Charting a New Course:  
Priorities for a Vibrant Economy and Jobs

Policy Choices for Malawi 2019

June 2019
Table of Contents

Acknowledgements ......................................................................................................................... iv
Executive Summary ............................................................................................................................ v
Macroeconomic Policies to Support Growth ..................................................................................... 1
Strengthening Institutions to Deliver Results .................................................................................. 9
Developing a Vibrant Economy and Job Opportunities ................................................................. 17
Increasing Agricultural Productivity and Diversification ............................................................... 28
Improving Access and Quality of Energy & Water Services for Growth ....................................... 37
Improving Education Access, Quality, and Equity ......................................................................... 44
Addressing an Unfinished Fertility and Stunting Agenda ............................................................... 51
Realizing the Potential of Safety Nets in Malawi .......................................................................... 60
Breaking the Cycle of Environmental Degradation and Increasing Resilience ......................... 67
References ......................................................................................................................................... 75
List of tables

Table 1: Averages: Area Planted, Production, and Yield, Selected Crops, 2006–16 .................................................. 29
Table 2: Water supply disruptions are more frequent in Malawi compared to other countries .................. 39

List of figures

Figure 1: Recurrent spending overruns widen the fiscal gap ................................................................. 2
Figure 2: ...increasing debt .................................................. 2
Figure 3: The Kwacha has been stable, supported by reserves ....................................................... 3
Figure 4: Headline inflation, though down to single digits, is still high for the region .............. 3
Figure 5: Interest rates have recently declined, 2016–19 .......................................................... 4
Figure 6: Credit to the private sector has been stagnant as public borrowing increases, 2015–19 .......... 4
Figure 7: Malawi’s economy is growing more is slowly than its peers .......................................... 5
Figure 8: ...but the medium-term prospects are positive .......................................................... 5
Figure 9: Ultra-poverty rates have dropped significantly .......................................................... 6
Figure 10: ... while moderate poverty rates have stagnated at high levels ..................................... 6
Figure 11: Transfers to Local Government per Capita, 2016/2017, US$ ............................................. 13
Figure 12: Total Transfers to Local Government by Sector 2016/2017 ............................................. 13
Figure 13: Total Investment, Malawi and Select Countries, 1980–2018, Percent of GDP ............... 18
Figure 14: Top Obstacles to Doing Business in Malawi in 2014 and 2018 ........................................ 20
Figure 15: Regional Comparison of Major Obstacles to Doing Business ........................................ 20
Figure 16: Urban Share of Population, Selected Countries, 1990–2016, Percent ......................... 20
Figure 17: Estimates of Malawians Vulnerable to Hunger, 2002–18 ............................................. 31
Figure 18: Variability in Maize Prices, 2005–16, Average .......................................................... 32
Figure 19: Maize Prices, Malawi and Neighboring Countries ..................................................... 32
Figure 20: Summary of Key Budget Allocation in Ministry of Agriculture ...................................... 33
Figure 21: Electricity Challenges Faced by Firms in Malawi .......................................................... 38
Figure 22: Hidden costs (Percent of revenues) ............................................................................ 41
Figure 23: Improving operational efficiency to move to financial viability ................................... 42
Figure 24: Standard 4 Performance on Basic Math and English tasks ........................................... 45
Figure 25: MSCE Pass Rate in Selected Subjects and School Type ................................................. 46
Figure 26: Performance of Secondary Students by Type of School and Gender ................................ 47
Figure 27: Age-specific Fertility Rates, 15–19-year-olds, Eastern and Southern Africa ............. 53
Figure 28: Total Fertility by Education ......................................................................................... 54
Figure 29: Under-5 Mortality by Mother’s Education ...................................................................... 54
Figure 30: Observed and Wanted Total Fertility Rate by Wealth Quintile, 2015–16 ..................... 54
Figure 31: Population and Dependency Ratio Projections for Three Fertility Assumptions ........ 55
Figure 32: Real GDP per Capita by Fertility Scenario, Constant 2011 US$ ....................................... 56
Figure 33: Stunting Prevalence by birth interval, 2010 and 2016 ................................................ 57
Figure 34: Stunting Prevalence Children U5, 2010 and 2016 ...................................................... 57
Figure 35: Trends in Stunting, Prevalence by Household Wealth, 1992-2016 ............................ 57
Figure 36: Trends in Stunting Prevalence by Residence, 1992-2016 ........................................ 57
Figure 37: Factors Associated with Stunting in Malawi and Distribution by Age Group ............. 58
Figure 38: Malawi: Safety Nets at a Glance ................................................................................. 62
Figure 39: Estimated Total and Food Consumption ................................................................. 63
Figure 40: Drivers, Pressures, and Impacts of Environmental Degradation ............................... 68
Figure 41: Time Series: Mean Annual Temperature (°C), 34 CMIP5 Models, 1950–2097 ............ 69
Figure 42. Assets and Capital that Drive National Wealth and Development .............................. 71
Acknowledgements

This compendium of Policy Notes was prepared by a team led by Patrick Hettinger (Senior Country Economist and TTL). Core contributors included Priscilla Kandoole (Country Economist), William Battaile (Lead Economist), Angela Zeleza (Consultant), Colin Andrews (Program Manager), Salman Asim (Senior Economist), Collins Chansa (Senior Health Economist), Efrem Chilima (Senior Private Sector Specialist), Simon Croxton (Consultant), Time Fatch (Senior Agriculture Economist), Ross Hughes (Senior Natural Resources Management Specialist), Deborah Isser (Lead Governance Specialist), Sunganani Kalemba (Consultant), Josses Mugabi (Senior Water Supply and Sanitation Specialist), Kagaba Paul Mukiibi (Energy Specialist), Innocent Mulindwa (Senior Education Specialist), Chipo Msowoya (Social Protection Specialist), Valens Mwumvaneza (Senior Agriculture Specialist), Francis Nkoka (Senior Disaster Risk Management Specialist), Boban Paul (Young Professional), Michael Roscitt (Public Sector Specialist), Dhruva Sahai (Senior Financial Analyst), Miriam Schneidman (Lead Health Specialist), Nobuyuki Tanaka (Economist), Casey Torgusson (Senior Operations Officer), and Xiaolan Wang (Senior Operations Officer).

The team gratefully acknowledges the overall guidance of Bella Bird (Country Director), Greg Toulmin (Country Manager), and Abebe Adugna (Practice Manager MTI). The team wishes to thank Program Leaders Inaam Ul Haq, Yutaka Yoshino, and Andre Bald; and peer reviewers Jorge A. Coarasa (Program Leader), Simon Davies (Senior Economist), and Peter Goodman (Senior Agricultural Economist) for their constructive inputs. Tinyade Kumsinda (Team Assistant) provided production support. Anne Grant (Consultant) provided editorial support.

The findings and interpretations expressed here are those of the authors and do not necessarily reflect the views of the World Bank Group, its Executive Directors, or the countries they represent.

Cover photo: Power Substation in Dwangwa.
Executive Summary

Charting a New Course:
Priorities for a Vibrant Economy and Jobs
Policy Choices for Malawi 2019

The start of a new administration offers a tremendous opportunity for Malawi to build upon recent progress to move beyond a history of low growth and limited poverty reduction. This package of policy notes is addressed to Malawian society and to the beginning of a new administration following the May 2019 elections. It provides the World Bank’s diagnosis of Malawi’s main economic and social development challenges and charts a possible course to address them. The insights offered draw upon a wealth of analysis carried out in the past few years by the World Bank country team, including a comprehensive Systematic Country Diagnostic and a recent Country Economic Memorandum.

Malawi can chart a new course for a future where its people have higher incomes and more opportunities in a vibrant, more diversified economy. No longer should every weather shock carry a threat of hunger and dependency; instead, Malawi can position itself to harness and benefit from global economic trends. Since the 1950s, five factors have characterized countries that have achieved high, sustained, and inclusive growth (Commission on Growth and Development 2008):

- Macroeconomic stability,
- Leadership and governance committed to growth,
- Openness to trade and readiness to exploit global demand,
- High investment and savings, and
- A market orientation that allows prices to guide resources.

Sustained commitment to improving performance in each of these areas will be critical if Malawi is to sustainably increase growth and incomes.

Malawi has several advantages over its peers. It has been politically stable and conflict-free, with peaceful transitions of government. It has suffered no more weather-related or other external shocks than its neighbors. Since early 2017 it has also reduced exchange rate volatility and tamed inflation. These are key ingredients, which supported by significant development assistance, can help the country close its growth performance gap—for the last two decades, at 1.5 percent its GDP growth per capita has been half the 3.1 percent average for non-resource-rich Sub-Saharan African (SSA) economies.

The call is clear: Malawi’s political leadership must move beyond business as usual to break out of the cycle of crisis and vulnerability and put the country on a path to inclusive growth and job creation that will sustain its growing population. Malawi’s heavy dependence on rainfed agriculture certainly is a major factor in its economic volatility. However, its vulnerability to external and internal shocks has been exacerbated by weak governance and institutions that have contributed to cycles of economic crisis, corruption scandals, and food insecurity. The confluence of political and economic incentives has led to the promotion of domestically-oriented sectors such as government services, farm inputs, and construction that generate high rents but offer limited growth opportunities. This has stunted private
sector growth in more complex and export-oriented industries that could build the foundation for more sustainable growth and job generation.

**Malawi needs to increase growth and foster structural transformation to reduce poverty.** From 2010 to 2016, ultra-poverty\(^1\) declined from 24.5 to 20.1 percent, with preliminary analysis suggesting that this is in part thanks to effective social protection programs and the post-2016 food security response. Meanwhile, moderate poverty increased slightly, from 50.7 to 51.5 percent, partly a result of employment dynamics: Push factors are driving Malawians out of agriculture in search of extra sources of income as an expanding population leads to smaller plot sizes and lower soil quality. This underscores the need for Malawi to improve agricultural productivity while also fostering growth in other sectors that must eventually absorb a larger share of the workforce.

To develop a vibrant economy that offers more job opportunities, Malawi will need decisive leadership to adopt bold policies and carefully allocate limited fiscal resources to the areas that have the most impact on growth, job creation, and poverty reduction. This will require four fundamental steps:

1. **Strengthen macroeconomic policies and public service delivery** by committing to fiscal discipline, strengthening state-owned enterprise (SOE) oversight, sustaining central bank independence, and strong leadership to reinvigorate the public service and improve service delivery.
2. **Adopt a coordinated effort across government to change the government’s relationship with the private sector** by removing policy and institutional blockages to private sector development and investment, including in agriculture and non-agricultural sectors; and ensuring energy and water utilities effectively support more reliable access to energy and water services.
3. **Invest in human capital and reduce fertility** by strengthening the efficiency of education spending and targeting remote areas, scaling up access to family planning services, and strengthening maternal and child health interventions. Moreover, reducing Malawi’s very high fertility rates, particularly among adolescents, will reduce stunting and relieve pressure on limited land and government services.
4. **Invest in resilience to shocks** by committing to safety nets financing and implementing policies related to environmental management, climate change, and disaster risk management (DRM); and strengthening climate and information services. Reallocating public spending to more effective social protection systems can improve the poor’s resilience to increasingly frequent weather shocks. Improving DRM will also reduce Malawi’s vulnerability to weather shocks and contain fiscal risks.

**Theme 1: Improve macroeconomic policies and institutions for public service delivery**

**Stronger macroeconomic and fiscal policies will help Malawi better manage risks and will support sustainable, broad-based growth**

Poor economic policies and management have caused repeated episodes of macroeconomic instability that have undermined investment, growth, and poverty reduction. Weak institutions underlie fiscal slippages and wider policy implementation gaps. Budget planning and credibility are weak, with overly optimistic assumptions leading to frequent overruns. Fiscal risks, often related to SOEs, have also led to expenditure overruns. Government’s response to weather shocks has been reactive and short term, with ad hoc expenditure cuts and arrears, and relying on donors rather than making hard fiscal adjustments.

\(^1\) The Government of Malawi has two poverty measures – “moderate poverty” and “ultra-poverty.” Ultra-poverty is calculated in reference to a national poverty line measuring the consumption level needed to satisfy daily calorie requirements, which is about US$0.82 in 2011 PPP. The moderate poor are those with household expenditure per capita below the total poverty line (a sum of the food and non-food poverty lines) of US$ 1.32 in 2011 PPP.
This has led to persistent fiscal deficits, which have been funded by high-cost domestic borrowing, which has further reduced fiscal space for development expenditure. High levels of public domestic debt, and until recently high inflation, contributed to high interest rates, constraining private sector credit growth and investment.

The good news is that when incentives are aligned, reforms have been delivered, and public confidence can be restored by demonstrating strong support for sound economic and public financial management. Malawi has made significant progress by taming exchange rate depreciation and high inflation since early 2017. The new government now has a golden opportunity to sustain recent macroeconomic stability by institutionalizing commitment mechanisms to counter the inevitable political pressures. Stronger fiscal management will be the lynchpin for success. A track record of macroeconomic stability, low inflation, and fiscal discipline will attract investment, crowded in by improving public investment management to deliver much-needed infrastructure and other public goods.

To achieve these reforms, a new administration should in the first year:

- Instill fiscal discipline by strengthening political commitment to realistic budgeting and staying within budget.
- Strengthen SOE oversight, financial management, and accountability with comprehensive and transparent financial reporting and monitoring.
- Sustain central bank independence to support lower inflation, a stable exchange rate, and reduced interest rates.

In the medium term, the government should also:

- Rationalize expenditures to create fiscal space for responding to shocks.
- Increase public investment and improve public investment management.

Strong leadership and institutions are essential to improve service delivery to the poorest

Malawi’s past public sector reform efforts have shown that reform is ineffective without the highest levels of leadership committing to overhaul incentives and enforcing standards of integrity and performance. Lessons from other countries show that strong and clear leadership can overcome legacies of poor public performance. To do so, it must be ready to reward performance and sanction abuse. With that commitment and demonstration of ‘getting the basics right’, a range of public sector modernization reforms can, over time, restore Malawi’s civil service to its previous high level of effectiveness. While this can be difficult to achieve across the board, successful countries have invested in ‘pockets of effectiveness’ to progress priority areas and demonstrate what can be done. The new administration should avoid both sweeping and piecemeal reform plans. Instead it must focus first on demonstrating credible commitment to enforce the basics and restore confidence, and second, on investing in select areas of performance that will yield concrete results.

The new government should focus on translating achievements at the central level into more effective local service delivery locally by building on recent decentralization momentum. Decentralization policies recognize a general public sense of grievance over the poor quality and quantity of basic services and a general belief that decentralization is the best route to more efficient and effective public services and socioeconomic development projects. However, as yet there is little collective capability to press forward. More workable arrangements need to be institutionalized between central line ministries and local authorities. Currently local governments struggle to meet heightened expectations because fiscal transfers are lower than agreed and their disbursement is not predictable. Citizen engagement must also be harnessed to spark political change to confront corruption and increase accountability in Malawi.
To bring about these changes, the new administration should in the first year:

- Get the basics right in public service and signal commitment to integrity and enforcement of rules and procedures by:
  - Appoint and support merit- and performance-based senior management officials;
  - Hold controlling officers accountable for the management of public finances and staffing;
  - Sanction those who divert or waste public monies; and
  - Make clear what is expected and recognize, encourage and reward staff who perform well.
- Act to ensure stable and equitable deployment and management of human resources, particularly in health and education.
- Strengthen service delivery through measures for effective and accountable decentralization.

In the medium term, the government should:

- Invest in effective and accountable systems to manage public resources including improved coordination between central government and local authorities.

**Theme 2: Unlock the potential of the private sector**

*Transforming the economy and increasing growth is key to develop a vibrant economy and create jobs*

Malawi needs to strengthen efforts to increase growth and foster structural transformation that will provide higher incomes for its population. Macroeconomic instability has historically undermined growth and public and private investment by increasing inflation and interest rates as well as reducing viable investment opportunities. Major constraints to doing business include limited public investment in energy and water supply, which constrains value addition. High transport and trade costs create a further impediment, particularly due to Malawi’s landlocked status and small market. They limit investment and FDI, reduce competitiveness, raise the cost to acquire low-cost inputs, and impede the growth of small-scale value-addition to agricultural products. A generally challenging business environment also constrains growth, with regulation and taxation opaque and uncertain. This constrains efforts to level the playing field, attract high-quality long-term investment, and to create jobs in profitable sectors.

Relative economic stability since 2017 offers Malawi several opportunities to break out of its repeated cycles of crisis and to increase growth and incomes: (1) By increasing value addition, particularly in agriculture, Malawi can gradually upgrade its exports from raw and semi-raw commodities to higher-value goods and services. (2) Regional integration and export promotion can support economic diversification. (3) Strengthening urbanization policies and urban-rural linkages would support structural change. (4) Finally, Malawi can better leverage the potential of digital technology to boost productivity.

Thus, in the first year, the new administration should:

- Adopt a coordinated effort across government to change the government’s relationship with the private sector. This should aim to develop an investment climate and sectoral regulatory frameworks that can attract higher-quality investment and facilitate the creation of better jobs in profitable, diverse sectors.

In the medium term, the government should also:

- Address key constraints in the quality of and access to backbone services by (1) expanding access to finance; (2) enhancing the reliability of energy and water supply; (3) reducing transport and trade costs; and (4) leveraging the potential of ICT.
- Initiate policies to better leverage urbanization to support structural transformation.
- Improve the skills of the workforce by enhancing education quality and private sector linkages.
Increasing agricultural productivity and diversification is needed to increase incomes and feed the growing population

Agriculture, the backbone of Malawi’s economy, is central to increasing economic productivity and incomes. However, its productivity is low because of its dependence on a single rainy season, lack of diversification, low soil fertility, and weak links to markets. The reliance on rain-fed agriculture is highly risk prone, particularly given increasingly frequent weather shocks. To date, growth in agriculture has mainly been driven by increasing land under cultivation and labor. However, given one of the highest population densities in Africa, high population growth, and shrinking farm sizes—the median plot is 0.8 hectares—the gains from continuing adhering to business as usual may have reached their limit.

Inefficient public expenditure has contributed to the persistence of low agricultural productivity. Heavy subsidies for maize fertilizer through the Farm Input Subsidy Program (FISP) crowd-out investments that could increase productivity and promote diversification. Unpredictable market distortions further undermine productivity and commercialization. Markets are often distorted by interventions by ADMARC—which itself often needs government bailouts. The ad hoc imposition of export bans has further discouraged commercial investment. While a Control of Goods Bill was passed in 2018 to help create a more predictable and transparent trade environment, it has not yet gone into effect because drafting of the necessary regulations has been slow.

To increase agricultural productivity, the incoming administration should in the first year:
- Remove restrictions and establish transparent, predictable trade policies to improve agricultural markets and stimulate production and exports.
- Release successful technologies and enforce seed policy regulations.

In the medium term, the new administration should:
- Accelerate reforms to the FISP and redirect spending to priority areas.
- Embrace and disseminate through extension services other technologies, particularly ICT.

Improving access to and the quality of energy and water services is critical for diversification

Electricity and water shortages have a high cost for firms and are increasingly problematic. Malawi’s installed energy generation capacity falls far short of demand, leading to regular blackouts, and at 11 percent access is limited. Moreover, heavy reliance on hydropower makes the system susceptible to weak rains. Currently, however, 87 percent of Malawians have access to improved water supply and 44 percent to improved sanitation—supply gaps are due to high population growth, dwindling and increasingly vulnerable water resources, and lagging infrastructure development.

Both energy and water sectors face two major interrelated challenges—lack of financing for infrastructure and inefficient service providers. These are aggravated by weak sector governance frameworks, with excessive state representation constraining decision making. This leads to weak financial management, which cripples sector operations and heightens fiscal risks.

To improve energy and water access, the new administration should:
- Improve financial and operational performance of utilities by linking financing to verifiable improvements in efficiency.
- Strengthen corporate governance and institutional framework of utilities by establishing autonomy and accountability.

As a priority in the medium term, the new administration should:
- Increase public and attract private investment in generation and transmission.
Theme 3: Invest in human capital and reduce fertility

Improving education access, quality, and equity is needed to enhance human capital

In recent years Malawi’s education system, particularly at the primary level, has expanded rapidly while attempting to match high population growth, but its capacity has not increased proportionately. The system has been overstretched in terms of classrooms and infrastructure, staffing, and teaching and learning materials, and these are all inequitably distributed. As a result, Malawi’s learning outcomes compare unfavorably with the rest of the region. They also vary widely within the country, with negative impacts on the poor, those in remote locations, and the disadvantaged. Access to secondary education is still among the lowest SSA: only 15 percent of secondary school age children are enrolled, and those attending are heavily skewed to wealthier Malawians. As a result, secondary student learning outcomes, like primary, are highly inequitable.

Malawi spends considerably more on education (5.4 percent of GDP) than the SSA average (4.8 percent), and at 21.5 percent, education receives the highest share of the total government budget. Public spending per student has also been rising. However, close to 80 percent of funding goes to personnel, of whom 75 percent are teachers. Yet funding is highly inefficient; for example, class sizes in lower grades are significantly larger, worsening repetition, which deepens overcrowding.

To improve education outcomes, the new administration should:
- Implement efficiency-enhancing policies including on automatic promotion in lower primary, targeted deployment and retention of teachers, and provision of low-cost learning shelters.
- Develop a sustainable secondary education expansion plan anchored in sound policy reforms.

