Nation*.

Government planned to entirely finance its financial plan using locally generated resources. However it said it needs support for its development budget.

IMF resident representative, Ruby Randall told *The Daily Times* that revival of the funds Extended Credit Facility (ECF) programme with Malawi will require the visit of a review mission.

"The precise timing of that mission will be agreed between the government and the IMF after the technical assistance team mission," Randall was quoted as saying.

IMF technical assistance team that arrived in Malawi on 30 November 2011, is co-led by Etibar Jafarov and Nadia Rendak, comprise monetary and capital markets expertise as well as legal expertise. The team is expected to review the Foreign Exchange Control Act and other pertinent laws and foreign exchange regulations.

Randall said the team's findings will help government in making concrete recommendations that will facilitate implementation ECF programme commitments on liberalisation of the foreign exchange regime for current account transactions and enhanced exchange rate flexibility.

She said the team will work collaboratively with technical counterparts in the Reserve Bank of Malawi and other relevant government agencies, and will also meet with a wider group of stakeholders in the banking community and private sector.

Some of the institutions the team is expected to meet include Bankers Association of Malawi, the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and tobacco buyers. Government has conceded that things are not good economically.

Central bank governor Dr. Perks Ligoya has said Malawi needs US$200 million to bring back the country's economy as this would deal with foreign reserves deficit that has crippled critical economic activities like paying for essential imports.

"We have already secured a US$100 million loan from Export and Import Bank of India and we expect other resources from PTA bank and the Islamic Bank which we have already engaged and they might make available the money very soon," said Ligoya.

Poor tobacco sales and withdrawal of donor support due to poor governance practices has hurt the country economy which solely depends on the two sources for its foreign reserves.

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