In the medium term, the priorities should be to:
- Expand access to secondary education for poorer girls; and develop targeted policy tools to reduce disparities in school conditions & staffing.
- Adopt low cost options to deliver secondary education - such as public-private partnerships (PPPs) and Open-Distance Learning (ODL).

Addressing high fertility and reducing stunting will support economic growth and strengthen human capital

Population growth averaging about 3 percent is a considerable barrier to Malawi’s economic growth and human capital development. Households find it difficult to educate as well as feed their children; the government must find resources to expand health care and education to more people; and agricultural productivity is already strained by ever-smaller plots of deteriorating land. The prevalence of early marriage and childbearing gives Malawi one of the highest rates of adolescent fertility in eastern and southern Africa. High fertility rates are also associated with stunting—which only recently fell to 37 percent, and which further undermines educational attainment, productivity, and lifetime earnings.

Accelerating the demographic transition in Malawi could bring about powerful shifts in the age structure, which would promote economic growth and poverty reduction. By 2050 lower fertility could lift over 8.0 million Malawians out of poverty. Reinforcing gender equality and women’s empowerment is critical to shaping childbearing decisions and child care practices, with potential benefits in reducing fertility and stunting.
To promote lower fertility and reduce stunting, the new administration should in the first year:

- Scale up access to high-quality, affordable family planning and reproductive health services, including piloting approaches that target adolescents.
- Strengthen maternal and child health, nutrition, and early learning interventions to improve child survival and development.

In the medium term, priorities for the new administration should be to:

- Intensify social and behavior change communications and social marketing to continue shifting norms on childbearing in a culturally sensitive fashion.
- Expand access to secondary education for poorer girls.

**Theme 4: Invest in resilience and develop better systems for managing shocks**

*To radically improve livelihoods and resilience for the poorest, Malawi can transform its safety net through committed government leadership and improved donor coordination*

Safety nets are increasingly important in promoting equity, strengthening resilience, and enhancing human capital. However, despite Malawi’s high poverty rates, its current spending on safety net programs is barely half the SSA average, and is significantly lower than its other poverty reduction and relief programs. Nonetheless, with significant donor support, in the coming months the Social Cash Transfer Program will become fully operational throughout Malawi, increasing coverage to about 12 percent of the population and almost 40 percent of the ultra-poor.

There is fiscal space to devise a sustainable financing strategy for Malawi’s safety net program. Given Malawi’s overwhelming dependence on development partner support, the financing of safety nets is not sustainable at current levels. However, to establish a more sustainable financing strategy, there is scope to (1) reallocate resources away from less-effective poverty reduction initiatives, particularly the FISP; (2) redirect humanitarian financing toward safety net initiatives; (3) there are also opportunities to explore contingency or reserve financing mechanisms to make the safety net system more resilient to shocks.

The new administration should move promptly to:

- Commit to a national financing strategy for an adequate, sustainable social protection system.
- Design social safety nets that can be scaled up during shocks.

In the medium term, the new administration can:

- Improve the mix of safety net programs to increase efficiency and inter-linkages and gradually reducing Malawi’s dependence on humanitarian aid.

*Malawi needs to take urgent action to stop its alarming cycle of environmental decline and increase resilience to increasingly frequent natural disasters*

Climate change, high population growth, and a vicious cycle of natural resource degradation threaten Malawi’s natural resources. The results already are deteriorating land quality, disappearing forests, ever-scarcer water, declining fish stocks, reduced biodiversity, and an increasing number of natural disasters.

There are, however, numerous roadblocks on Malawi’s road to resilience. These include delays in policy and legislation and inadequate climate information systems and weather forecasting. Weak institutional capacity further frustrates the implementation process, as does the slow pace of decentralization. Poorly designed farm subsidies such as FISP have failed to encourage the sustainable land management (SLM)
practices necessary to reduce land degradation and address other environmental challenges. They have also been hugely costly.

**Improving environmental and disaster risk management is expensive, and the government does not have the resources to do so effectively.** PPPs could attract much-needed private sector investment in environmental management. Currently, Malawi’s economic planning does not account for natural capital and, as a result, institutions lack evidence to justify prioritizing management of this crucial wealth asset.

The new administration should in the first year:
- Implement and harmonize policies related to environmental management, climate change, DRM, and land to promote a systematic approach to resilience building.
- Strengthen weather and climate information services including improving flood and drought forecasting and building effective early warning systems.

In the medium term, the new administration can:
- Leverage private investment to address environment challenges, using successful PPPs as models.
- Accelerate and support decentralization of environmental management.
Macroeconomic Policies to Support Growth

Key Messages

- Despite decades of development efforts, Malawi’s economic growth has been weak and volatile. Over the past two decades, real gross domestic product (GDP) growth per capita has averaged about 1.5 percent, far below the 3.1 percent average in other non-resource-rich Sub-Saharan African (SSA) economies, which constrained poverty reduction.
- Frequent expenditure overruns and revenue shortfalls have resulted in recurring high fiscal deficits. This has led to a substantial accumulation of domestic borrowing at high interest rates, contributing to high interest costs, which reduces fiscal space and can also crowd out lending to the private sector.
- Malawi needs to instill fiscal discipline by strengthening political commitment to realistic budgeting and spending within budget. This will help reduce high borrowing costs and increase public and private investment.
- Strengthening oversight of state-owned enterprises (SOEs) will also help reduce fiscal risks.
- Malawi’s currently stable exchange rate and modest inflation can be supported moving forward by sustaining recent progress on central bank independence.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>5.2</td>
<td>5.7</td>
<td>2.8</td>
<td>2.5</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Consumer prices (annual average, %)</td>
<td>27.3</td>
<td>23.8</td>
<td>21.9</td>
<td>21.7</td>
<td>11.5</td>
<td>9.2</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>(0.5)</td>
<td>(5.7)</td>
<td>(5.7)</td>
<td>(6.1)</td>
<td>(4.8)</td>
<td>(7.8)</td>
</tr>
<tr>
<td>Credit to the private sector (percent growth)</td>
<td>14.4</td>
<td>20.0</td>
<td>29.9</td>
<td>4.6</td>
<td>0.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Months of import cover</td>
<td>2.0</td>
<td>3.1</td>
<td>3.4</td>
<td>2.9</td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Exchange rate (MWK per US$ average)</td>
<td>369.2</td>
<td>424.4</td>
<td>499.6</td>
<td>714.8</td>
<td>727.5</td>
<td>729.4</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>–8.7</td>
<td>–8.5</td>
<td>–9.2</td>
<td>–14.7</td>
<td>–11.3</td>
<td>–10.9</td>
</tr>
</tbody>
</table>

Sources: World Development Indicators, MFMod, MoFEPD, RBM and IMF.

Context

Repeated episodes of macroeconomic instability have had negative implications for Malawi’s long-term growth and for poverty reduction. They have contributed to persistently high poverty rates, and to Malawi’s growth falling behind regional peers. Growth and investment have historically been undermined by macroeconomic instability; from 2011 to 2016 Malawi saw its exchange rate depreciate rapidly and inflation regularly rise above 20 percent, which led to some of the highest interest rates in the region. However, since early 2017 Malawi has been enjoying relative stability, with exchange rate stability and inflation down to single digits.

Exogenous, climate-induced shocks are a major source of vulnerability, exacerbating macroeconomic instability and making it harder for Malawi to break out of the cycle of vulnerability. As a small, open economy with an undiversified production and export base and a heavy dependence on aid, Malawi is vulnerable to droughts, floods, and other weather shocks; terms-of-trade shocks such as rising oil and fertilizer prices and lower tobacco prices; and sudden, steep declines in capital inflows, including external aid. Weather shocks invariably depress harvests and thus slow economic activity linked to agriculture. That in turn depresses government revenue, which, accompanied by higher spending on relief to the
weather-affected poor, has in the past often destabilized government budgets. The most common response has been to delay adjustment and manage somehow while awaiting external aid.

However, as much as external shocks explain instability, poor economic policies and management have played an even stronger role. Recurring issues in Malawi’s economic management during episodes of instability have been weak fiscal management, budgetary indiscipline, and weak expenditure control, soft budget constraints, and poor budget planning based on overly optimistic assumptions that often leads to overruns. Rather than making hard fiscal adjustments, government has reacted to shocks with such short-term responses as ad hoc expenditure cuts, accumulation of arrears, and reliance on donors. Weak institutions underlie fiscal slippages and wide policy implementation gaps.

Frequent expenditure overruns and shortfalls in revenues and grants have resulted in recurring high fiscal deficits (Figure 1). This has led to a substantial buildup of domestic borrowing at high interest rates in recent years, contributing to high interest costs—over 90 percent of Malawi’s interest costs are for domestic debt—which reduces fiscal space and can also crowd out lending to the private sector. Almost all the fiscal space created after the 2006 Highly Indebted Poor Countries Initiative debt relief has now been eroded (Figure 2).

**Figure 1: Recurrent spending overruns widen the fiscal gap...**

Percent of GDP, 2007–2018

**Figure 2: ...increasing debt.**

US$ billions, 2005–18

Source: World Bank staff based on M0FEPD data. Source: World Bank staff based on DSA data.

An increasingly heavy expenditure burden, the withdrawal of budget support, and low and unstable economic growth have created a vicious cycle of dependence on domestic debt. Historically, the largest source of domestic borrowing was the Reserve Bank of Malawi (RBM), which accounted for almost 50 percent of total domestic borrowing. This monetary accommodation of demand for fiscal resources was not only inflationary but it also takes the pressure off the executive to stay within prudent budgetary limits. In 2018, however, RBM stopped financing deficits, and the government has shifted its borrowing from the RBM to commercial banks and nonbank pension funds, insurers, and discount houses. Though less inflationary, the move to the market risks an increase in interest rates and could crowd-out private investment. By the end of FY 2017/18 Malawi’s total public debt had reached 57.7 percent of GDP, 40 percent of which was external public debt. The most recent joint World Bank and International Monetary Fund (IMF) Debt Sustainability Analysis (DSA) assessed Malawi’s external debt as at moderate risk of debt...
distress but with some room to absorb shocks. Malawi’s overall risk of distress is high, mainly reflecting the increasing levels of domestic debt at high interest rates in recent years.

**Inflation in Malawi has been significantly higher than the regional average, with inflationary pressure continually undermining economic growth.** High budget deficits with recourse to central bank financing, as well as a volatile exchange rate, exacerbated inflationary pressure. Also, with frequent weather shocks leading to weak harvests, food inflation, which constitutes about half of the national consumption basket, has been a key driver of headline inflation. Maize accounts for a large share of that basket, especially in rural areas; thus, most Malawians are exposed to movements in maize prices.

**After six years of double-digit inflation, since mid-2017 year-on-year headline inflation has receded to single digits, reaching 9.2 percent in 2018.** Although headline inflation is stable and has been supported by the stability of the Kwacha against the United States dollar (US$), food inflation may go up in response to an increase in maize prices during the lean season. There may also be pressure on nonfood inflation arising from high utility costs due to power outages and upward revisions in water and electricity tariffs.

![Figure 3: The Kwacha has been stable, supported by reserves.](image)

**Figure 3: The Kwacha has been stable, supported by reserves.**

MWK/US$ (LHS), months of imports (RHS), 2015–18.

![Figure 4: Headline inflation, though down to single digits, is still high for the region.](image)

**Figure 4: Headline inflation, though down to single digits, is still high for the region.**

Headline inflation y-o-y, percent

Source: World Bank staff; data from national statistical offices.

The RBM has maintained a tight monetary policy stance. It held the policy rate at 16 percent from December 2017 to January 2019, when it was reduced to 14.5 percent, and then in May to 13.5 percent. The RBM continued to mop up excess liquidity and keep the interbank and policy rates close. As a result, growth in money supply has been consistent with growth in nominal GDP.

Until recently, high inflation contributed to some of the highest interest rates in the region. However, with inflation down, from late 2016 to early 2018 interest rates also declined. They declined further in early 2019, in line with RBM’s monetary policy movements (Figure 5). In January 2019 RBM instructed commercial banks to use the Lombard rate as the base lending rate, which was refined to a weighted average of interest rates in May 2019. These changes aim at ensuring stronger transmission of monetary policy actions to lending rates.

**Even with inflation and interest rates declining, lending to the private sector is still weak.** Growth in credit to the private sector picked up to 11.1 percent in nominal terms in March 2019 but is still flat in real terms (Figure 6). The challenging business environment, with energy shortages exacerbating the tax and
regulatory burdens, has negatively impacted credit growth. Lending to the government has gone up generally, but with the government avoiding recourse to RBM financing and RBM unwinding its holdings of government securities, as of March 2019 commercial bank holdings of government securities increased by 182 percent and nonbank holdings by 139 percent y.o.y. This spike in domestic lending to the government could have a negative impact on growth in credit to the private sector, as well as raising concerns about the sustainability of government debt.

Despite minimal growth in lending to the private sector, banks remain resilient. On average their NPLs have been declining steadily, from 15.7 percent in December 2017 to 5.8 percent in February 2019. The banking sector is generally profitable; return on equity and return on assets both went up in 2018—they had become temporarily negative in January, reflecting a spike in provisioning for NPLs, and the recapitalization exercise that took place toward the end of 2017.

**Figure 5: Interest rates have recently declined, 2016–19**

![Interest rates, percent](image)

Source: World Bank staff based on RBM data.

**Figure 6: Credit to the private sector has been stagnant as public borrowing increases, 2015–19**

![Credit to the private sector and government borrowing](image)

Source: World Bank staff based on RBM data.

**Policy changes are needed to reduce structural constraints on export growth.** The current account deficit is estimated to have narrowed slightly, from 11.3 percent of GDP in 2017 to 10.9 percent in 2018, assuming agricultural exports improved. However, the potential for weather shocks in any year can increase the need for food imports. The medium- to long-term agenda for Malawi should be diversification away from dependence on commodities, which are vulnerable to external shocks.

**The generally challenging business environment has undermined efforts to develop the private sector and its jobs potential.** Despite a relatively stable economy since 2017, the private sector has not yet grown as expected. The country’s competitiveness indicators and rankings are poor. In the 2019 Doing Business report, Malawi ranked 111th of 190 countries in ease of doing business, down from 110th in 2018. The obstacles to private sector growth and performance cited most often are lack of access to financing, unreliable electricity, and corruption.

**Nor does Malawi fare well in comparison to her neighbors.** Unlike most other countries in SSA, the pace of Malawi’s economic growth is subdued. SSA excluding South Africa, Nigeria, and Angola is estimated to have had record robust growth in 2018, averaging 5.4 percent of GDP, above the 2.7 percent average growth rate for SSA (Figure 7). Malawi’s current growth is projected to remain positive, but still trailing
the rest of the region, at a moderate 4.5 percent, and picking up to 5-5.5 percent in the medium term. Growth in 2018 was weaker due to lower agricultural output because of dry spells and a Fall armyworm infestation; poor industry and services performance due to unreliable power supplies challenges; and a generally unsupportive business environment (Figure 8).

**Figure 7: Malawi’s economy is growing more slowly than its peers...**

Real GDP growth, 2015–20, percent

![Graph showing GDP growth]


**Volatile growth has made it difficult for Malawi to meaningfully reduce poverty.** The continuing significant impact of weather shocks on the economic cycle is compounded by population growth, environmental degradation, and distortionary policies. In the most recent poverty estimates, ultra-poverty rates have declined significantly, but more than 50 percent of Malawians are still in moderate poverty, with the rates rising slightly in rural areas in recent years. From 2010 to 2016, ultra-poverty declined from 24.5 to 20.1 percent, with most of the decrease in rural areas (Figure 9). Preliminary analysis suggests that this is in part thanks to effective social protection programs and the post-2016 food security response. Nationally, from 2004 on the moderate poverty rate declined from 52.4 to 50.7 percent before rising slightly to 51.5 percent in 2016 (Figure 10). However, in rural areas, moderate poverty has been steadily increasing since 2004, reaching 59.5 percent in 2016. The decline in ultra-poverty has helped reduce inequality nationally since 2010.
Malawi’s real GDP per capita has averaged 1.5 percent, below the 3.1 percent average for non-resource-rich SSA economies over the past two decades. It remains an outlier even compared to peers that are geographically and demographically similar and were at a similar stage of development in the mid-1990s. Moreover, economic growth has barely been above population growth. Malawi thus needs to sustain significantly higher rates of growth if it is to improve its development prospects, especially prospects for increased investment. Investment in Malawi has been low, due mainly to both the significant macroeconomic instability resulting from the government’s inability to manage shocks and the several policy-induced shocks.

Challenges and Opportunities

**Increasing fiscal restraint is vital to support growth.** Government’s ability and commitment to reversing the recent fiscal slippages would reduce fiscal deficits and reliance on high-cost domestic borrowing, which would help lower interest rates and increase access to finance. It will thus be crucial for the administration to resist spending pressures. Continued vigilance is especially required to control the wage bill and to reduce the high levels of domestic borrowing in order to reduce interest payments and expand fiscal space for development spending. Also important will be avoiding the accumulation of arrears, which have undermined past budgets.

Malawi also must deal with multiple fiscal risks that in recent years have led to expenditure overruns. A major risk is posed by SOEs, which experience frequent mismanagement of their finances, thereby jeopardizing public finances generally through operational losses, arrears, and accumulation of contingent liabilities. The government has periodically guaranteed loans to SOEs that have posed financial risks, such as the Agricultural Development and Marketing Corporation (ADMARC), the Electricity Supply Corporation of Malawi (ESCOM), and water boards. When they have defaulted, the government has bailed them out. For example, in 2017/18 the bailout of ADMARC alone cost the economy 1 percent of GDP in unplanned spending.

**Additional fiscal risks relate to recurring weather shocks.** These may disrupt agricultural production and consequently have a negative impact on growth prospects and poverty reduction efforts. Furthermore, volatility in global prices for Malawi’s agricultural exports and in global prices for oil imports could cause the country’s terms of trade to deteriorate, contributing to destabilize foreign exchange reserves and increase inflationary pressure. It is therefore imperative that the government take advantage of the
current macroeconomic stability to invest in building resilience. This could be done by investing in risk mitigation and disaster risk financing, complemented by agricultural and economic diversification, and by incorporating management of fiscal risks into the budget process.

**Strengthening the effectiveness of public investment will also be necessary to support growth.** Low public investment has been compounded by poor public investment management. Returns from domestically-funded public investment are undermined by weak cost-benefit analysis, unpredictable funding, opaque procurement processes, weak project management and implementation, and ineffective monitoring, evaluation, and oversight (IMF 2018).

**Historically RBM has funded government deficits, but this stopped early in 2018, giving strong support for macroeconomic stability.** Past RBM financing of government deficits contributed to exchange rate volatility and inflation. The RBM Act, reinforcing the central bank’s independence, was passed in late 2018; sustaining that independence will be critical to continuing macro-stability.

**High public domestic debt, and until recently high inflation, contributed to high interest rates, constraining credit growth.** Interest rates have ranged from 22 to over 30 percent for banks, and as high as 300 per cent for MFIs. Additional factors pushing up interest rates are high bank operational costs, profits, and reserve requirements. Lending to the private sector is further constrained by collateral requirements, a shortage of financial products tailored to MSMEs, loans to which usually have only 12-month terms, and predominantly short-term working capital finance.

**Bank penetration is low, mostly serving people and enterprises in cities and leaving the majority of the poor unserved.** The capital market is at a nascent stage, with few listings and low liquidity. The non-banking sector is growing but small and is dominated by small insurance sector and a growing pension sector. Credit and concentration risks are a serious challenge for the pensions industry, together with uncollected contributions by employers and a dearth of investment channels.

**With the macroeconomic environment fairly stable, the government has an opportunity to realign its efforts.** It can use the opportunity to launch medium-term structural reforms to build resilience to climatic shocks and potentially raise the rate of medium-term growth. This calls for investments in the country’s processes, systems, procedures, and institutions. These investments should be implemented in the context of a robust Medium-Term Expenditure Framework. Diversifying agricultural production beyond rain-fed maize would be very important to this process. Measures for managing natural disaster risks should also be systematically incorporated into the budget process, among them increased investment in risk mitigation and disaster risk financing. Disaster risks should also be analyzed in the context of a fiscal risk statement, building-in buffers to enable a flexible response to the fiscal costs of natural disasters.

### Immediate policy options for impact in the first year

- **Action 1:** Instill fiscal discipline by strengthening political commitment to realistic budgeting and staying within budget. Malawi has sufficiently well-designed institutions for budget planning and execution. Yet past economic crises have all been occasions for revisiting budgetary and financial management institutions, with strong support from development partners. But unless there is a strong political commitment to realistic budgeting and spending within the budget, reforms in technical design would only be feel-good solutions without real impact. Fiscal consolidation is necessary to reduce budget deficits and avoid costly domestic borrowing. Government should also resist large unbudgeted expenditures that derail fiscal plans. Borrowing should be limited to concessional financing to avoid recourse, as in the past, to high-interest domestic financing or semi-concessional foreign borrowing. Disaster risks should be analyzed in terms of fiscal risk, with built-in buffers to enable a flexible fiscal response to natural disasters. It will also be necessary to address
overly-optimistic revenue assumptions based on unrealistic growth assumptions that have also been a source of fiscal imbalance.

❖ **Action 2: Strengthen SOE oversight, financial management, and accountability.** The government should reinforce SOE governance structures to improve efficiency and avoid the accumulation of arrears and contingent liabilities. Poor oversight and inadequate financial reporting have made it difficult to monitor and manage the fiscal risks arising from SOEs. Mitigating these risks will require more transparent SOE finances and market operations.

❖ **Action 3: Sustain RBM independence.** The new RBM Act is a solid step forward, and sustaining RBM independence will support lower inflation and interest rates, and a stable exchange rate. These are foundations to a supportive business-enabling environment.

### Policy options for the medium term (1–5 years)

❖ **Action 1: Rationalize expenditures to create fiscal space to respond to shocks without endangering macroeconomic stability.** While Malawi has large financing needs in a range of sectors, its resources, both domestic and foreign, are limited. Resources should therefore be invested in areas where they can achieve the greatest impact. Expenditures need to be carefully prioritized if the government is to live within its means and avoid excessive recourse to domestic borrowing. This will require difficult policy discussions about how to realign spending, but it is the only way to move toward an economy in which inflation and interest rates can remain in single digits—the most effective way to expand access to finance. Having more spending flexibility would also help create more fiscal space to make investments to support private sector growth. Ultimately, Malawi may need to reduce some spending permanently. Steady-state expenditures need to be firmly linked to domestic resources rather than the amount of aid.

❖ **Action 2: Increase government investment and strengthen public investment management.** Over-spending on the recurrent budget has been the single largest contributor to fiscal slippages, though to some extent offset by cuts to the development budget. Government capacity to respond to a crisis is largely constrained by statutory obligations, where spending is required on wages and salaries, pensions and gratuities, and debt service. It is therefore important to rethink policies to allow productive investment to flourish and allow Malawi to escape its low-level equilibrium. The combination of the high cost of financing and low returns on investment suggests a possible macroeconomic growth trap. With more public investment, better management of public investment is therefore critical to support growth.

❖ **Action 3: Fiscal and borrowing rules, if drafted and owned locally, could help establish norms for prudent limits on public spending.** Adopting fiscal rules could help establish consensus on an appropriate and more shock-resistant fiscal framework. The rules might include, for example, a cap on recurrent spending, linked to the amount of domestically generated resources; minimum contingency allowances in the annual budget; and primary deficit targets over the economic cycle. However, the impact of fiscal rules would depend on their broad ownership throughout government and by political parties, based on a common understanding of what fiscal indiscipline is costing Malawi’s development. Similarly, borrowing rules or a debt anchor could help establish norms, perhaps by limiting domestic borrowing to short-term smoothing of consumption.
Strengthening Institutions to Deliver Results

Key Messages

- Governance and Public Financial Management (PFM) reform efforts in Malawi have historically suffered from an ‘implementation gap.’ Technically strong reforms and legal frameworks are often adopted, but far too often are not enforced in practice.
- Strong and clear leadership can overcome poor public performance and help ‘get the basics right,’ but it must be ready to reward performance and sanction abuse.
- Reforms can be prioritized by focusing on those that improve service delivery for the poorest. This will require coordinated, problem-driven reforms at both the central and subnational levels.
- The new administration should deepen decentralization. This has already led to more timely salary payment, increased local access to development funds, and new channels for local feedback.
- Strengthening fiscal management across levels of government is the first step needed to improve the use of development funds.
- Last-mile service delivery can be strengthened by investing in tools and systems for citizen engagement. These can promote an environment for public accountability and reduce corruption by increasing transparency, inclusion, and new pathways for monitoring and oversight.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2012</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control of corruption, WGI*</td>
<td>36</td>
<td>38</td>
<td>24</td>
</tr>
<tr>
<td>Government effectiveness, WGI</td>
<td>36</td>
<td>38</td>
<td>23</td>
</tr>
<tr>
<td>Regulatory quality, WGI</td>
<td>33</td>
<td>27</td>
<td>20</td>
</tr>
<tr>
<td>Public trust in politicians, GCI, out of 7</td>
<td>2.98</td>
<td>2.67</td>
<td>1.9 (2017)</td>
</tr>
<tr>
<td>Institutions, GCI, out of 7</td>
<td>4.17</td>
<td>3.72</td>
<td>3.5 (2017)</td>
</tr>
<tr>
<td>Public management, IIAG, out of 100</td>
<td>52.3</td>
<td>49.5</td>
<td>48.8</td>
</tr>
<tr>
<td>Handling improvement of basic health services (% responding fairly/very well), Afrobarometer</td>
<td>73%</td>
<td>65%</td>
<td>40.6%</td>
</tr>
</tbody>
</table>

Sources: Worldwide Governance Indicators; Global Competitiveness Index (World Economic Forum); Ibrahim Index of African Governance (Mo Ibrahim Foundation); Afrobarometer.

*Note: WGI: World Governance Indicators; GCI: Global Competitiveness Index; IIAG (Ibrahim Index of African Governance).

Context

In the past several decades Malawi has undertaken a series of efforts to strengthen governance and institutions – but the failure to implement these reforms in practice continues to hamper development progress. In the aftermath of Cashgate the underlying weakness of the overall control environment, notwithstanding decades of reform efforts, were laid bare. The last administration acknowledged deep politicization, ineffective performance management, unfair career progression and widespread impunity for wrongdoing in the public service in launching its flagship strategy Making Malawi Work in 2015. The poor performance of the public sector has been characterized by the weak enforcement of laws and regulations and a focus on form rather than function. While there is a general outward semblance of a modernized system of economic governance, the underlying political and institutional barriers to change persist. On the surface, Malawi’s laws and policies are generally sound, but these are often not accompanied by the necessary commitment mechanisms and incentives to effectively shape behavior.
This is partly due to inappropriate technical design of policies, but also to an incentive system that discourages compliance. This results in a wide implementation gap between the formal rules and policies and their implementation in practice.

**The impact of these dysfunctions is evident in service delivery and human development outcomes that have been undermined by persistent governance bottlenecks and corruption.** Over the past two decades, Malawi has made significant progress in the areas of maternal and child mortality and primary school enrollment rates, largely due to donor interventions and the free primary school initiative. However, there are significant limitations in the coverage, access, and quality of public services. The very low ratios of medical workers and teachers to the population are exacerbated by inequitable distribution and by poor links between pay and performance. According to Afrobarometer, citizens’ perceptions of the government’s handling of basic health and education services and water and sanitation services have been declining for a decade. Over the same period, other key indicators of government effectiveness, including control of corruption, regulatory quality, and trust, have also fallen.

**Nevertheless, the current PFM Reform Program, approved in January 2015 and prepared with the support of the IMF and the World Bank, has achieved some tangible results.** It has re-established centralized monitoring and control of expenditures and commitments; buttressed budget control by enforcing monthly fiscal reporting, publishing budget execution, establishing a Cash Management Unit to better align spending with available resources, increased the coverage of transactions under IFMIS, and clearing arrears in reconciliation of government accounts. To address the longer-term structural issues that have eroded the effectiveness of Malawi’s public sector, the government set up an independent Public Service Reforms (PSR) Commission. Its findings, which were reported in February 2015, laid the foundation for a continuing public service reform program based on deepening decentralization. As with previous reform efforts, there is a serious risk that these, too, will be superficial and reversible. Nonetheless, there is a clear opportunity to engage in ways that align with local incentives, publicize service delivery results, and institutionalize reforms in ways that resist reversal and that begin to change state-citizen relations through a more responsive social contract.

**To translate the achievements at the central level into more effective service delivery locally, Malawi must take advantage of recent decentralization momentum to institutionalize more workable arrangements between central line ministries and local authorities.** Introduced in 1998, decentralization was rolled out in a fractured, uneven and incomplete way, undermining the anticipated gains in responsiveness to local needs. Since 2014, renewed momentum brought back elected local councilors, introduced a development grant, and devolved human resources to local authorities. Driven by a general sense of public grievance regarding the poor quality and limited availability of basic services, there is a widespread belief that intensified decentralization is the best means to deliver public services and socioeconomic development projects more efficiently and effectively. Inadequate fiscal decentralization policies, weak oversight over financial management, and inequitable deployment of critical human resources continue to thwart local governance and service delivery and to encourage fragmentation of service delivery as development partners build parallel systems. The moment is opportune to build on the progress of the last five years to strengthen national service delivery systems and coordination between central and local authorities. Revamping the intergovernmental fiscal transfer system, strengthening PFM and oversight systems and redeploying human resources to where they are most needed are priorities.
Key Challenges

**Weak governance and institutions have intensified the impacts of negative shocks on the Malawian economy, resulting in fiscal indiscipline that destabilizes the economy.** Reducing volatility and fiscal deficits would boost private sector confidence and lower interest rates, encouraging investment and thus ultimately job creation. With weak institutions and limited policy buffers, however, the adverse consequences of negative shocks tend to accumulate, entrenching low growth. In such circumstances, corruption shocks like Cashgate and cycles of donor withdrawal followed by reform efforts that soon lapse reinforce a less than optimal cycle, where progress is repeatedly followed by stagnation. These cycles have created a persistent low-level equilibrium that constrains the state’s ability to commit to stable fiscal policies, invest in a meritocratic and capable bureaucracy, and coordinate public and private actors to take systematic measures to prevent, not just react to, food insecurity. In order to work towards a stable pathway to inclusive development, reforms targeted at wider macroeconomic stabilization must be grounded and supported by good governance and institutions.

**Fiscal constraints, coupled with poor budgeting and planning have led to inefficient allocation of resources between wage and nonwage items, further undermining the quality of public services.** The rapid expansion of public services has crowded out the nonwage spending that is essential for service delivery. This reflects a broad disjuncture between budgeting and planning, in the absence of specified strategic priorities within actual budget limitations. Line ministries submit budget requests based on their assessment of need, but the Ministry of Finance (MOF) approves a ceiling based on available resources. Ministry budgets thus reflect very low nonwage running costs but very high wage costs in, e.g., health and education; this constitutes a failure to make strategic choices to optimize the use of actual resources to promote performance. This is compounded by reliance on donor funding for operational costs and capital investment, and the need to revise expectations periodically when donors withdraw on-budget funding. While the MOF uses a Medium-Term Expenditure Framework, it has yet to integrate planning and budgeting (IMF 2017). It is necessary that the government take a fresh look at its processes for national, sector and entity strategic planning to ensure that they better support annual budgeting, sustainable payroll management, and a more productive Public Service.

**Several aspects of Malawi’s weak fiscal management demand attention, among them:**

- **Failure to adhere to medium-term budgeting.** Past major hiring surges, at times unbudgeted, have derailed several budgets. Similarly, announced public wage increases are often postponed but made in an unplanned and lumpy fashion that disrupts fiscal discipline. Moreover, estimates of revenues and grants are repeatedly over-optimistic and based on unrealistic growth assumptions.

- **Budgetary indiscipline and weak expenditure control.** Pre-election budget overruns have been routine. Unproductive recurrent expenditures on, e.g., travel and representation, and payroll irregularities tend to accrue repeatedly until it is necessary to correct them. Recurring off-budget commitments and arrears have needed to be normalized on multiple occasions. The inability to reduce corruption and fraudulent use of public resources has been a major challenge.

- **Slow fiscal response to shocks.** Historically, response to weather extremes has been slow and drawn out. Rather than making hard fiscal adjustments the typical response has been to muddle through by ad hoc expenditure cuts, postponing expenditures, and accruing arrears—which, in

---

2 Historically, the Reserve Bank of Malawi (RBM) has financed excess government deficits whenever the need has arisen. This monetary accommodation of demand for fiscal resources reduced the pressure on government to stay within prudent budgetary limits. However, since early 2018, RBM has stopped financing government deficits, which should support improved fiscal discipline.
turn, sows the seeds of future crises. At times, it is also an issue of incentives, with the government in a game-like situation with donors in an attempt to maximize grants in times of crisis. Donors often ramp up grants during weather-related crises, but these take time to mobilize, which also delays adjustment. Recognizing that crises such as Cyclone Idai may continue to become more common, the Government of Malawi and donors must work together on a blueprint for adaptive and responsive investments climate resilience while maintaining fiscal principles to avoid ever worsening cycles.

Malawi’s public sector reform efforts over the last few decades have shown that reform is ineffective without the highest levels of leadership committing to overhaul incentives and signal willingness to enforce standards of integrity and performance. While incremental progress has been made, it is often limited to inputs without clear outcomes. Political imperatives lead to backsliding and a gap between the rules on paper and the realities on the ground. Overcoming these pressures, however difficult, is essential to break out of the status quo.

Lessons from other countries show that strong and clear leadership can overcome legacies of poor public performance. To do so, it must be ready to reward performance and sanction abuse. With that commitment and demonstration of ‘getting the basics right’, a range of public sector modernization reforms can, over time, restore the civil service to the high level of effectiveness it once had. While this can be difficult to achieve across the board, successful countries have invested in ‘pockets of effectiveness’ to progress priority areas and demonstrate what can be done. The new administration should avoid both sweeping and piecemeal reform plans. Instead it must focus first on demonstrating credible commitment to enforce the basics and restore confidence, and second, on investing in select areas of performance that will yield concrete results.

While much of the focus has been to resolve these challenges at the central level, local governments continue to struggle with capacity gaps, minimal financial accountability, and low incentives to perform. Decentralization has been undermined by slow, fragmented, and incoherent assignment of functions and resources to local authorities, and by a tendency to re-centralize power. Lack of capacity and financial mismanagement at the district level are cited as justifications for holding back resources, creating a vicious cycle. Line ministries retain resources and Members of Parliament use their Constituency Development Funds largely as handouts. In 2014, after a hiatus of ten years, local council elections were held, and the government has renewed its attention to decentralization by raising intergovernmental transfers and initiating the devolution of human resources (HR) activities, beginning with payroll. Evidence of the benefits of increased decentralization is now emerging: payroll devolution has made payment of salaries more timely and eliminated many “ghost” workers from rosters; local sectoral staff report that access to local development funds increases their ability to respond to immediate citizen needs; and, albeit on a small scale, increased information loops have increased accountability. However, maximizing these and other benefits to boost responsiveness to citizens will require rationalizing the allocation of functions and resources between central and local levels and to increase capacity and incentives for performance and results.

HR management has been particularly affected by fragmented decentralization, especially in key front-line services such as health and education. Nominally, district HR management is the responsibility of the District Commissioner (DC) as Controlling Officer, but the accountability of sectoral staff is hampered by dual lines of reporting, horizontal to the DC and vertical to their line ministry permanent secretary. This dual administration as well as frequent personnel transfers undermines accountability and has also resulted in inequitable allocation of service providers. District Secretariats are now responsible for deploying service level staff within the district, but lack both the information they need for equitable
allocation and the systems and incentives to enforce deployment decisions. Teacher retention in more remote areas is particularly problematic and transfers are often granted without regard to pupil/teacher ratios. Similarly, in the health sector, more remote districts have only a fraction of the health work force they are assigned.

**Intergovernmental fiscal transfers have increased but are still lower than agreed targets and their disbursement is not predictable.** The total amount transferred to local government has risen from MK 3 billion in 2005/2006 to over MK 45 billion in 2017/18. According to the National Local Government Finance Committee (NLGFC), for the last two years local councils have received the full budget allocation, up from just 80 percent in previous years. Councils report that transfers often arrive late and not in full, however, disrupting service delivery and leading to inter-borrowing and other practices that undermine financial accountability. While total local government transfers amount to just over US$3 per capita, these are spread across all sectors and primarily cover other recurrent transactions (ORT) (Figure 11 and Figure 12).

**Figure 11: Transfers to Local Government per Capita, 2016/2017, US$**

![Figure 11: Transfers to Local Government per Capita, 2016/2017, US$](image)

**Figure 12: Total Transfers to Local Government by Sector 2016/2017**

![Figure 12: Total Transfers to Local Government by Sector 2016/2017](image)

Financial accountability and controls are weak at the district level, with widespread perceptions of mismanagement and abuse. An IFMIS system operated in the councils has clear advantages to previous manual systems in terms of transparency and accountability, including improved production of financial statements, bank reconciliation, and receipting of revenue. However, IFMIS suffers from poor implementation and inadequate controls.

**Financial oversight is also compromised by weak accountant and audit functions, both at the local and central levels.** Compliance with requirements for bank reconciliations is a significant concern, with large amounts of unreconciled items or “discrepancies” in government financial records including bank reconciliation statements. District audit reports for both government and donor funding reveal serious control and accountability issues, with repeated commitment that management would “review” the situation. The reports often cite lack of supporting documentation for transactions—making an audit

---

3 Transfers do not include wages (these are held in central budgets). Sector transfers are ORT, only the GRF-D is for capital investment

4 Road rehabilitation roads funds were only provided to 4 city councils; The category ‘other’ includes agriculture, gender, water, trade, housing, environment, immigration, irrigation, forestry, fisheries, labor and infrastructure development fund.
simply impossible—as a barrier to drawing effective conclusions about financial management. In local, as in central, government mismanagement is rarely punished.

**Capacity building for councils and local institutions has been ad hoc, or simply neglected.** The Local Development Fund (LDF) carried out annual Local Authority Performance Assessments (LAPA) from 2010 to 2013 in order to identify capacity gaps and ultimately introduce a performance-based grant system. In 2013 performance in more than half the councils was rated unsatisfactory. Local authorities noted that many of the indicators were beyond their control because they depended on central government policies and action. Training and capacity-building plans have not been implemented in systematic ways and are further undermined by frequent rotation of staff. The LAPA, which was not tied to any incentive such as performance-based financing, was discontinued. However, with support from USAID, it was revised in 2018 and rolled out across the country with the intention of using it to structure capacity building programs and introduce performance incentives.

**Effective citizen engagement can help strengthen reform strategies that meet resistance by vested interests.** Malawi has a rich history of positive engagement by civil society, the church, the judiciary, and the media in pushing for reform and preventing abuses of power. Broad-based coalitions of private sector actors can counter pressures associated with elite capture. Constructive partnerships between civil society and the government can help ensure proper use of resources and innovative solutions to a range of challenges, as has been demonstrated by social accountability initiatives around teacher absenteeism, textbook procurement, and at a larger level public private dialogue for business environment. The new administration would do well to see citizen engagement as a critical pathway to breaking from business as usual and institutionalize reforms in ways that resist reversal and that begin to change state-citizen relations through a more responsive social contract.

**Meanwhile, fragmented local planning processes suffer from little community participation or democratic accountability.** District Development Plans vary in quality and state of preparation, and often are disjointed from sector development plans. Village Development Committees and Area Development Committees are meant to provide representative mechanisms for identifying community development priorities and monitoring and holding councils accountable. In reality, to the extent priorities are identified, the committees report up but little feedback is returned. Council staff report that they do not have sufficient resources to engage these structures and these committees have been largely dormant, although some remain enthusiastic. There are isolated examples of successful social accountability initiatives in health and education, using, e.g., community score cards, expenditure tracking, service delivery charters, and empowerment of school management committees. But the marginal cost and impacts of these instruments have yet to be evaluated or implemented at scale.

**Policy Actions for Immediate Impact**

**Malawi has demonstrated ability to deliver on reforms when incentives are so aligned.** This happened in 2004–09, when prudent policies contributed to a period of growth. Reform traction is also seen after a crisis, often as a condition of donor support and sometimes in response to civic protest. The difficulty arises in sustaining reform by institutionalizing commitment mechanisms that constrain authorities confronted with inevitable pressures and political exigencies. Malawi’s relatively open civic space provides opportunities for collective action, but limited transparency, appeals to identity, and a predominantly rural and under-educated population have so far limited the effectiveness of citizen engagement.
Actions to heighten impact in the first year include:

❖ **Action 1:** Get the basics right in public service and signal a commitment to integrity and enforcement of rules and procedures by:
  - Appoint and support merit and performance based senior management officials;
  - Hold controlling officers accountable for the management of public finances and staffing;
  - Sanction those who divert or waste public monies; and
  - Make clear what is expected and recognize, encourage and reward staff who perform well.

❖ **Action 2:** Strengthen service delivery through a renewed commitment to effective and accountable decentralization. A focused problem-driven approach to governance reform, which focuses on the public sector bottlenecks that prevent services from reaching the poorest, would provide a more concrete blueprint to reform. In short, this requires answering the question, “Governance for what?” Efforts under reform programs such as the PFM Rolling Plan, Human Resource Strategy, and Decentralization Plan should be prioritized based on their relative impact on improving service delivery. This shift in perspective and investment, however, will require high-level support to encourage coordination between the Office of the President and Cabinet, the MOF, line ministries, and front-line service providers to identify and implement functional solutions in key sectors.

❖ **Action 3:** Promote reforms focused on stable and equitable deployment and management of human resources, particularly in health and education. A major barrier to improved service delivery is inequitable deployment of front-line service staff in health and education. Given recent momentum in the transition to full devolution, which requires shifting responsibility for hiring for all district staff from multiple service commissions to Local Authority Service Commission of Malawi (LASCOM) — the administration can now prioritize reforms that give district governments actual power to oversee (and credibly enforce) the equitable allocation of service staff across the district.

❖ **Action 4:** Invest in the foundations on which to build a social contract with citizens. To lay the foundation for establishing a social contract with citizens, government could promote an environment for public accountability by increasing transparency, publicity, and pathways for broader public interests to engage in monitoring and oversight. In the short term, this would include reinvigorating the Open Governance initiative, implementing the Access to Information Act, and putting in place government systems that allow for real-team citizen feedback and complementary incentives for response.

---

**Policy Actions for the Medium Term (1–5 Years)**

❖ **Action 1:** Prioritize strengthening fiscal management, particularly budget planning and execution, across levels of government. Malawi’s institutions are sufficiently well-designed for budget planning and execution. Yet in the past every economic crisis has been an occasion for revisiting budgetary and financial management institutions. **Actions should now be directed recognizing that effective service delivery requires ‘co-production’ across levels of government by:** (1) achieving a more predictable and timely flow of funds from central to district governments; (2) ensuring that systems for tracking and monitoring commitments are in place and complied; (3) creating functional interfaces between national and local IFMIS and HRMIS; (4) ensuring budget oversight and enable periodic and annual audits by the Auditor General; and (5) increasing transparency and public access to information about fiscal transfers to and spending across all levels of government.

❖ **Action 2:** Continue to move forward on sector, fiscal, and human resource devolution for local service delivery. For devolved functions, the Decentralization Policy calls for central government to retain responsibility only for policy formulation and enforcement, inspectorates, standards, training,
and curriculum development; while local councils are responsible for service delivery. A phased approach to administrative and fiscal decentralization has led to incomplete, uneven, and overlapping division of these responsibilities and functions between central and local government. Even though education and health are the most devolved sectors, central government continues to manage capital investment and expenditure, procurement and distribution of materials (drugs, textbooks), and even such small works as boreholes. Over the medium term, the government should continue decentralizing in the seven areas outlined by the 2016 strategy: (1) coordination and implementation of development initiatives; (2) strengthening institutional and organizational capacity; (3) resource mobilization and management by local councils; (4) citizen participation and engagement; (5) legal, policy, and regulatory frameworks; (6) local government planning, research, knowledge management, monitoring and evaluation, and communications; (7) and accelerating sector devolution.

❖ **Action 3: Complete the interface between IFMIS-HRMIS.** Despite substantial financial and technical investment, numerous information system challenges and risks have yet to be addressed. The World Bank provided support for the current IFMIS (equipment, upgrade, and improvements to the control environment), but some critical vulnerabilities remain, and the current maintenance service level agreement between government and Softech is about to expire. Despite substantial support, the IFMIS and HRMIS systems have not yet been fully interfaced, which exposes payment administration and the payment system to risks. Because investment in systems and capacity needs to be accompanied by entrenching incentives for behavior change, increases in intergovernmental transfers could be tied to adoption and usage along key lines of adoption of IFMIS systems.

❖ **Action 4: Experiment with innovations to strengthen citizen engagement.** Commit to design and investment in “next generation” citizen engagement interventions that embrace (1) use of iterative feedback loops that allow for real-time interaction with citizens; (2) structured analysis of incentives for civic and government responsiveness; (3) using technology for direct citizen participation; and (4) proactive use of media and other active means of local public communication.
Developing a Vibrant Economy and Job Opportunities

Key Message

• Malawi’s rapidly growing population, weak business environment, and limited land call for greater efforts to develop a vibrant economy and jobs outside of agriculture. Increasing productivity and employment in the private sector would help diversify incomes and improve resilience to shocks.

• With a stable macro environment since 2017, Malawi has several opportunities to break out of its repeated cycles of crisis and to increase growth and incomes:
  o By increasing value addition, particularly in agriculture, Malawi can gradually upgrade its exports from raw and semi-raw commodities to higher-value goods and services.
  o Regional integration and export promotion can support economic diversification.
  o Strengthening urbanization policies and urban-rural linkages would support structural change.
  o Malawi can better leverage the potential of digital technology to boost productivity.

• Malawi should adopt a coordinated effort across government to transform the government’s relationship with the private sector. This should aim to develop an investment climate and sectoral regulatory frameworks that can attract higher-quality investment and facilitate the creation of better jobs in profitable, diverse sectors. In doing so, Malawi should also:
  o Address key constraints in the quality of and access to backbone services by (1) expanding access to finance; (2) enhancing the reliability of energy and water supply; (3) reducing transport and trade costs; and (4) leveraging the potential of ICT.
  o Initiate policies to better leverage urbanization to support structural transformation.
  o Improve the skills of the workforce by enhancing education quality and private sector linkages.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>Malawi</th>
<th>Mozambique</th>
<th>Rwanda</th>
<th>Tanzania</th>
<th>Uganda</th>
<th>Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita growth (average 2010–17, annual %)</td>
<td>1.2</td>
<td>3.2</td>
<td>4.5</td>
<td>3.6</td>
<td>1.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Poverty ratio at $1.90 a day (latest, 2011 PPP, % of population)</td>
<td>71.4</td>
<td>62.9</td>
<td>56.0</td>
<td>49.1</td>
<td>41.6</td>
<td>57.5</td>
</tr>
<tr>
<td>Agriculture, forestry, and fishing, value added (% of GDP)</td>
<td>26.1</td>
<td>21.8</td>
<td>31.0</td>
<td>30.1</td>
<td>24.9</td>
<td>7.2</td>
</tr>
<tr>
<td>Employment in agriculture (% of total employment*)</td>
<td>84.7</td>
<td>73.3</td>
<td>66.5</td>
<td>66.7</td>
<td>69.0</td>
<td>53.3</td>
</tr>
<tr>
<td>Total investment (average 2000–17, % of GDP)</td>
<td>14.9</td>
<td>30.5</td>
<td>20.4</td>
<td>24.5</td>
<td>27.3</td>
<td>34.7</td>
</tr>
<tr>
<td>Urban population (% of total)</td>
<td>16.7</td>
<td>35.5</td>
<td>17.1</td>
<td>33.1</td>
<td>23.2</td>
<td>43.0</td>
</tr>
<tr>
<td>Access to electricity (% of population)</td>
<td>11.0</td>
<td>24.2</td>
<td>29.4</td>
<td>32.8</td>
<td>26.7</td>
<td>27.2</td>
</tr>
</tbody>
</table>

Sources: World Bank World Development Indicators, IMF World Economic Outlook (WEO).
Note: *Modeled ILO estimate.

Context

With Malawi’s high population growth rate, it urgently needs to accelerate economic growth and to create more productive jobs. Despite steady economic growth in the first decade of the century and
increasing growth momentum in the region, Malawi has failed to significantly reduce its poverty rate and provide its people with gainful employment. Since 2000 Malawi’s real GDP per capita has grown annually at an average of 1.5 percent, far below the 3.1 percent average for non-resource-rich SSA economies. At current rates, the population is set to double every 23 years, and environmental and land pressure make it clear that such growth cannot be absorbed in the agriculture sector. Currently the share of Malawians deriving their income from agriculture remains stubbornly high at over 60 percent, and the shift to more productive sectors has been slow. With agriculture likely to remain the backbone of Malawi’s economy for the foreseeable future, it must increase agricultural productivity while at the same time also improving the productivity of other sectors to promote growth, incomes, and job opportunities.

**Malawi is one of the 15 most agriculture-dependent economies in the world.** About 87 percent of its households are engaged in agricultural activities, which rises to 94 percent in rural areas (NSO 2012). However, because agriculture is often affected by massive weather shocks, its growth has been volatile and often trails population growth. Agricultural productivity is relatively low for Sub-Saharan Africa (SSA), due to limited adoption of modern technologies, exacerbated by heavy dependence on rain-fed agriculture, low soil fertility, weak links to markets, and poor research and extension services. Inefficient patterns of public expenditure have exacerbated low productivity, and government interventions have contributed to market distortions and maize price volatility.

**Low investment rates hamper the country’s ability to achieve high and sustainable growth as well to create formal jobs.** Malawi has one of the lowest rates of total investment in Sub-Saharan Africa, averaging 14.9 percent of GDP from 2000-17, especially compared to neighboring Tanzania at 24.5 percent and Zambia at 34.7 percent (IMF WEO) (Figure 13). This is largely due to low private investment.

**Economic diversification has been slowed by inadequate investment in agro-processing, resulting in minimal improvements in agricultural productivity and job creation, particularly for the rural population.** Most of Malawi’s agricultural exports are unprocessed tobacco (about 60 percent of exports), tea, and sugar, with little if any value addition. Declining global demand for tobacco amplifies the need for Malawi to strengthen diversification initiatives. Increased private investment in profitable industries that can create employment is needed and must be sustained over decades.

![Figure 13: Total Investment, Malawi and Select Countries, 1980–2018, Percent of GDP](source: IMF, World Economic Outlook, April 2019)

Figure 13: Total Investment, Malawi and Select Countries, 1980–2018, Percent of GDP
Agriculture continues to employ most workers, and formal jobs are rare. Formal employment comprises only 11 percent of total employment, with a large share of self-employed workers (54 percent), mostly in agriculture. About 84 percent of men and 94 percent of women work without social protection or employment benefits. About one in six people has a secondary job (NSO 2012). The annual job growth rate was 1.5 percent between 1998 and 2013, lower than population growth at 3 percent.

Employment has been shifting from agriculture to low-productivity services. The share of jobs in agriculture has been shrinking, with most new jobs in the services sector. However, new services jobs have been low-skill, low-value, and mostly informal. This reflects a coping strategy: as workers are pushed out of agriculture due to increasing population pressures on ever-smaller plots of land and seek other sources of income, they tend to turn to low-productivity wholesale and retail trade. Employment in manufacturing has fared no better and productivity growth has been stagnant, while the share of manufacturing in GDP has remained flat and low. The sector mostly produces for the domestic market, and manufacturing firms are averaging just 68 percent capacity utilization (Record et al. 2016).

Weak governance and institutions contribute to Malawi’s poor development performance. Malawi’s political economy has created incentives for policies that can be seen to address short-term popular needs—such as agricultural subsidies, and market and price distortions—while undermining the ability to credibly commit to fiscal discipline and the long-term reforms needed to spur productive structural transformation. These incentives have led to the promotion of domestically oriented sectors such as government services, farm inputs, and construction that generate high rents, but limited growth opportunities. This has stunted private sector growth in more complex and export-oriented industries that could build the foundation for more sustainable growth and job generation (Said and Singini 2014).

Malawi’s business structure suffers from a “missing middle.” At one end of the spectrum, a small number of large-scale enterprises are engaged primarily in agriculture or agro-processing, manufacturing products like soap, cooking oil, confections, and food products, as well as trading and retail. At the other end is a vast number of households and micro-enterprises. These small-scale enterprises are primarily informal and mostly operate services like restaurants or engage in retail activities like vending.

The absence of middle-sized firms demonstrates the difficulties for business operations caused by macroeconomic instability, corruption, inconsistent policies, and difficulties accessing good markets. The difficult business environment favors companies with long-established networks, and policy is biased in favor of larger firms. This is partly due to the enduring legacy of heavy state intervention, which exacerbates barriers to the entry and success of new companies that could help diversify exports and the economy. Regulatory deficiencies for private sector activity similarly favor established firms with broad networks that allow them to mitigate various risks.

Malawi fares poorly on competitiveness indicators and rankings. The Doing Business 2019 Report ranked Malawi 111th of 190 countries. The Global Competitiveness Index (GCI) placed Malawi at 135th out of 140 countries in 2015/16. The most frequently cited obstacles to private sector growth are access to finance, unreliable electricity, and corruption (Figure 14). Moreover, Malawi does not fare well in comparison to her neighbors (Figure 15).

---

5 The World Bank Malawi Jobs and Poverty Diagnostic 2019 (draft) estimates that agriculture’s share in employment has declined from 78 percent in 2004 to 73 percent in 2016, while the services sector’s contribution has grown from 15 percent of jobs in 2004 to 23 percent in 2016.
Urbanization has had little impact on structural transformation. Although urbanization has been a major catalyst for growth and poverty reduction in many SSA countries, since 1999 Malawi’s urban population has stagnated at about 15 percent (WDI 2017, Figure 16). Even small increases in urbanization and urban investment could enhance Malawi’s economic prospects by accelerating growth and bringing more meaningful structural change.

Since 2017 Malawi has enjoyed relative macro-economic stability, presenting an opportunity to break out of its repeated cycles of crisis. After two years of depressed economic activity due to floods and a drought, real GDP growth picked up to 4 percent in 2017 and is projected at 3.5 percent for 2018. Moreover, after six years of double-digit inflation, since 2017 headline inflation has receded to single-digit levels and the kwacha has been stable against the U.S. dollar.

Challenges and Opportunities

Across the world, countries that have sustained high growth since the 1950s have had five characteristics in common: (1) macroeconomic stability; (2) leadership and governance committed to growth; (3) openness to import knowledge and exploit global demand; (4) future orientation of high investment and savings; and (5) market allocation that allows prices to guide resources (Growth Commission 2008). While Malawi has made recent progress on the first factor, it needs sustained improvement in the other four if it is to develop a vibrant economy and jobs while reducing poverty.
• **Macroeconomic Instability**

Repeated episodes of macroeconomic instability have undermined the development of Malawi’s private sector. The main factor behind low investment has been high macroeconomic instability resulting from the government’s inability to manage external and internal shocks. Up to 2017, this contributed to economic uncertainty and some of the highest inflation and interest rates in SSA, which together limit private and public sector investment.

*Exogenous, climate-induced shocks contribute to vulnerability, but they have been exacerbated by poor economic management.* Malawi’s dependence on subsistence rainfed agriculture increases its vulnerability to external shocks, which is only likely to worsen with the effects of climate change. However, policy actions have either exacerbated the impact of each shock or prolonged it. In other cases, economic instability has been due to policy actions themselves. Malawi’s heavy dependence on aid adds a further dimension to these cycles: three times in the last two decades, most recently in the 2013 “cashgate” scandal, donors have suspended budget support in response to economic mismanagement and corruption scandals.

*Malawi cannot afford to mismanage domestic sources of volatility* (i.e., fluctuations not caused by weather or changes in international prices). To increase diversification, Malawi needs macroeconomic stability and good governance to ensure provision of such public goods as infrastructure, as well as institutions and policies that allow the private sector to take a long-term investment horizon.

• **Limited Access to Finance and Lack of Financial Inclusion**

*Access to finance is the most often cited concern by firms.* High interest rates, collateral requirements, and complex application procedures are cited as the main reasons for not taking up a loan. Commercial banks offer only a narrow range of financial instruments, only for the short term.

*Until recently macroeconomic instability and high inflation pushed up interest rates.* Although inflation and interest rates have fallen since 2017, interest rates remain high, with base rates currently at 24 percent. Lower lending rates would stimulate investment and increase access to finance.

*Financial inclusion remains a challenge.* There is growing innovation in products and services like e-money and mobile banking, as well as steady growth in the number of ATMs and point of sale (POS) devices, but they are rarely used to support business growth. Financial literacy programs are needed to encourage people, especially in rural areas, to benefit fully from these innovations.

• **Unreliable Energy and Water Services**

*Low and unreliable access to energy is a major constraint to diversification and increased value addition.* Energy access is only 11 percent, and in recent years blackouts have become more frequent. On average, firms report that electricity outages cost them 5 percent of their sales a year. Using a backup generator can triple the marginal cost of electricity and is only feasible for businesses whose margins can absorb the cost. Erratic electricity supply not only increases operational costs but also lowers productivity, sales, and incomes, while deterring growth prospects.

*Lack of investment in new generating capacity has widened the gap between Malawi’s demand for energy and installed capacity.* The total installed generating capacity is 365 MW, far short of estimated demand of about 440 MW. Climate variability and drought have reduced hydropower supply, causing prolonged load shedding. At the same time, improving the performance of ESCOM is needed, as are cost-reflective tariffs that would enable the utility to meet its revenue requirements and investment programs and attract Independent Power Producers (IPPs).
Inadequate water supply is a major binding constraint. Insufficient and unreliable supply raises costs and undermines productivity, health, and sanitation. In 2014 firms reported experiencing on average 5.3 days a month of insufficient water, among the highest in the region (Record et al. 2016).

High Transport and Trade Costs

The high cost of domestic and international trade further constrains private sector development and poverty reduction in Malawi. Given low incomes and a relatively modest population size, reducing trade and transportation costs is critical to overcome Malawi’s limited domestic market, particularly in sectors where economies of scale are only possible if international markets are accessible. High trade costs make it difficult for Malawian firms to acquire low-cost imported inputs, be competitive in export opportunities, and attract foreign direct investment (FDI). High costs are often attributed to the long distance to seaports, the large gap between import and export volumes, competition on some trade routes, and delays in clearing cargo—particularly for perishable food—at border crossing points and at ports in Mozambique and Tanzania. Trade is slowed by cumbersome trade procedures, lack of automation in numerous agencies, lack of inter-agency coordination, and a high rate of border inspections.

Transport costs are further exacerbated by domestic constraints, such as high relative fuel prices for the region, expensive spare parts and equipment, the prohibitive cost of finance, and supply chain constraints. Overreliance on road transport—which is more expensive than rail and water—also raises costs. The quality of the road network, and particularly secondary and tertiary roads and roads to some rural areas, is poor. High rural transport costs further impede economic development and poverty reduction in rural areas, especially given the low value of unprocessed agricultural produce. Road connections are also imperative for supporting tourism. Addressing the very high rural transport costs requires not just addressing infrastructure but also improving appropriate logistics solutions. Malawi’s logistics sector is underdeveloped with many large, often well-connected, firms, which are vertically integrated partly due to lack of demand.

Challenging Business Environment

The investment climate is characterized by a lack of transparency and considerable uncertainty. Much more effort will be necessary to make regulation—especially tax and licensing requirements—simpler, more accessible, and easier to comply with. The government should focus more on functions to promote private-sector growth, rather than mimicking the form of modernized institutions. This calls for fewer “best” institutional solutions and more context-specific approaches that result in observable improvements for businesses. To increase trust and promote certainty, it is important to do more to ensure adequate consultation on policy changes, build in mechanisms that prevent ad hoc policy shifts, and address inconsistencies between the practices of different regulators. For instance, ad hoc export bans have drastically reduced commercial investment.

Investment tends to be driven by a deals-based business model that benefits insiders at the expense of outside competition, with investors dedicated to short-term, quick-return activities. Instead, the government should make a concerted effort to attract higher-quality investors, foster longer-term investments, and facilitate the creation of more and better-quality jobs in profitable sectors. This would require policy actions that emphasize full implementation of a limited but coherent set of reforms, rather than incomplete implementation scattered through many areas.
• **Limited Skills in the Workforce**

*Malawi needs to invest in skills to diversify and develop a vibrant economy.* Low educational standards in terms of both the quantity and the quality of instruction hold back development and limit employment opportunities for the poor. Almost two-thirds of the labor force have not completed primary education, and another 25 percent have not progressed past primary school. Although firms do not identify education of workers as a top concern, this is a reflection of the current economic structure, which is also a product of low standards of education.

*Lack of skilled labor is a barrier to private sector growth.* Employers point out that even university graduates are not prepared to enter the labor market; curricula need to be revised to respond to labor market needs. The problem is compounded by the absence of formal training and matching mechanisms, so that most jobs outside of the civil service are found through personal connections.

*To develop a vibrant economy and enhanced job opportunities, Malawi has a number of opportunities that it can leverage. Among these are increasing value addition particularly to agriculture; increasing regional integration and export promotion; leveraging urbanization and urban-rural linkages; and leveraging the potential of digital technology.*

• **Increase Value Addition, particularly to Agriculture**

*Malawi is potentially competitive in various sectors in which it can move from exporting raw and semi-raw commodities to higher-value goods and services, thereby creating jobs and increasing incomes* (Hausmann and Klinger 2006, Hausmann, Hwang and Rodrik 2006, National Export Strategy 2013-18). Products fall under three clusters: (1) oil seed products—particularly sunflower, groundnuts, soya, and cotton—and their value-added products, such as soap, cooking oil, lubricants, paints, cosmetics, soya meals, and peanut butter; (2) sugar and its value-added products, such as confections, ethanol, fertilizer, and animal feed; and (3) manufactures such as beverages, agro-processing (dairy, maize, and wheat products), plastics and packaging, and assembly. Macadamia nuts have also recently emerged as an export. Other potential areas of growth through export include rice and processed foods.

• **Regional Integration and Export Promotion**

*Regional integration can support economic diversification and more inclusive growth.* Increased integration will allow Malawi to benefit from its geographical access to fast-growing neighboring economies. However, to improve the prospects for regional integration, Malawi needs to undertake policy reforms and address numerous structural and institutional constraints to reduce trade costs. This is particularly critical for Malawi, which relies on low-value agricultural exports with margins too small to overcome high-cost transactions.

*Non tariff barriers, particularly export bans, need to be addressed to increase the potential for regional trade.* Notable among these are the risk of government intervention, differences and complexity in rules of origin and quality and product standards, and commitment and compliance with protocols. Malawi and other SADC and COMESA countries regularly intervene in food (particularly maize) markets in ways that are not structured and rules-based. The unpredictable behavior of governments in imposing export bans is one of the greatest impediments to commercial investment in agriculture and has slowed development of the nascent commodity exchanges that Malawi has put in place for sub-regional and domestic markets (World Bank, 2017a).
The recent US$4 billion investment in the Nacala railway line creates opportunities to export products through Mozambique’s Nacala port. However, so far the corridor is used mostly for imports. Malawi has usage rights to 5 million metric tons a year but only uses an average of 250,000.

Malawi has lower labour unit costs and higher labour productivity than neighbouring countries, which could make it competitive in attracting investment into labor-intensive manufacturing industries (World Bank 2016c). If it addresses other business environment issues that deter FDI and manufacturing growth, this could position the country to attract more investment and support employment growth.

• **Leverage Urbanization and Urban-Rural Linkages**

Investing to build dense, connected, and efficient cities will support private sector development, stimulate demand for agricultural products, and increase opportunities for production and trade. Malawi’s urban areas today are collections of small and fragmented neighborhoods that lack reliable transportation, limit job opportunities, and prevent firms from reaping scale and agglomeration benefits. Cities are finding it difficult to deliver to a growing urban population such basic services as water, sanitation, solid waste management, transportation, electricity, and environment protection. As a result, the potential of cities as a catalyst for economic growth is limited. Substantial investment will be needed to resolve these challenges. Cities’ current spatial configurations and development pressure points are in areas which are difficult and costly to service. There is also a shortage of credible economic information for cities, which makes it very difficult for them to plan and manage urban growth.

Given its current level of urbanization, Malawi is well-positioned to develop effective plans to maximize the benefits of urban agglomeration while minimizing negative aspects. Effective planning could diminish the possibility of worsening urban poverty, by increasing public resources to meet coordinated investment needs, address fragmented physical development, and better provide basic public services to residents and businesses. Urban governments in Malawi rely heavily on own-source revenue, which account for 65–80 percent of their total revenues. This unusually high self-dependency is largely due to the very limited transfers from the central government—far below the levels where they can respond adequately to current public infrastructure and service delivery needs. Malawi also needs to build the capacity of urban governments to expand their financial resources and grow their roles in infrastructure and service delivery.

• **Leverage the Potential of Digital Technology**

Malawi has barely scratched the surface of the potential of digital technology and the digital economy to drive economic growth, job creation, and access to services. Across the world, digital technology is transforming how people, businesses, and governments communicate, innovate, and transact. The digital economy is expected to reach 25 percent of global GDP by 2025, up from 15 percent in 2018, far outpacing the growth of ‘traditional’ sectors and reshaping the future of jobs. Since 2000, ICT is estimated to have driven more than a quarter of Kenya’s growth (Ogutu 2015).

In Malawi, internet services are too expensive, unreliable, and in many areas simply unavailable. Its mobile market is a duopoly of TNM and Airtel, resulting in high profit margins and few incentives to lower costs or invest in rolling out the network to less profitable rural areas. Additionally, taxation and regulatory levies on telecoms services account for a large and increasing proportion of operating costs and retail prices, representing 24 percent of the total cost of ownership of a mobile device—a significant burden for current consumers and a barrier to increased access. With only 14 percent of citizens online (ITU 2018) and 31 percent mobile penetration (GSMA 2018), minimal digital literacy,
and slow adoption of technology, Malawi’s citizens and businesses are missing out on a once-in-a-generation opportunity to transform the country’s growth trajectory.

Digital technology can boost Malawi’s productivity and create openings for new industries and jobs. In low-income countries, a 10 percent increase in mobile broadband penetration on average raises GDP by 0.8 percent (World Bank 2018e) and the number of jobs by 2–4 percent (Atkinson and Stewart 2013). Across SSA, the spread of mobile money has vastly expanded access to financial services for those previously locked out. Digitally enabled service providers in education, health, and agriculture are connecting clients to new ways to learn, meet their medical needs, and improve the productivity and resilience of their farms. Moving government services online would help drive demand for connectivity, adoption of digital devices, and motivation to increase digital skills. It would also kickstart demand for development of a domestic IT industry.

**Policy Options for Immediate Impact**

❖ **Action 1: Entrench a supportive macroeconomic environment.** Macro-economic stability is a prerequisite for private investment. To ensure stability, the government needs to:

   1. Instill fiscal discipline with more realistic revenue projections and stronger expenditure controls, as well as increased oversight of SOEs to reduce fiscal risks. This will reduce fiscal deficits and high domestic borrowing, which will decrease upward pressure on interest rates and crowding out of the private sector.
   2. Sustain recent progress on RBM independence to maintain exchange rate stability and low inflation, which will in turn support lower interest rates.

❖ **Action 2: Adopt a coordinated effort across government to change the government’s relationship with the private sector.** Malawi needs to radically reform the business enabling environment to develop an investment climate and sectoral regulatory frameworks that can attract higher-quality investors and investments and facilitate the creation of more and better-quality jobs, in profitable, diverse sectors. This will require coordination at the highest level, across ministries and agencies, as well as effectively guiding development partner interventions, to coherently remove blockages along value chains. Malawi needs to reduce the costs of doing business and level the playing field for regulatory compliance of small and medium enterprises that can drive job creation. Promoting predictability, transparency, and market contestability, particularly for local value addition, is key.

   1. Conduct a comprehensive review of taxes and regulations, including review of the high tax burden on internet charges to boost access to mobile devices and services.
   2. Finalize and enact regulations for the Control of Goods Act, to make commodity trade more predictable.
   3. Design and launch a business regulatory streamlining initiative, to reduce the complexity of adhering to business taxes, fees and licenses and to level the playing field for SMEs.
   4. Strengthen the Malawi Investment and Trade Centre and other institutions, to bolster investment promotion policies, attract high-quality investors, and provide business advisory services to MSMEs.

**Policy options for the medium-term Agenda (1–5 years)**

❖ **Action 1: Address key constraints in the quality and access to backbone services.** The following are priority areas for the medium term.

   1. **Increase access to finance through:**
      
      i. Expanding mobile banking and access to formal banking services.
      
      ii. Undertaking measures to improve financial literacy.
iii. Supporting the development of financial products tailored to the needs of SMEs and agriculture for longer-term value-added investments.

iv. Supporting private equity and venture capital financing.

2. **Enhance the reliability of energy and water supply through:**
   i. Strengthening the financing and operational performance of electricity and water utilities, including the adoption of cost-reflective tariffs.
   ii. Improving corporate governance and institutional frameworks of utilities and encouraging private investment in more installed capacity.
   iii. Tapping into the Southern Africa Power Pool regional grid to help narrow the generation shortfall and ensure supply, especially considering low hydrology.
   iv. Improving and expand the transmission and distribution network and create an enabling environment for off-grid market development.

3. **Reduce transport and trade costs through:**
   i. Enacting more efficient trade procedures, closer coordination between numerous agencies, and reducing border inspections
   ii. Reducing nontariff barriers, particularly the ad hoc imposition of export bans.
   iii. Upgrading secondary and tertiary roads and connectivity to rural areas to support competitiveness.
   iv. Increasing efforts to build up logistics services, particularly to support agriculture by, e.g., combining storage, road, and transport services in an optimized and comprehensive manner.
   v. Accelerating development of the Nacala rail corridor, to disrupt the current transport disequilibrium. Realization will require (1) prioritizing a simplified transit procedure for railways and investment in cargo-handling facilities in strategic locations; (2) better synchronizing railway and port operations; and (3) investigating the potential for rail to alleviate pressures that push up transport prices during the harvest season for major agricultural commodities.

4. **Optimize the potential of ICT through:**
   i. Prioritizing broadening access to the Internet, as well as improving the cost, quality, and coverage of ICT services through significant private investment in infrastructure and nimble business models that can provide low-cost connectivity and the growth of value-added services.
   ii. Avoiding displacement and duplication of private infrastructure investment. The government does not need to dedicate public resources to make further capital investments in the National ICT Backbone (NICTBB). That role is better suited to the private sector, which can finance, build, and operate ICT infrastructure more efficiently and at lower cost—without financial or operational risk to the government. The government can encourage private investment through service contracts.
   iii. Operating the NICTBB Network on a wholesale basis with low pricing to stimulate market development, network utilization, and ultimately lower consumer costs for Internet access. Though there might be short- to medium-term losses, the downstream growth generated would be significant, and would bring in more revenue. A focus on full-cost recovery is unlikely to be successful given the alternatives available from competitors with a lower cost structure.
   iv. Encouraging greater competition in the mobile market by (1) fast-tracking new telecoms regulations designed to enhance competition and reduce the cost of infrastructure; and (2) given limited competition, consider direct regulation of consumer prices based on a reasonable rate of return.
v. Increasing online government services. As successfully done in neighboring countries, government should establish a National IT Authority with strong leadership, independent authority, and sufficient human and financial resources to lead an ambitious digitization agenda.

vi. Considering privatization of the NICTBB assets to ensure more efficient operation and maintenance and minimize the long-term fiscal burden. State-owned telecoms companies, not only in Malawi but across the region, have been inefficient and loss-making, with detrimental impacts on the sector.

❖ **Action 2:** **Initiate efforts to better leverage urbanization and urban-rural linkages.** Urban development policy needs to be broadened to incorporate not only an enabling environment—attracting investments in infrastructure and service delivery—but also incentives that directly support urban enterprises and job creation.

1. Assess medium- and long-term growth scenarios for cities, covering population, economic, and spatial growth trends, and estimation of the backlog in delivering basic urban services and infrastructure investments.

2. Propose and prioritize policies, strategies, specific investments, capacity-building activities, and options for increasing own resources—particularly property taxes—to help finance investments. An alternative strategy would direct more investments to major cities in order to accelerate the pace of nonagricultural growth, create more nonfarm jobs, and reinvigorate urban poverty reduction.

❖ **Action 3:** **Improve the skills of the workforce to enable structural transformation from agriculture to higher-productivity sectors.**

1. Strengthen its focus on quality in primary schools and access to secondary and higher forms of education.

2. Strengthen linkages with industries and provide relevant training programs and improve the matching of graduates with formal employers and of lower-skilled labor with informal or short-term opportunities.

3. Offer business and entrepreneurial skills training at all levels of education.

4. Boost basic digital literacy and offer training in advanced digital skills (coding, IT certifications, and engineering) and corresponding “soft” skills (creativity, management, communications, etc.).
Increasing Agricultural Productivity and Diversification

Key Message

• Improving agricultural productivity is central to reducing poverty and boosting shared prosperity in Malawi, but the sector’s business environment is not conducive to growth. To attract much-needed investment, agriculture needs to be profitable, and smallholders need to increase their productivity.
• Malawi’s agriculture markets are subject to unpredictable interventions, contributing to volatile food prices. Government should adopt a rules-based approach to market interventions to reduce price volatility and encourage commercial investment.
• Policies should incentivize medium- to large-scale agro-processing in areas of high production to support job creation in rural areas, especially for youth and women.
• Better market linkages between large and smallholder farmers, and domestic and regional or international markets will increase profitability.
• Government should encourage farmers to adopt climate-smart agriculture (CSA), such as planting drought-resistant varieties, diversifying crops, and building irrigation infrastructure to increase resilience and productivity.
• Investment in the sector needs to be rebalanced to ensure that priority areas in NAIP are supported.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of farmers using improved seed (%)</td>
<td>41</td>
<td>46</td>
<td>70</td>
</tr>
<tr>
<td>Share of farmers using inorganic fertilizers (%)</td>
<td>30</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Share of farmers using irrigation (%)</td>
<td>...</td>
<td>3.3</td>
<td>...</td>
</tr>
<tr>
<td>Value of agriculture exports (US$ million)</td>
<td>839</td>
<td>925</td>
<td>...</td>
</tr>
<tr>
<td>Share of arable land cultivated</td>
<td>67</td>
<td>69</td>
<td>...</td>
</tr>
<tr>
<td>Share of arable land allocated to maize (%)</td>
<td>47</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>Per capita food production variability (int$ per capita)</td>
<td>18.4</td>
<td>11.4</td>
<td>-</td>
</tr>
<tr>
<td>Number of people undernourished (million)</td>
<td>3.3</td>
<td>4.3</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: FAOSTAT and Government of Malawi

Context

Malawi is relatively well-endowed with agricultural resources. Although most of Malawi’s soils are severely depleted in crop nutrients due to continual cropping over many years (Benson and Edelman 2016), they are still reasonably good relative to soils in neighboring countries. The country receives on average about 800-1,000 mm rainfall in a single rainy season, December to April, and has significant water resources, centered on Lake Malawi and the Shire River, that could form the basis for extensive irrigated farming zones.

Agriculture, the backbone of Malawi’s economy, contributes over a third of gross domestic product (GDP). While growth in the other sectors of the economy has reduced the significance of agriculture, which 50 years ago provided 50 percent of total economic output, Malawi is still one of the 15 countries most dependent on agriculture. The sector employs 64.1 percent of the labor force and contributes about 80 percent of the country’s foreign exchange earnings. The main export crops are tobacco, sugar, tea, and cotton. Maize is the main food crop, cultivated by over 80 percent of smallholders using a low-input rainfed system. Other important food crops are rice, cassava, sweet potato, Irish potato, sorghum, and millet.
Agriculture in Malawi is primarily dualistic, consisting of smallholders and estates. Smallholders contribute more than 70 percent to agricultural GDP and estates less than 30 percent. Traditionally, smallholders cultivate the bulk of food crops, such as maize, cassava, sorghum, millet, and sweet potatoes, to meet their subsistence requirements. The estates produce high-value cash crops for export, particularly tobacco, tea, sugar, coffee, and macadamia. While Malawi’s service sector has grown significantly over the past 20 years, and there is a small manufacturing sector and some non-agricultural natural resources that can be exploited economically, agriculture is the center of most economic production.

Medium-scale farms have become a major force in Malawi’s agricultural sector. A recent survey by Ward et. al (2016) carried out in Lilongwe, Mchinji, and Kasungu revealed that medium-scale farms have begun to sprout. The medium-scale farmers studied predominantly occupy, lease, or own 5–10 ha sites. Although the distribution among districts is similar for the 5–10 ha category, Kasungu has the bigger farms, 10 ha and upwards, related to an estate development policy the government implemented in that region. Overall, the survey found that these farms account for over a quarter of all land under cultivation in Malawi.

High population growth has intensified pressure on arable land, with people encroaching into marginal areas and using poor land husbandry practices that undermine soil fertility. Rural population densities in Malawi are significantly higher than in its neighbors. Agricultural expansion has reached its limits due to population pressures, resulting in more fragile upper catchment areas being opened for cultivation, which has accelerated soil erosion and rapid loss of soil fertility. A recent soil-mapping exercise revealed that almost 40 percent of agricultural land in Malawi has become highly acidic, with pH values outside the optimum range of 5.5–7.0 that is essential for crop production (MoAIWD 2017). Degradation of agricultural land and forests also poses a major threat to productivity and economic development: its annual cost is estimated as equivalent to 5.3 percent of GDP, with soil degradation identified as one of the main factors pushing down agricultural yields (MoFEPD 2011).

Given the technology available, agricultural productivity, particularly among smallholder farmers, is far below its potential. Although in recent years there has been a notable upturn in Malawi’s agricultural production due to various interventions that attempted to increase productivity, most of the growth has come from opening uncultivated land to production, rather than from enhanced productivity based on technological advances. For example, while the potential maximum yield for hybrid maize is 6.5 tons, average actual yields in Malawi are 1.5–2.5 tons and rarely exceed this range. The same is true for other major crops produced by smallholders such as rice, sorghum, millet, common beans, soya beans (Table 1). Studies have identified yield gaps in most smallholder crops that could be reduced with investment in technology generation, adaptation, and dissemination. Even after FISP was introduced in 2005, which initially raised maize production substantially, national maize yields have stagnated between 2.1 and 2.5 tons per ha. This gap between potential and actual average crop yields suggests abundant scope for improvement in productivity.

### Table 1: Averages: Area Planted, Production, and Yield, Selected Crops, 2006–16

<table>
<thead>
<tr>
<th>Crop</th>
<th>Area Planted, '000s ha</th>
<th>Total Production, '000s Mt</th>
<th>Yield, kg/ha</th>
<th>Potential Maximum yield Smallholder Yield, kg/ha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize (all)</td>
<td>1,647</td>
<td>3,147</td>
<td>1,910</td>
<td>6,500 (hybrid)</td>
</tr>
<tr>
<td>Rice</td>
<td>61</td>
<td>111</td>
<td>1,820</td>
<td>5,000 (lowland)</td>
</tr>
</tbody>
</table>

Yield gap is defined as the difference between the actual and potential yields.
Agriculture in Malawi is vulnerable to production shocks, particularly extreme weather events, which have increased the incidence of droughts and floods. Today the country is suffering more often from weather shocks, such as the simultaneous floods and droughts in early 2015 and drought in 2016, which drastically reduced maize production in 2015 by 30 percent and in 2016 by another 12 percent (GoM 2018). Weather-related shocks can adversely impact not only agricultural production but also national and household food security. When such shocks reduce crop harvests significantly, many farming households, particularly in the lean period (November to March), face hunger and must deplete assets or turn to short-term coping strategies. In 2016 El Niño-induced drought affected 24 districts in Malawi, slashed maize production by 30 percent, and led to declaration of a state of disaster. The number of people that required food aid surged, to 2.8 million in 2015 and 6.7 million in 2016 (Figure 17). According to a World Bank agricultural risk assessment, annual losses from shocks to production averaged US$149 million from 1980 to 2012 (Giertz et al. 2015).

Malawi’s agriculture sector is not sufficiently diversified, thereby increasing vulnerability to shocks. Agriculture in Malawi is dominated by maize-based systems, which are heavily affected by climate change, leading to high economic costs. Some 99 percent of smallholders growing maize rely on a single rainfed season. Consequently, maize production, and ultimately the agriculture sector, suffers from low productivity due to the high risk of climatic shocks. Floods in 2015 led to estimated losses of US$335 million (5.2 percent of GDP), of which agricultural losses alone were US$68 million. This was followed by a severe El Niño-induced drought in 2016 that led to losses of US$239 million, of which crop production alone accounted for 83 percent. Drought drove up maize prices due to reduced production, resulting in food price inflation of over 20 percent, with higher food imports and lower exports. Low productive diversification, alongside a frequent lack of assets to buffer against risks, exposes farmers to risks of income variability, crop failure, and ultimately malnutrition. Not surprisingly, poor, undiversified farming households also struggle to recover after shocks because they have limited savings or productive assets, and few opportunities for generating off-farm income.

<table>
<thead>
<tr>
<th>Crop</th>
<th>Yield 1</th>
<th>Yield 2</th>
<th>Yield 3</th>
<th>Yield 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sorghum</td>
<td>84</td>
<td>68</td>
<td>810</td>
<td>1,700</td>
</tr>
<tr>
<td>Millets</td>
<td>46</td>
<td>31</td>
<td>674</td>
<td>2,300 (pearl); 2,000 (finger)</td>
</tr>
<tr>
<td>Groundnut</td>
<td>310</td>
<td>293</td>
<td>945</td>
<td>2,800</td>
</tr>
<tr>
<td>Soya bean</td>
<td>97</td>
<td>91</td>
<td>938</td>
<td>2,000</td>
</tr>
<tr>
<td>Common bean</td>
<td>288</td>
<td>159</td>
<td>552</td>
<td>1,200</td>
</tr>
<tr>
<td>Pigeon pea</td>
<td>195</td>
<td>233</td>
<td>1,195</td>
<td>1,500</td>
</tr>
<tr>
<td>Cowpea</td>
<td>68</td>
<td>30</td>
<td>441</td>
<td>1,200</td>
</tr>
</tbody>
</table>

**Figure 17: Estimates of Malawians Vulnerable to Hunger, 2002–18**

![Graph showing estimates of Malawians vulnerable to hunger from 2002 to 2018.](image)

Source: Benson and Edelman 2016 and Own calculations from MVAC reports.

**Government market interventions have contributed to high price volatility and undermined commercial investment in the sector.** The government of Malawi enacted the Control of Goods Act (COGA) in 1968 with the intention of protecting indigenous enterprises and nascent industry so that they could become more competitive. Since the early 2000s, the government has used export bans through COGA to control trade flows for maize, soy, and other crops. An additional motivation for export bans has been FISP, with the government unwilling to let subsidized domestic maize be sold in international markets. However, most of these policy changes and their implementation have not been clear and transparent. Various studies, in Malawi and elsewhere, have found that arbitrary and unpredictable licensing or bans tend to deter trade and are detrimental to the commercialization of agriculture (World Bank 2018e). Malawi’s maize policies and those of its neighbors (Zambia, Mozambique and Tanzania), especially on export bans, have had an effect on maize markets, potentially leading to higher price volatility (Figures 18 and 19) and lower private investment.

**In 2018, the Malawian parliament passed the Control of Goods Bill (2018) to help create a more predictable trade environment and more transparent regulation of agricultural trade and production.** Although the Bill was enacted, the government has been slow to draft regulations, so the policy is not yet being implemented. However, while the Bill may be a step in the right direction, there is still a need to analyze the regional trade policies in assessing the impact of an export ban in Malawi. The Bill will help Malawi better align its policies in line with the SADC trade protocol of 1996 (amended in 2000, 2007 and 2008) which was aimed at improving investment and productivity in the region by removing trade barriers. This will allow farmers in Malawi to pursue the commercialization agenda and benefit from regional trade, while the government can collect more revenue in form of taxes.
Key Challenges

The main barriers to increasing smallholder productivity, attracting more investment, and expanding exports are these:

**Over-reliance on rainfed agriculture, limited agriculture diversification, and escalating weather-related shocks jeopardize the sustainability and resilience of Malawi’s agriculture sector.** According to the latest FAO figures, total crop area has risen from the mid-1990s average of 2 million ha to 3.5 million ha in 2014. Just six crops have consistently accounted for 80–90 percent of the total cultivated crop area. Maize is still dominant, occupying slightly above 50 percent of crop area, down only slightly from about 60 percent in the 1980s. Other crops of importance include groundnuts at 14 percent of the crop area; beans, 6–10 percent; pigeon peas, 5–7 percent; soybeans, 4 percent; and cassava 3–7 percent.

**Unpredictable market distortions are a disincentive to increased productivity and commercialization of the sector.** The government’s market interventions, especially on maize, have been neither predictable nor rules-based. The Agricultural Development and Marketing Corporation (ADMARC) and National Food Reserve Agency (NFRA) purchase maize (and other crops)—in theory to stabilize prices, maintain stocks in the strategic grain reserve (SGR), and timely release of stock to buffer against food shortages. However, these purchases have been inconsistent and unpredictable. The setting of procurement prices has usually not been transparent, and the timing of purchases has been unpredictable. This makes it difficult to anticipate how much maize NFRA and ADMARC are going to demand in a given season, or what the procurement modalities will be. There are no published rules governing NFRA/ADMARC’s marketing activities, timing, volumes, and locations of purchases and sales; and these change from year to year. These inconsistencies make it difficult for the private sector to plan and may also distort smallholder decisions about when and at what price to sell. In addition to buying and selling maize, the government also sets minimum farm gate prices for those who wish to purchase produce directly from smallholder farmers. The timing of when minimum prices are announced and when they go into effect are inconsistent from season to season. It is also unclear whether minimum prices are meant to be enforced in practice, even though they are enforceable by law. Official government statements on procurement seem to
suggest that minimums are not enforced. Overall, these policies have not lived up to expectations, and they have become a disincentive to investment in agriculture because markets become less predictable.

**Government spending on agriculture is heavily skewed toward subsidies for maize inputs and maize procurement, which undermines efforts to implement transformational strategies.** The Government of Malawi has consistently met or exceeded the 10 percent budget commitment agreed to in the CAADP Compact in 2010. Yet agriculture has consistently failed to attain the minimum 6 percent sector growth set in the CAADP compact. The budget of the Ministry of Agriculture, Irrigation and Water Development (MOAIWD) continues to focus narrowly on maize production through the FISP and on maize consumption via the Strategic Grain Reserve and ADMARC. For 2007/08–2011/12, FISP took up about 73 percent of the MOAIWD budget. Although due to reforms of FISP the proportion of FISP and maize purchases as a percentage of the MOAIWD budget has declined to about 50 percent in the 2017/18 budget, that has not helped to increase investment in such strategic areas as livestock, extension, irrigation, market development, and research and development. Further, there have been recurrent concerns for years about the government’s failure to rebalance budget allocations to strategic agricultural priority areas that can stimulate productivity and growth. Figure 20 illustrates the government’s current budget allocation for the agriculture sector.

**Figure 20: Summary of Key Budget Allocation in Ministry of Agriculture**

![Budget Allocation Chart](image)

*Source: Agriculture Joint Sector Report, November 2017 (MoAIWD).*

**Extension services remain weak.** In the recent past the Ministry of Agriculture, Irrigation and Water Development has become less effective in improving agricultural development because of low staffing levels and poorly trained personnel. On average, the Ministry is operating with less than half the staff it needs, making it difficult to reach the growing farmer population with extension messages. At the same time, use of ICT based methods to disseminate good agriculture practices is also limited.

**Farmers do not have access to improved seed varieties and the best technologies to raise agricultural productivity and production.** The continued use of low-yielding crop varieties has reduced productivity; yield gaps range from 72 to 89 percent. Even where improved varieties have been adopted, there has been no remarkable yield increase due to poor crop husbandry, such as delays in land preparation, late planting, inappropriate plant population densities, late weeding, poor fertilizer management, and poor post-harvest handling and storage. Although over time the seed industry has grown, the markets have been flooded with fake seed from traders who are defrauding smallholder farmers. The Seed Bill being drafted should ensure that the rights of farmers are safeguarded by better regulation supported by adequate resources for enforcement.
Food security and nutritional outcomes for most rural Malawians remain poor. The Malawi Demographic and Health Survey (MDHS) of 2015–16 reported that 37 percent of children under the age of 5 are stunted (too short for their age), which is a sign of chronic undernutrition. Moreover, 3 percent are wasted (too thin for their height), a sign of acute undernutrition; and 12 percent are underweight (too thin for their age). Although the prevalence of stunting and underweight children dropped substantially between 2010 and 2015/16, from 47 to about 37 percent, by international standards the figures are still unacceptable.

Poor access to finance by farmers tends to slow adoption of technologies that would improve productivity. Most of the farmers in Malawi are smallholders, with few resources that can be used as collateral for loans. Although microfinance institutions are available in rural areas, access to credit is still limited due to stringent requirements in terms of assets and income and high interest rates (25–40 percent for both commercial banks and microfinance institutions). Given high default rates and over-reliance on rainfed agriculture, lending for agriculture has been very risky.

Inadequate infrastructure is slowing the pace of agricultural transformation. Although the government has increased investment in irrigation schemes for smallholders, at 25 percent of potential, the current area irrigated is still low. Thus, most farmers rely on rainfed agriculture, and must now deal with climate-related issues. The inadequacy of the rural road network has also been isolated as a drag on agricultural development in Malawi. The network of district roads is not only poorly developed, but most of it is impassable during the rains. This has tended to make transport costs very high for most smallholders, reducing the competitiveness of farmers, especially those in very remote areas.

Policy Options for Immediate Impact

❖ **Action 1**: Remove restrictions and establish transparent, predictable trade policies to improve agricultural markets, and stimulate production and exports. Review of the Control of Goods Act is a positive step toward making agricultural trade more predictable. Government should now simplify the cumbersome licensing process to encourage entry of small and medium enterprises that can also absorb excess labor in the sector, especially in rural areas. As a way of reversing the cycle of uncertainty and unpredictability, there is need for government to adopt a rule-based approach to its interventions in the market. Government should ensure that ADMARC and NFRA have enough (and timely) resources to enable them to procure directly from small-scale farmers and ensure that procurements are predictable and transparent. Predictable prices increase the incentives for producers to plant cash crops for the market and enable them to tolerate more price risk.

❖ **Action 2**: Promote adoption and knowledge of new technologies that are responsive to changing climatic conditions. Between 2012 and 2016 the Agriculture Technology Clearing Committee (ATCC) has released about 89 technologies that were developed by government institutions (the Department of Research, Agriculture Research and Extension Trust); CGIAR centers; Lilongwe University of Agriculture and Natural Resources (LUANAR); and private companies. Among them are high-yielding and drought-tolerant seed varieties, bio-fortification, and production technologies. Although the ATCC has cleared the technologies, few have reached farmers. Government needs to lead and coordinate with stakeholders to disseminate the technologies and make them available to farmers. Further, government and stakeholders should also intensify promotion of climate smart agriculture (CSA) technologies as a way of increasing productivity and profitability of the sector and reducing vulnerability to climate shocks.

❖ **Action 3**: Enforce the seed policy regulations to make quality seeds far more widely available. The government launched the new seed policy in April 2018 and a draft Seed Bill has been prepared to
improve regulation of the seed industry. The flooding of the industry with fake seed has contributed to low productivity as farmers are sold grain instead of certified seed. Coordination between the research of the Seed Traders Association of Malawi and the Department of Agriculture Seed Services Unit research will be central to rooting out this malpractice. Government should ensure that the Seed Bill is finalized for the Law to come into effect to allow it to effectively regulate the seed industry.

- **Action 4:** Take advantage of new laws to improve land tenure security, which will promote investment and the commercialization of agriculture. The government has approved 10 relevant new land laws, and the regulations to guide their implementation have been gazetted. The government is now piloting implementation of the land laws in selected districts before upscaling to the rest of the country. Government should speed up the implementation of the pilot programs to identify key bottlenecks that will affect the roll out of the policies. Implementing the new laws will encourage investment in the sector as farmers including smallholders will be able to access financing using the land certificates as collateral.

### Policy Actions for the Medium Term (1–5 years)

- **Action 1:** Accelerate reforms to FISP. Government should continue to consolidate the gains from the reforms that began in 2015 directed to private sector retailing, diversifying the seed provided to farmers, reducing subsidies by capping the value of vouchers and allowing the farmer to pay the difference with market value, and piloting selection of productive poor farmers. Although government has piloted selection of such farmers in four districts for two years, it has been slow to scale up nationally. Evidence suggests that FISP would be considerably more productive if it targeted more productive smallholder farmers who still need subsidized support. The social safety net and resilience programs should also be expanded to meet the needs of resource-poor farmers who will not qualify for the FISP program. Finally, to improve cost-efficiency and reduce fraud, government should consider E-vouchers like those being used in Zambia.

- **Action 2:** Direct spending to priority areas. Based on the 16 intervention areas specified in the National Agriculture Investment Plan (NAIP), the government should rebalance its spending rather than allocating a disproportionate 50 percent of the agriculture budget to FISP and maize procurements.

- **Action 3:** Embrace other forms of technologies to disseminate through the extension system, especially ICT. The government has finalized reviewing the Extension Policy and is currently developing a strategy to guide implementation. However, this process has taken over two years, and Government should now focus on finalizing the extension strategy. This will allow broad dissemination of proven technologies to ensure that farmers are using the most recent technologies to increase productivity and reduce postharvest waste. High vacancy rates of extension workers (currently at 43 percent) and expansion of mobile networks provides an opportunity for government to use ICT based approaches to reach out to more farmers while it is dismantling barriers to the effectiveness of extension workers.

- **Action 4:** Strengthen farmer organizations and cooperatives and develop structured markets. Transforming farmer organizations into independent and self-sufficient entities will result in higher productivity and better-quality products. This will both help farmer organizations to access better commercial markets and help them to become more competitive in their markets. The government should develop transparent and sound regulatory frameworks for the establishment of sustainable cooperatives, structured markets, and a conducive investment climate that will pave way for agriculture sector transformation.
**Action 5: Increase investment in irrigation to heighten resilience and reduce overreliance on rain.**

The potential to expand land under irrigation is enormous, as spelled out in the 2015 National Irrigation Masterplan and Investment framework. Irrigation can both supplement erratic rainfall and intensify land use, reducing the risks associated with rainfed agriculture and ensuring consistent production. Government should therefore re-balance the agriculture budget in line with the NAIP and allocate adequate resources towards the irrigation sector and accelerate development of more irrigation infrastructure.

**Action 6: Increase investment in rural feeder roads to reduce transportation costs.**

A priority for the construction and improvement of rural feeder roads should be connecting isolated areas that have high production potential to markets. Government through various projects such as the Agricultural Sector Wide Approach Support Project (ASWAp SP II) and the Rural Infrastructure Development Project, just to mention a few, has embarked on rehabilitation and upgrading rural roads, thereby making productive areas accessible throughout the year. Government is encouraged to continue on this path as this will assist in reducing the transport costs burdening producers and SMEs, therefore making Malawi products more competitive.
Improving Access and Quality of Energy & Water Services for Growth

Key Message

- Investments to improve access to reliable energy and water supply are needed to support economic growth and investment as well as poverty reduction in Malawi.
- Both energy and water sectors face two major interrelated challenges – lack of investment financing to match needs and the inefficiency of service providers. Weak corporate governance of service providers and the increasing degradation of water resources exacerbate these challenges.
- To address these challenges, urgent policy action is needed in five areas:
  1) Government should incentivize service providers to reduce operational inefficiencies by linking public financing for capital expenditure to verifiable improvements in efficiency.
  2) Government should implement cost-reflective electricity and water tariffs to help address capital financing gaps and help attract private finance.
  3) With respect to energy, government should adopt a national electrification strategy that is in line with the National Energy Policy.
  4) To avoid further degradation of critical watersheds, government should establish a Payment for Ecosystem Services (PES) mechanism to generate funding for restoring critical watersheds for energy generation and water supply.
  5) These measures must be completed with medium-term institutional reforms, many of which were initiated years ago, but have since stalled.

Key Indicators

<table>
<thead>
<tr>
<th>2018 values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy</strong></td>
</tr>
<tr>
<td>Electricity Access rate</td>
</tr>
<tr>
<td>Installed capacity</td>
</tr>
<tr>
<td>Energy mix</td>
</tr>
<tr>
<td>Average cost of service</td>
</tr>
<tr>
<td>Average tariff</td>
</tr>
<tr>
<td>Average transmission and distribution losses</td>
</tr>
<tr>
<td>Electricity bill collection rate</td>
</tr>
<tr>
<td><strong>Water supply and sanitation</strong></td>
</tr>
<tr>
<td>Access to improved water source</td>
</tr>
<tr>
<td>Access to improved sanitation facility</td>
</tr>
<tr>
<td>Functionality of rural water points</td>
</tr>
<tr>
<td>Average hours of water supply</td>
</tr>
<tr>
<td>Non-revenue water</td>
</tr>
<tr>
<td>Water bills collection efficiency</td>
</tr>
<tr>
<td>Operating cost coverage</td>
</tr>
</tbody>
</table>

Source: ESCOM, EGENCO (for energy), MoAIWD (for water supply and sanitation)

Context

Access to energy and water are top binding constraints to Malawi’s growth. Currently, the electrification rate is about 11 percent with disparities between urban (42 percent) and rural areas (4 percent) (World
The inequity among the rich and poor is stark – the poorest 20 percent reports one percent access and the richest 20 percent reports 31 percent electrification rate (Kojima et al 2016). Annual population growth around 3 percent outstrips the pace of electrification. On average, the utility ESCOM connects 27,344 customers annually, against a target of 90,000 customers a year to achieve a 30 percent electrification rate by 2030. Most of the population with access is connected to ESCOM’s grid, while Malawi’s off-grid sector is very nascent consisting of few donor-funded initiatives. Thus, many rural households depend on biomass, which has contributed to severe deforestation in the country. Access to improved water supply and sanitation currently stands at 87 percent and 44 percent respectively. However, official access figures often mask the poor quality of services. High population growth, dwindling water resources, lagging infrastructure development, and aging water systems create large gaps between supply and demand, leading to unreliable services. Globally, Malawi is ranked number five out of the top 10 countries (with population greater than one million) with the highest proportion of population at risk of frequent water shortages (Sadoff et al 2015).

Malawi’s firms experience a high frequency of disruptions of electricity and water supply, which negatively impact their productivity and competitiveness. Analysis from the 2014 World Bank Enterprise Survey (WBES) recorded that about a quarter (24.8 percent) of firms identified electricity outages as a major constraint to their business activity. In a typical month, firms in the country experienced about 6.7 outages lasting about 3.5 hours on average. This is a deterioration from the 2009 survey when firms indicated that they experienced an average of 0.8 electricity outages in a typical month and an average duration for outages of 2.4 hours (see Figure 21). The frequency of outages will almost certainly have increased since the time of the 2014 enterprise survey, given the impact of two years of drought on Malawi’s hydropower generating capacity. The consistency and availability of electric power is a problem for businesses across the region. Looking at comparator economies, firms in Tanzania experience the highest number of outages (8.9 outages per month) followed by Malawi and Zimbabwe (at 6.7 outages per month). About 5.1 percent of annual sales are lost to electricity outages in Malawi. Tanzania, Kenya, Zambia and Zimbabwe lose 5.5 percent, 5.6 percent, 5.5 percent and 6.9 percent, respectively. South Africa only loses 0.7 percent.

Figure 21: Electricity Challenges Faced by Firms in Malawi

<table>
<thead>
<tr>
<th></th>
<th>Malawi 2009</th>
<th>Malawi 2014</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of electrical outages in a typical month</td>
<td>8.9</td>
<td>6.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Duration of a typical electrical outage (hours)</td>
<td>3.5</td>
<td>4.5</td>
<td>3.5</td>
</tr>
<tr>
<td>If there were outages, average duration of typical electrical outage (hours)</td>
<td>2.4</td>
<td>3.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Losses due to electrical outages (% of annual sales)</td>
<td>5.1</td>
<td>7.0</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Source: Authors’ Calculation based on data from WBES

---

7 0.82 percent on average in the past five years.
Most water supply networks in Malawi operate on an intermittent basis so that water reaches customers only a few hours per day or a few days per week. Experience from a recent hydraulic analysis conducted for of the Lilongwe water network has shown that intermittent supply is often a direct consequence of high leakage and insufficient hydraulic capacity. In 2014, firms also reported experiencing on average of 5.3 days of insufficient water in a typical month, which is highest amongst comparable countries in the region, and more than double the regional average for countries in Sub Saharan Africa (1.8 days in a typical month). Water outages were reported more prominently by enterprises in Blantyre compared to the other parts of the country. Survey respondents reported a higher frequency of water outages in 2014 compared with 2009 when firms reported experiencing only 0.5 days of water disruptions in a typical month (Table 2).

Table 2: Water supply disruptions are more frequent in Malawi compared to other countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Last Survey (2014)</th>
<th>Previous Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>5.3</td>
<td>0.5 (2009)</td>
</tr>
<tr>
<td>Mozambique</td>
<td>0.4</td>
<td>-</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2.1</td>
<td>6.1 (2006)</td>
</tr>
<tr>
<td>Kenya</td>
<td>2.1</td>
<td>3.1 (2007)</td>
</tr>
<tr>
<td>Zambia</td>
<td>2.6</td>
<td>1.9 (2007)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2.5</td>
<td>-</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>Region</td>
<td>1.8</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Authors’ Calculation based on data from WBES

The unreliable supply of basic utilities adds to the costs of production and weakens the competitiveness of Malawi’s private sector. Enterprises in Malawi carry an average stock inventory of 42 days, roughly double of the inventory carried by firms in Tanzania and Zambia. Tying up additional working capital in stock reduces competitiveness. Similarly, with large-scale use of back-up systems, the average cost of electricity rises to above regional comparators. Due to unreliable and intermittent power supply, enterprises run back-up generation at high cost. With respect to water shortages, a recent World Bank global study on the economics of water scarcity suggests that a single water outage in an urban firm can reduce its revenue by more than eight percent (Damania et al 2017). If that firm is in the informal sector, as many are in Malawi, sales decline by 35 percent, ruining livelihoods and stagnating economic growth.

Key Challenges

Both energy and water sectors face two major interrelated challenges – lack of investment financing to match needs and the inefficiency of service providers. Weak corporate governance of service providers, and the increasing degradation of water resources exacerbate these challenges.

Limited investment in generation capacity in the energy sector has led to rolling blackouts. Malawi has a total installed generation capacity of 482 MW against the country’s demand potential estimated to be around 440 MW, and which is expected to grow to 719 MW according to the national Integrated Resource Plan. Given the heavy reliance on hydropower, and weak rains in recent years, inadequate water levels left the system operating at less than half the full hydro capacity at 140 MW at the end of December 2018. The current state signals a risk of inadequate hydro generation availability and the need to invest in alternative sources of (renewable) energy. However, the investment requirements for priority generation and transmission projects are too large to be funded through public sector financing alone. A
A comprehensive sector reform effort is needed to spur private sector participation especially in generation through Independent Power Producers (IPPs).

**Lack of investment financing for the water sector has also been a challenge.** Decades of government underinvestment has brought the sector to its knees, with high levels of non-revenue water\(^8\) (average 35 percent) and poor quality of services (IBNET). Much of the existing water supply infrastructure was built in the 1970s. Major donor-financed programs such as NWDP-1 (1997-2003) and NWDP-2 (2007-2015) were unable to make a dent in the infrastructure deficit facing the sector. The traditional approach has been to invest in ever more expensive water sources to overcome the apparent deficit. However, even where investments have been made, these have not translated into improved services due to weak institutional capacity of the service providers. To achieve the national long-term vision of 100 percent coverage of improved and reliable water supply and 90 percent coverage of sanitation by 2030, MoAIWD has estimated the financing requirements to be in the region of US$2-3 billion. However, to date government investment in the sector remains extremely low, and this is unlikely to increase in the medium-term.

**The weak financial position of utilities hampers their ability to undertake aggressive access expansion and ensure reliable service delivery.** ESCOM’s weak financial performance is on the backdrop of a lack of cost reflective tariff, no borrowing capacity, and availability of government bailout to meet financial shortfalls. As a result, ESCOM’s operations are undermined through (i) inability to perform regular operations and maintenance (O&M), which has led to poor customer service including service interruptions and increased restoration time; and (ii) focus on connecting high value customers that are able to afford the connection charge as opposed to focusing on access to all.

**Cost recovery also eludes water utilities and performance remains uneven.** Full cost recovery from consumer fees over the long term is one of the principles of the National Water Policy. Available IBNET data shows that between 2000 and 2006, Malawian water utilities on average achieved relatively high operating cost coverage (OCC) ratios of between 1.5 and 2 (which is enough to cover O&M costs and some debt service). Since then, all utilities have struggled to maintain OCC ratios of 1.

**Malawi’s energy and water utilities create a ‘hidden’ fiscal burden to government due to their inefficiencies – excessive losses, low bill collection rates – and the policy of setting tariffs below cost recovery.** In the energy sector, transmission and distribution losses are estimated at about 18 percent, while water records losses (non-revenue water) average 35 percent. Water bill collection rates average around 80 percent, with government agencies/departments owing utilities large sums of money. Overall, Malawi’s water utilities are estimated to be losing over 125 percent of revenues due to these inefficiencies (Figure 22). Typically, utilities compensate for these losses by reducing investment in maintaining their assets. When this happens, losses increase substantially, and abnormally high investment is required to carry out repairs, which in a constrained budget environment, reduces the amount of financing available for investments in these key sectors.

---

\(^8\) Non-Revenue Water (NRW) is the percentage of the total water produced for which no revenues have been received. A high proportion of NRW is due to factors such as physical leakages in the distribution system due to ageing and variations in pressure, unauthorized water use and inaccuracies in billing or meter reading. Reducing NRW results in an increase in hours of supply to customers and increased revenues from water sales.
Weak corporate governance of the utilities, as well as gaps in existing sector institutional frameworks exacerbate the above challenges. Both these sectors are faced with excessive state representation in sector institutions which limits independent decision making regarding best practices in recruitment of management, procurement and financial management. Further, long standing gaps in the institutional frameworks for both sectors remain unresolved. For instance, in rural areas, the traditional community management model for water supply has proved unsustainable as rural communities grow into market centers/small towns and water supply networks become more complex for communities to manage on their own. Most rural piped water supply systems are either non-functional or operating at below capacity due to deficiencies in management. Regarding urban sanitation, the Waterworks Act 1995 mandates urban Water Boards to provide sewerage services within their areas of jurisdiction. Despite having the mandate, none of the Water Boards are providing sewerage services and all sewerage assets (where they exist) remain with the city councils. In the energy sector, a new national Energy Policy 2018 is yet to be adopted. Yet the guidelines under the new Energy Policy have yet to be tested through their application in the form of private energy projects achieving financial close.

Finally, Malawi’s water resources are under threat from severe land degradation and loss of forest cover. Critical watersheds are becoming degraded leading to reduced water availability, deteriorating water quality, increased vulnerability to droughts and floods and reduced energy security. Recent studies suggest that land degradation hotspots cover about half (41 percent) of the land area in the country (MoNREM 2017). The Shire River Basin (where 98 percent of Malawi’s energy is generated) remains the most prominent hotspot of land degradation. Existing hydropower plants on the river are often unable to meet demand, partly due to low flows and sediments caused by degradation of catchments upstream of the plants. Efforts to address land degradation are hampered by a multitude of factors. The major challenge is the weak institutional capacity for natural resource management at both national and local levels and the severe lack of funding for these activities in local government budgets. In addition, changes to climate and weather patterns exacerbate the impacts of natural resources degradation, making it harder to address the problem.

Immediate Actions for Impacts during the First Year

❖ **Action 1: Improve financial and operational performance of utilities.** Government should improve revenue collection and minimize bad debts from government Ministries, Departments and State-Owned Enterprises. In this regard, government should adopt a prepaid meter policy for water and...
energy utility services to government agencies/departments to improve billing and revenue collection. International experience also shows that changing systems of management and organizational structure, reducing overstaffing can improve operational efficiency and, thereby, creditworthiness. For example, by increasing the collection rate to 100 percent, reducing non-labor costs by 15 percent, reducing non-revenue water to 25 percent, and increasing revenue by ten percent, the number of service providers who could tap the market increases to 77 percent (Figure 23). Therefore, in addition to the traditional capital investments, government should have a deliberate strategy to use public finance to incentivize efficiency improvements in utilities by linking financing to verifiable performance indicators.

**Action 2: Strengthen corporate governance and institutional framework of the utilities.** There is need for autonomous, strong and credible institutions. Utilities need to have the authority (in the legal framework) and resources (skills, funding, tools, etc.) to implement reforms. Attempts to establish an economic regulator for water services stalled in 2009, while the recent ESCOM and EGENCO reforms are only partially implemented and still facing significant challenges. Yet reforms are key to strengthen corporate governance, autonomy, and accountability of Malawi’s utilities. Government should support reform processes, starting with a review of the Waterworks Act 1995 as well as the full implementation of the new power market structure.

**Figure 23: Improving operational efficiency to move to financial viability**

![Figure 23](image)

Source: Authors’ calculation based on data from the IBNET

**Action 3: Adopt an electrification strategy.** Government should adopt a national electrification strategy that is in line with the National Energy Policy and is underpinned by sound analytics to drive the sector. Centralized planning is vital for the electrification that will allow for timely investments in the generation and transmission segment to meet the sector’s demand growth and provide for least cost electrification with a mix of both on-grid and off-grid efforts.

**Action 4: Improve quality of service.** With respect to energy, the quickest and most cost-effective way to improve reliability of energy supply in the country is to invest in solar energy. Government should therefore fast track the signing of PPAs for solar IPPs. With respect to water, the key to improving reliability of services is to prioritize investments in reducing water losses. One practical way to operationalize such a policy is to require water utilities seeking government financing to define investment packages that balance the reduction of leakage against the development of new production sources.
Action 5: Dismantle existing community-management model and extend the mandate of regional water utilities to cover rural areas. Doing so would not only improve the quality of water services in rural areas, it would also expand the revenue base for the utilities. An expanded revenue base would make the utilities more attractive to private capital.

Actions for Medium-Term Agenda (2-5 Years)

Action 1: Implement cost reflective electricity and water tariffs. Electricity and water tariffs should be kept at a level that ensures profitability and sustainability of the respective sectors. This could help contain demand growth, meet needs for revenue and investment, and help attract private investment in the sectors. The burden on households can be alleviated by a differentiated tariff schedule.

Action 2: Address the power supply deficit through investment in generation and transmission projects. Government commitment is needed to deliver on two major initiatives: (i) interconnecting to the SAPP through the Mozambique-Malawi Regional Interconnector transmission line, which will initially allow for an additional 50MW of imported capacity from 2022 onwards; and (ii) increasing domestic generation through IPPs by embarking on reforms that attract more private investment. IPPs are needed because the investment requirements for priority generation and transmission projects are too large to be funded through public sector financing alone. This will also require the application and market testing of new policies, regulations, frameworks, and support mechanisms to generate investor confidence and mobilize private capital. In the medium to long term, government may also consider establishing and capitalizing a water and sanitation investment fund to address the long-term financing needs of the sector.

Action 3: Transfer urban sanitation provision from city councils to water utilities. The Waterworks Act 1995 mandates urban Water Boards to provide sewerage services within their areas of jurisdiction. Despite having the mandate, none of the Water Boards are providing sewerage services and all sewerage assets (where they exist) remain with the city councils. The councils however lack the necessary financial and human resources to provide sanitation services to the growing urban population. Recent highly publicized cases of contamination of Lilongwe city’s drinking water by a leaking sewer pipe have led to renewed calls for sewerage services to be transferred to Water Boards.

Action 4: Establish sustainable watershed management structures. The Water Resources Act of 2013 provides for the management, conservation, use and control of water resources, including management of watersheds. The government recently appointed the governing board for the National Water Resources Authority (NWRA)—which is an important milestone in operationalizing the institutional framework for water resources management as laid out in the Water Resources Act of 2013. Government should fast-track the remaining steps to operationalize the NWRA, which would help strengthen multi-sectoral planning and management of water resources and pave the way for establishing sustainable watershed management structures at the community level.

Action 5: Establish a Payment for Ecosystem Services (PES) mechanism to generate funding for restoring critical watersheds for energy generation and water supply. Government should urgently establish a PES mechanism to mobilize funds either (i) private sources with an interest in restored watersheds (e.g. Illovo Sugar and others) or (ii) public sources such as the EGENCO, Water Utilities and the NWRA—all of which have an interest in improved catchment management to extend the lifetime and productivity of hydrological infrastructure, including for hydropower, irrigation and water supply.
Improving Education Access, Quality, and Equity

Key Messages

- Malawi’s education system, particularly at the primary level, has expanded rapidly in recent years while attempting to match high population growth, but capacity has not increased proportionately.
- Only 3 of every 10 children who enroll in Standard 1 reach the end of the primary cycle (Standard 8), and only 1 completes secondary education.
- Children in Malawi can expect to complete 9.4 years of education by age 18, but adjusted for learning quality, this is equivalent to only 5.4 years - a learning gap of 4 years, compounding resource wastage.
- The low human capital base weakens the foundation for Malawi’s economic growth and development. This is reflected in Malawi’s human capital index (HCI) of 0.41, which suggests that Malawian children will be only 41 percent as productive as they would be if they enjoyed complete education and full health.
- Government, community leaders and parents should ensure all children who enroll in school complete primary and secondary education, and demonstrate knowledge and skills equivalent to the years spent in school.
- Low cost alternatives to secondary education service delivery also need to be explored, including public-private partnerships (PPPs) and Open Distance Learning (ODL) programs.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>New entrants to Standard 1</td>
<td>656,821</td>
<td>661,224</td>
<td>737,107</td>
</tr>
<tr>
<td>Net Enrolment Ratio - Primary</td>
<td>104</td>
<td>99</td>
<td>88</td>
</tr>
<tr>
<td>Gross Enrolment Ratio - Primary</td>
<td>122</td>
<td>126</td>
<td>131</td>
</tr>
<tr>
<td>Survival rate to Standard 8</td>
<td>29.6</td>
<td>49.7</td>
<td>32.5</td>
</tr>
<tr>
<td>Transition to Secondary Education</td>
<td>38.4</td>
<td>30.2</td>
<td>35.0</td>
</tr>
<tr>
<td>Male</td>
<td>37.4</td>
<td>30.1</td>
<td>33.5</td>
</tr>
<tr>
<td>Female</td>
<td>39.6</td>
<td>30.3</td>
<td>36.4</td>
</tr>
<tr>
<td>Gross Enrolment Ratio - Secondary</td>
<td>20</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Male</td>
<td>22</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>Female</td>
<td>17</td>
<td>18</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Calculations based on data from MOEST EMIS Bulletins (2006, 2011 and 2016)

Context

Malawi’s education system has expanded rapidly in recent years, achieving impressive improvements in the number of students enrolling in primary school and some gains in the share progressing to secondary and onwards. However, this rapid expansion has in many respects outstretched system capacity, in terms of classrooms and infrastructure, staffing, and teaching and learning materials. As a result, Malawi’s limited education resources are poorly distributed, leading to inequities in conditions and practices, in Malawi’s schools, and low and slowly improving learning outcomes.

Primary education

Malawi has successfully expanded access to primary education through the ongoing free-primary education program, but the primary sector still faces severe challenges of quality and equity. While almost all new primary school-age children enroll in school, high rates of dropout and repetition mean...
that only 70-80 percent of students progress at the end of each standard. Only around half of students enrolling in school survive to Standard 4, and around one-third to Standard 8, according to the Malawi Longitudinal Schools Survey (MLSS) conducted by the World Bank. The high rates of repetition – above 20 percent in lower grades – exacerbate overcrowding, with class sizes of 100 or more common in Standards 1-2 and many classes in these grades taking place in the open air.

Even students who do remain in primary school experience poor learning outcomes, further contributing to Malawi’s low Human Capital Index. Results from the MLSS which tested more than 12,000 pupils in 559 schools revealed that only one-third of tested Standard 4 students could add simple two and three-digit numbers, and only 19 percent could correctly write the plural form of the word ‘mango’ (Figure 24) (Asim 2018).

Source: Malawi Longitudinal Schools Survey (Baseline data, 2016)

Malawi participates in regional assessments where a group of 12 African countries conduct a similar test to a sample of their grade/standard 6 pupils to gauge their performance in comparison with other countries. The results suggest that, despite improvement in recent years, Malawi still registers the lowest learning levels in the Eastern and Southern Africa region with most Standard 6 learners not being able to achieve the expected minimum levels of learning in Mathematics or English (Bashir et al., 2018).

This overall poor picture masks significant inequities in access and outcomes. Learning outcomes are inequitable between students, with girls achieving significantly lower average learning outcomes than boys (ibid; MLSS). In addition to girls, students without literate parents and over-age students achieve lower learning outcomes, controlling for other factors. Students in the most remote schools achieve lower learning outcomes than those in schools close to trading centers, reflecting disparities in school conditions and staffing (MLSS) (for more details, see Key Challenges).

**Secondary education**

Access to secondary education is still amongst the lowest in sub-Saharan Africa (SSA) with few opportunities for the poor. Only 15 percent of secondary school age population is enrolled in school. The Net Attendance Ratio (NAR) is 4.4 percent for the poorest quintiles compared to 41 percent for the richest. At the current secondary education enrolment levels, Malawi needs to enroll an additional 1.1 million
students per year\textsuperscript{9} for the realization of ‘secondary education for all’ by 2030. The high cost of secondary education and lack of placements are the main contributors to low secondary education access. Despite the reduction of fees paid by students in all public schools by MK3,250 (US$4), the lowest cost schools (CDSS) will still charge a host of various school fees to secondary education students worth about MK7000. In 2017, only 53 percent of the 2016 primary education graduates who qualified to continue with their education could be absorbed in secondary schools with significant variations across districts.

Learning outcomes at secondary level, like those in primary, are inequitable. About 60 percent of secondary learners are concentrated in Community Day Secondary Schools (CDSSs) and Open Secondary Schools (OSS). However, results from the 2016 Malawi School Certificate of Education show that the CDSS and OSS register lower learning levels than other types of public schools (Figure 25). Across all subjects, girls achieve lower learning outcomes than boys (Figure 26). The two trends interact, with the gender gap in learning being largest in CDSS and OSS schools. Schools do not have the required material to facilitate teaching-learning processes; there is no teacher support program to equip teachers with the requisite knowledge and skills to effectively instruct students on the revised curriculum; while the examination system that is aligned to the revised curriculum is yet to be established.

\textbf{Figure 25: MSCE Pass Rate in Selected Subjects and School Type}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure25.png}
\caption{MSCE Pass Rate in Selected Subjects and School Type}
\end{figure}

\begin{tabular}{|c|c|c|c|}
\hline
Subject & Conventional & CDSS & Conventional & CDSS \\
\hline
English & 91\% & 81\% & 79\% & 62\% \\
Physical Sciences & 75\% & 55\% & 61\% & 44\% \\
Biology & 61\% & 44\% \\
Mathematics & 55\% & 44\% \\
\hline
\end{tabular}

Source: Malawi National Examinations Board 2016

\textsuperscript{9} Calculations by the World Bank team based on the UNESCO secondary education enrolment and secondary education age group estimates of 2015.
**Early childhood education**

**Early stimulation and learning opportunities are still limited.** Malawi has had several policy instruments on early childhood development since 2003, with several reviews in 2006 and 2009. However, only 32 percent of children 3-5 years access early learning opportunities through private providers, community and home-based child care modalities. International evidence shows that early childhood experiences have an impact on brain development affecting learning, health behavior and ultimately income (World Bank Group, 2017c). Low coverage of early learning programs is one of the main contributors to Malawi’s low HDI. This mediates through late start of primary education; poor retention at the early primary grades; low ability of learners to achieve requisite competencies and skills from respective learning experiences; and low overall school retention and repetition all of which further compound the inefficiency of the education system.

**Key Challenges**

**Access**

**Universal access to basic education remains unfinished although government expenditure on education remains high despite the constrained fiscal environment.** Government expenditure on education as a percentage of GDP (5.4 percent) is considerably higher than the average for Sub-Saharan Africa (4.8 percent) (Bashir et al 2018). To date, education is the highest funded sector with 21.5 percent of total government budget albeit close to 80 percent goes to personnel emoluments of whom 75 percent are teachers. Public expenditure per primary and secondary education student has also been rising currently estimated at US$115 and US$318 respectively. The high commitment to education is further explained by Malawi’s being among the early adopters to the Human Capital Project (HCP) with a functional multi-sectoral team to champion this agenda convened by the finance ministry.

Malawi’s fast-growing and young population poses a challenge to the improvements in the education sector. The population growth rate has remained in a range of 3.2 to 3.3 percent since 2008 and is projected to remain at this high level, even increasing to 3.4 percent in 2022 with population estimated to
be at 22.2 million.\textsuperscript{10} This implies that demand for education will remain high further crowding already stretched resources at primary and secondary level.

The low secondary education access levels substantially constrain Malawi’s growth potential. But to achieve the sustainable development goal (SDG) on completion of secondary education will require significantly new resources. Attaining universal secondary education at the lowest unit cost (US$115-unit cost for public primary education), government would need to raise the education expenditure to 6.3 percent of GDP and allocate at least 24 percent of the annual budget to education. Expansion of post-primary education enhances people’s productivity, promotes technological advances, secures socio-economic progress for countries, fosters social cohesion, income distribution and jump-starts fertility transition (World Bank 2018e, Bashir et al 2018). Specific to Malawi, returns to an additional year of schooling range between 8 to 11 percent, at par with average global levels and secondary education is a main contributor to the observed poverty reduction gains to date. Returns to secondary education are higher (67 percent compared to only 15 percent at the primary level) – and yields far higher returns for females than males (85 percent versus 58 percent) (Gondwe 2016). Household heads with secondary education have significantly lower multidimensional poverty than those with primary or no education (World Bank 2016b). Mothers with secondary education not only have fewer children (3.3 for those with secondary education against 4.7 for mothers with primary education) but also have them later (the median age at first birth is 20.7 for girls with secondary education compared to 18.6 for those with primary education) (NSO and ICF 2017). Each year of secondary education reduces the risks of child marriage and early childbearing by 4 to 8 percentage points, while universal secondary education completion would reduce early child bearing by more than two-thirds (Wodon 2018).

Slow adoption of low cost expansion strategies like public-private partnerships (PPPs) and Open Distance Learning (ODL) significantly hinders access to secondary education. Between 2011 and 2015, private secondary schools in Malawi increased by 85 percent compared to only 26 percent increase for public schools. This speedy expansion of the private schools’ network shows the huge potential to support the government deliver secondary education. Private schools can fill a gap where the nearest public schools are far away or when there is need to expand faster than public infrastructure can be built, both of which are true for Malawi (World Bank 2018e). PPPs were central to Uganda’s Universal Secondary Education (USE) reform program, with the government offering a per-student subsidy to low-cost purely private schools. Evidence shows that the PPP schools in Uganda performed significantly better than those in purely private schools (Barrera-Osorio et al 2016). Similarly, with the expansion of the internet-based information technologies, substantial numbers of students especially young mothers and secondary education students from low income households access secondary education and related programs.

A significant proportion of the secondary education age group is still out of school. Low access levels to secondary education imply that majority of secondary school age children are still out of school. Equipping them with productivity enhancing skills vital for poverty reduction and shared prosperity is yet to be prioritized by government and a lack of it compounds Malawi’s developmental challenges.

Quality and equity

The quality of Malawi’s schools varies to an enormous extent, creating significant inequities in the system. At primary level, school conditions and performance vary widely both between schools and between individual students. As noted above, remote schools – the fifth of schools more than 10-12km from the nearest trading center – achieve lower outcomes than those close to trading centers. These disparities reflect large inequities in conditions: teachers, particularly female teachers, are concentrated in

\textsuperscript{10} The World Bank estimates it at 2.9% for 2016.
schools close to trading centers, with school-level pupil-teacher ratios (PTRs) even within a district neighborhood varying by as much as 150 times (Asim et al., 2019). Remote schools are also more likely to lack basic amenities such as electricity and to have classrooms in need of repair (MLSS).

Within a single school, there is an urgent need to address the ‘lower grade bulge’ in lower grades, with large numbers of students enrolling, very large class sizes in lower grades, and limited learning. Within-school allocations of teachers are heavily biased towards upper grades, exacerbating overcrowding and large class sizes in lower grades. This in turn leads to increased repetition, further deepening overcrowding. These large class sizes mean that learning in lower grades is limited despite the efforts of teachers. Evidence from MLSS and the Service Delivery Indicators (SDI) demonstrates that Malawi’s primary school teachers are as likely as those in comparable countries to exhibit a range of positive behaviors associated with improved learning such as correcting mistakes and giving positive reinforcement, and yet Malawi achieves lower learning outcomes than these comparator countries in most international assessments.

Within a single class, the learning level of students varies enormously, with the gap between the most and least knowledgeable students in a typical Standard 4 class equivalent to two years’ learning (MLSS). Effectively teachers face a multi-grade classroom, creating an urgent need to train and support teachers in ‘teaching to the right level’ and identifying and supporting low-performing students.

Immediate Actions for Impacts during the First Year

Strategic policy directions by the new administration. At the current financing levels in comparison to the unfinished business at the primary, low access levels to secondary education and ensuring that all children complete basic education of quality, government policies and programs have to focus on the following key aspects: (a) better and equitable use of available resources for improved education outcomes for all children; (b) finding lower cost yet quality alternatives to secondary education to complement existing education delivery models; and (c) mobilizing additional resources from all stakeholders including the private sector and civil society.

The education sector has several and regularly updated policies in place supported by a National Education Sector Strategic Plan (NESP). Policy implementation is, however, weak partly due to resourcing as well as low commitment to reform. The actions below would be useful considerations by the new administration in the first year.

❖ **Action 1:** Fast-track implementation of all newly endorsed efficiency enhancing policies and strategic actions at the primary education level with targeted focus to underserved remote areas. Government has adopted numerous efficiency-enhancing policies with complementary strategic actions in a bid to improve efficiency at the primary education sub-sector, which would in turn free-up resources for the secondary education sub-sector. Roll-out and implementation through the decentralized structures has been slow or not kicked-off in some cases. Key among them are the: (a) Promotion Policy for Malawi Primary Schools; (b) Teacher Management Strategy (2018-2023); (c) The National Girls’ Education Strategy (2018-2023); Extending implementation of the same policy strategies at the secondary education level would remain a priority in the medium term.

❖ **Action 2:** Complete reforms to teacher’s hardship allowance. Large disparities in PTR between more and less remote schools reflect, in part, the preferences of teachers, who employ a range of formal and informal connections to achieve placements in desirable postings close to trading centers (Asim et al., 2019). Improvements to the targeting of newly deployed teachers, supported by a new categorization of schools by remoteness developed by the World Bank, have begun to reduce these disparities, but a sustainable solution depends on reducing the pressure from teachers to move schools. A hardship allowance scheme intended for teachers in remote postings was poorly targeted...
at launch, and is now received by 85 percent of teachers, removing any incentive effect. Planned reforms to the teachers’ remote posting allowance, to target the most genuinely remote schools for larger allowances and remove allowances for non-remote postings, are at the planning stage. Implementation of these reforms and introduction of the new allowance should be a priority for the new administration.

- **Action 3:** Develop a sustainable secondary education expansion plan anchored on sound policy reforms. A sustainable secondary education expansion drive necessitates an equitable financing formula for schools; along with policy reforms that crowd-in small private sector education providers, civil society as well as expansion with technological improvements of Open Distance Learning (ODL). Effective public-private partnerships (PPPs) and ODL have potential to substantially lower the cost of secondary education with greater reach to more eligible students overtime. Implementation of these policy reforms at the secondary education sub-sector would be prioritized in the medium term along with continued provision of key inputs (qualified teachers, hygienic and gender friendly learning environments, resourced classrooms and well-functioning school management systems) to secondary education service delivery.

- **Action 4:** Identify education champions across the whole government and private sector systems to lead the national resource mobilization drive for education. This should be complemented by a clear well-coordinated strategy that establishes the ‘minimum package for quality education’ against which all players should be aligned together with a monitorable accountability framework.

### Actions for Medium-Term Agenda (2-5 Years)

- **Action 1:** Develop more targeted policy tools, with the necessary data underpinning. Malawi’s education policymaking and planning has been constrained by a ‘one size fits all’ approach which pays insufficient attention to disparities in resources and conditions, and inequities in outcomes, between and within schools. Improved targeting of resources is urgently required to address disparities in school conditions and staffing, not only between districts but within them at the level of individual schools. Poor quality and incomplete administrative data, including limits to the accuracy of EMIS data, exacerbate the problem and limit the effectiveness of existing efforts to target resources – as in the case of the remote posting allowance for teachers described above. In the context of decentralization, there is a need for dedicated systems to collect and utilize data to identify and target resources to the neediest schools.

- **Action 2:** Develop an Out-Of-School youth skills development policy. Development of an explicit yet multi-sectoral youth skills development policy complemented by a vibrant youth empowerment program should be an integral part of Malawi’s Jobs Agenda.

- **Action 3:** Consider Public-private partnerships (PPPs). Government needs to consider partnering with private sector with public financing to expand access to quality secondary education.

- **Action 4:** Accelerate Open-Distance Learning (ODL) for secondary education. Government should consider accelerating the still nascent steps towards developing and implementing a national secondary education ODL program. This will cushion families from the high cost of secondary education as well as provide flexible and easily accessible service delivery alternatives to especially young mothers and out-of-school youths who would be willing to resume schooling.
Addressing an Unfinished Fertility and Stunting Agenda

Key Message

- High population growth around 3 percent presents a considerable constraint to Malawi’s economic growth and human capital development. This challenges households to feed and educate their children, the government to expand health care and education, while also straining agricultural productivity, due to ever-smaller plot sizes on increasingly marginal land.

- Malawi has one of the highest rates of adolescent fertility in Eastern and Southern Africa, reflecting the prevalence of early marriage and childbearing.

- High fertility rates are also associated with high levels of stunting—which only recently fell to 37 percent—and further negatively impacts educational attainment, productivity, and lifetime earnings.

- Malawi’s prospects for economic growth and poverty reduction will be substantially enhanced by policies and investments that promote healthy families, gender equality, and a skilled workforce.

- Authorities need to intensify and accelerate efforts to reduce childhood stunting and fertility with a special focus on adolescent girls.

Key Indicators

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2015</th>
<th>SSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual population growth (%)</td>
<td>3.6</td>
<td>3.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Under-5 mortality rate (per 1,000 live births)</td>
<td>234</td>
<td>63</td>
<td>83</td>
</tr>
<tr>
<td>Total fertility rate (births per woman)</td>
<td>6.7</td>
<td>4.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Adolescent fertility rate (births per 1,000 women aged 15–19)</td>
<td>161</td>
<td>136</td>
<td>100</td>
</tr>
<tr>
<td>Child marriage (% married by 18)</td>
<td>53</td>
<td>47</td>
<td>40</td>
</tr>
<tr>
<td>Unmet need for family planning</td>
<td>37</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Childhood stunting (% children under 5)</td>
<td>55</td>
<td>37</td>
<td>35</td>
</tr>
<tr>
<td>Maternal mortality ratio (maternal deaths per 100,000 live births)</td>
<td>1,123</td>
<td>497</td>
<td>547</td>
</tr>
</tbody>
</table>

Context

Investments in people help build human capital that is key to ending poverty and ensuring shared prosperity. A healthy, well-nourished, well-educated, and skilled labor force enable national economies to grow faster and better compete in the increasingly dynamic, technology-led global economy. Health is integral to the World Bank’s recently issued Human Capital Index, constituting two of the three critical building blocks of the next generation’s human capital (Box 1). Malawi has made good progress on many aspects of human capital.

The Government of Malawi has made a commitment to strengthen human capital and address high rates of fertility and stunting, which are closely related issues. Malawi is a signatory to the Addis Ababa Declaration on Population and Development in Africa—Harnessing the Demographic Dividend: The Future We Want for Africa. The declaration recognizes the role of population dynamics in socioeconomic transformation. Like other policymakers in Africa, Malawian
authorities need to explore how best to attain the “demographic dividend”—the economic benefit that can occur when there is first a rapid drop in mortality, followed by a rapid decline in fertility. The reductions result in a larger labor force; fewer dependents; smaller, healthier families; and well-educated and skilled youth.

The population growth rate of around 3 percent may be the single greatest challenge to human capital development and economic prosperity in Malawi. At the household level, families are challenged to ensure that their children are well-nourished, educated, and healthy. At the national level, the government faces enormous pressures keeping up with the increased demand for health care, education, and social services; and accommodating the large number of young people entering the labor market.

Malawi cannot end extreme poverty and ensure shared prosperity without effectively tackling both the high levels of fertility and stunting. High fertility perpetuates the vicious cycle of poverty. Malawian women from the poorest communities and those with the least education have the highest fertility levels, which limits their economic prospects and traps them more deeply in poverty. Similarly, the country has one of the highest adolescent childbearing rates in the world which constrains the educational opportunities and lifetime earnings of Malawian girls. High fertility rates and shorter birth intervals are associated with higher levels of stunting, which also has negative effects on educational attainment and lifetime earnings. By contrast, investments in family planning (FP) can create a positive virtuous cycle, helping couples to attain their desired family size and ensuring that women are healthy, educated, and empowered and their children survive and thrive. Likewise, nutrition interventions contribute to child survival and cognitive development, better educational performance, and economic growth.

“When women are healthy, educated, and free to take the opportunities life affords them, children thrive and countries flourish, reaping a double dividend for women and children.”

Kofi Annan

Like many other countries in Sub-Saharan Africa, Malawi needs to accelerate its demographic transition. Malawi has experienced a steep drop in mortality and an important but slower decline in fertility, which implies a continued high rate of population growth. During 1990 and 2015, under-5 mortality declined by nearly 75 percent, and life expectancy increased by 20 years. At the same time, total fertility also declined, by about 2.3 children per woman, making Malawi one of the better performers in Africa. Reductions in childhood stunting have been relatively modest since early 1990s but have accelerated since 2010. While the improvements in child survival and childbearing are impressive, serious challenges persist.

Key Challenges

Malawi has one of the highest rates of adolescent fertility in Eastern and Southern Africa, reflecting the prevalence of early marriage and childbearing (Figure 27). Until very recently the legal age for marriage was only 15 years, making it socially and legally acceptable for girls to marry young. While in the past 25 years, the percentage of girls who marry by 15 has declined slightly, from 15 to 9 percent, the percentage who are married by 18 is still stubbornly high at about 46 percent. Adolescent childbearing declined modestly in 1990–2015, from 35 to 29 percent, but it is still high, prolonging the reproductive years and contributing to the high rates of fertility and stunting. Children born of mothers younger than 18 have substantially higher risks not only of stunting but also of dying prematurely. Much of the decline in adolescent fertility has been among urban women; the drop in rural areas has been relatively modest. Moreover, fertility rates for adolescents from the two lowest wealth quintiles have increased since the
early 1990s though rates for girls from the wealthier 60 percent have declined. Adolescent mothers are more likely to experience adverse pregnancy outcomes and are less able to pursue educational opportunities than young women who delay childbearing.

**Figure 27: Age-specific Fertility Rates, 15–19-year-olds, Eastern and Southern Africa**

![Age-specific Fertility Rates, 15–19-year-olds, Eastern and Southern Africa](image)


**Fertility rates in Malawi mask wide socioeconomic and educational disparities.** Females from the three lowest wealth quintiles have substantially higher fertility rates (4.5–6.0) than women in the top quintile (3.0). The gap is also large (Figure 28) between girls with no education (5.5) and those with secondary or higher education (2.3). Similar patterns in other countries underscore the importance of education for girls, which raises the value of women’s time and increases the opportunity cost of having children, which lowers demand for children. Education also reduces fertility and stunting by improving child health and reducing child mortality, as educated women need fewer births to yield the same desired family size and adopt more appropriate child-feeding and care practices. While children of women with more education have historically experienced much lower levels of under-5 mortality than women with no education, Malawi has been narrowing these differentials over the past five years (Figure 29), in part by expanding access to primary education. Nevertheless, progression to secondary education for girls is still only about 16 percent, and only 6.5 percent complete secondary education.

**Wanted fertility is consistently lower than actual fertility across all wealth quintiles, highlighting the need to address the unmet demand for contraception** (Figure 30). Women from the lowest wealth quintiles have slightly higher rates of unsatisfied demand (29 percent) for modern family planning services than their better-off counterparts (23 percent). Since 1990, across all wealth quintiles and in both urban and rural areas the mean ideal number of children declined by about one child. Nevertheless, there is still a 2.5 child differential in the mean ideal family size between women with no education and those with secondary schooling. According to the Guttmacher Institute (2014), if all Malawian women with an unmet need for modern contraception were to receive services, unintended births would drop by 87 percent, maternal mortality by more than 40 percent, and the country would save US$11 million annually.
Utilization of modern contraceptives by married women in Malawi has surged, but there are persistent concerns about consistent use and the quality of services. Contraceptive use in Malawi rose from 7 percent in 1990 to 58 percent in 2015, irrespective of socioeconomic group, education, and place of residence. However, the decline in fertility is not completely commensurate with the rise in contraceptive use, suggesting that women use modern contraceptives sporadically, which can lead to over-reporting; and that they start contraceptive use only after bearing many children, using contraception for spacing rather than limiting births.

Source: DHS, various years

Most of the constraints to expanding contraceptive use cited by women relate to concerns with side effects; personal opposition to contraception by the woman or her husband; or religious or cultural beliefs. Neither access to contraceptives nor lack of knowledge are reasons cited for not intending to use contraception. The substantial proportion of women who cite concerns and side effects is consistent with the high rates of method discontinuation some studies in Malawi have found. As family planning services expand rapidly, the quality of the services needs more attention, so that women have access to methods that are culturally acceptable, convenient, and provided confidentially.
The maternal mortality ratio (MMR) remains relatively high. In the seven years before the 2000 DHS Survey and the 2015–16 DHS Survey, the MMR dropped steeply, from 1,123 (1993) to 497 (2008-2009) deaths per 100,000 live births. The steady progress reflects better access to antenatal care (now 95 percent) and more institutional deliveries (91 percent), coupled with the expansion in family planning services. Nevertheless, only 51 percent of pregnant women completed four or more antenatal visits and only 42 percent received a postnatal check—serious gaps that need to be addressed—along with improved utilization of modern contraception. According to the 2015-2016 DHS, at current fertility and mortality rates, during their reproductive lifetime 2 percent of Malawian women will die from maternity-related causes. Clearly it is vital to expand access to a full range of reproductive, family planning, and maternal health services.

While gender equality and women’s empowerment in Malawi have improved considerably, much more needs to be done, particularly for adolescent girls and females from poor households and rural areas. Gender equality and women’s empowerment are critical to shaping childbearing decisions and child care practices with potential benefits for both fertility and stunting. Women who report greater participation in household decision-making also report greater use of modern contraceptive methods (close to 60 percent of women who participate in at least three decisions versus about 51 percent of those who participate in zero decisions). In general women report relatively few problems accessing care because they “need to get permission,” but poor women and those with less education have more problems and are confronted by financial, geographic, and sociocultural barriers.

Given the improved survival of children, persistently high fertility rates, and a youthful age structure, Malawi continues to experience rapid population growth and the population is expected to double every 23 years. In three fertility scenarios projected for 2050 (Figure 31), the forecast absolute number of Malawians ranges from about 39 million (low fertility) to 43 million (medium) to 47 million (high). The ratio of workers per dependent in the population is about 1.0 in Malawi; in contrast to countries that are more advanced in their demographic transition (e.g., South Africa: about 2.0) or those which have completed the transition (e.g., South Korea: about 2.7) and have larger number of working-age adults responsible for fewer dependents. In Malawi, the current proportion of adolescents (10–19 years) is very high (24 percent) and projected to grow from about 4 million in 2015 to about 8 million (low fertility) or over 10 million (high) in 2050. New entrants into the labor market (people aged 15–19) will rise by 2045–50 to about 460,000 in the low-, 573,000 in the medium-, and 690,000 in the high-fertility scenario.

Figure 31: Population and Dependency Ratio Projections for Three Fertility Assumptions

Source: Schneidman et al. (2018)
Accelerating the demographic transition in Malawi could bring about powerful shifts in the age structure, which would promote economic growth and poverty reduction. Simulation modeling suggests that a one-child difference in Malawi’s fertility rates by 2050 can lead to a 28 percent difference in real GDP per capita. In the medium-fertility scenario, simulations of Malawi’s economic growth using the LINKAGE model suggest that real GDP per capita could grow from $436 (constant US$) in 2015 to $615 by 2030 and $1,597 by 2050. The impact of lower fertility rates could thus lift over 8.0 million Malawians out of poverty by 2050—the difference between the high- and low-fertility scenarios (Figure 312).

Persistently high levels of stunting are a serious impediment to human capital development. With nearly 40 percent of Malawian children suffering from stunting, there is a need to tackle this more forcefully, given its negative effects on education, productivity, and earnings. The Cost of Hunger study estimated that almost 60 percent of the current working-age population in Malawi had suffered from childhood stunting and had on average 1.5 fewer years of education than those whose growth had not been retarded.

Stunting tends to be positively associated with fertility, with each negatively impacting the other. On one hand, high fertility and short birth intervals (Figure 33) contribute to the high levels of stunting because households find it difficult to meet the nutritional needs of a growing number of closely spaced children. On the other hand, the high rate of child stunting contributes to the high levels of childhood mortality, which in turn affects family formation decisions and thus fertility.

Stunting rates in Malawi declined very slowly since the early 1990s but this decline accelerated after 2010. Stunting dropped from about 55 (1992) to 47 (2010) percent (Figure 34), representing an average annual rate of decline (AARR) of only 1.6 percent. But between 2010 and 2016 stunting declined steeply, at an AARR of 3.9 percent, to reach 37 percent. This recent rapid decline occurred during a time of significant policy and programmatic focus with rigorous implementation of the Multi-sectoral National Nutrition Policy and Strategic Plan (2007–11). Malawi became one of the first countries to join the Scaling Up Nutrition movement in 2011 and with the support of donors, UN agencies, and civil society organizations has since given priority to preventive and nutrition-sensitive interventions, with promising results.
Despite these recent successes, over 1 million Malawian children are still stunted with significant disparities by wealth and geographic area. Stunting is highest among children from the poorest households (40.4 percent) in comparison to the wealthiest households (24.3 percent) with only modest declines for the poorest children since the early 1990s (Figure 35). Children in rural households are also much more likely to be stunted than urban children (Figure 36). Between 2010 and 2016 stunting dropped much faster among urban children (AARR of 7.8 percent) than among rural children (AARR of only 3.5 percent).

The prevalence of stunting among children in Malawi increases with a child’s age and the underlying factors vary with the age group. Stunting levels are relatively stable in the first six months of life but increase steadily from 7 months, when infants are weaned, and peak at 42–45 percent for children 18–47
months. A recent analysis found that older children were up to six times more likely to be stunted than children under 6 months old. The factors associated with childhood stunting are shown in Figure 37. The proximate factors are inadequate diet, diarrheal disease, and low birth weight. Only 8 percent of children aged 6–23 months consume a minimum acceptable diet. Low intake of animal-source foods by pregnant and lactating mothers, which is vital for adequate health and nutrition during pregnancy and early childhood, is one of the key underlying problems. Underlying factors are mother’s height, less than four antenatal visits, mother’s body mass index, being amongst the poorest 40 percent of population, and lack of vaccination. Factors associated with stunting at the household level are also correlated with early marriage and high levels of adolescent pregnancy; low level of mother’s education; and inadequate access to safe drinking water and good sanitation.

**Figure 37: Factors Associated with Stunting in Malawi and Distribution by Age Group**

Source: Schneidman et al. (2018)

**Limited access to parenting education and early stimulation undermine education outcomes in Malawi.** About 48 percent of children enroll in grade 1, and repetition in the early grades is high (25 percent for grade 1 and 20 percent for grade 2). Nor do they master formative reading skills once enrolled, with evidence that more than 80 percent of pupils in the second year in primary school are unable to read familiar words. To improve school readiness and education outcomes, Malawi needs to invest more in parenting education, early stimulation, and early learning. Investments in social protection can also help scale up early childhood development interventions, which can have a positive impact on the health, nutrition, and development of infants. However, coverage of social protection programs is limited with no single program reaching more than 15 percent of the population.

**Policy Actions for Immediate Impact**

- **Action 1:** Scale up access to high-quality, affordable family planning and reproductive health services, by expanding the menu of contraceptives; hiring more workers to make home visits; providing postpartum programs; and ramping up the social marketing program.
❖ **Action 2**: Pilot alternative approaches for reaching adolescents through expanded access to youth-friendly family planning and reproductive health services combined with life skills training, and income-generating activities.

❖ **Action 3**: Improve child survival and child development through expanded access to four or more antenatal care visits; promotion of breastfeeding beyond the current 3.8 months; scaled up access to parenting education, early stimulation, and early learning; and targeted support to increase income for the poorest households.

---

### Policy Actions for the Medium Term (1–5 Years)

❖ **Action 1**: Support social and behavior change communications, to continue shifting norms on childbearing in a culturally sensitive fashion, with a view to reducing child marriage, early childbearing and family size.

❖ **Action 2**: Expand access to secondary education for girls from the lowest wealth quintiles through conditional or unconditional transfers to poor households; transport vouchers; in-kind incentives; and/or subsidies to support girls to stay in school.

❖ **Action 3**: Scale up successful interventions and pilot new schemes to empower girls and women to take control of their reproductive health, adopt health-seeking behavior, and invest in their children.

❖ **Action 4**: Review and revise the curriculum to introduce, improve, and expand sexual and reproductive health education in the formal secondary education system.
Realizing the Potential of Safety Nets in Malawi

**Key Message**

- This is a defining moment for Malawi to transform its safety net system. The recently approved Malawi National Social Support Program (MNSSP II) is intended to facilitate the creation of a dynamic safety net system that can better respond to persistent poverty, recurrent shocks, and support the demographic dividend.
- An adequate safety net is central to improving human capital in Malawi. Safety nets are critical to resilience by protecting the poor against recurrent shocks and promoting strategies for growth and development. Cash transfer programs can also be complemented with targeted interventions to boost social and economic inclusion.
- Social safety nets are an effective investment, surpassing larger scale interventions such as FISP, which is less pro-poor, and humanitarian aid, which is more expensive to deliver.
- Investments in the social safety net system through a scaled-up social registry of all Malawian households, and an e-payment mechanism to deliver cash benefits directly to households can be leveraged by other sectors such as education and health to improve human capital outcomes.
- There are clear pathways to further build on social safety nets, including reforming the program mix, strengthening delivery systems, and capitalizing on linkages with other human development sectors.

**Key Indicators**

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2023 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety net coverage (% of population)</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Social registry coverage (% of population)</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Social cash transfer (SCT) coverage (% of population)</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>SCT beneficiaries who are extremely poor (%)</td>
<td>72</td>
<td>90</td>
</tr>
<tr>
<td>Spending on social safety net programs (% of GDP)</td>
<td>1.3</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on data from National Authorities and Implementing Agencies

**Context**

The recently approved second Malawi National Social Support Program (MNSSP II) has created an opportunity to transform the country’s social safety net by 2023. Based on experience with its predecessor program, MNSSP II shifts focus from individual social safety net programs to ensuring coherence, integration, and harmonization between systems of interrelated interventions. The MNSSP II prioritizes five areas of support: (1) consumption support; (2) support for resilient livelihoods; (3) shock-sensitive social protection; (4) links between safety nets and other programs; and (5) strengthening all safety net systems. The MNSSP II is the main vehicle for achieving Target 1.3 of the UN Sustainable Development Goals, which focuses on implementing a nationally appropriate social safety net system by 2030.

---

11The MNSSP II defines social safety nets (“social support”) as “providing income and consumption transfers to the poor and food-insecure, protecting the vulnerable against livelihood risks, and enhancing the social status and rights of the marginalized, with the overall objective of reducing ultra-poverty [and] the economic and social vulnerability of poor and marginalized groups.”
Trends in chronic and transitory poverty highlight the need for a safety net that promotes equity by reducing poverty and increasing food security and resilience in the face of shocks. Malawi’s poverty rate has remained persistently high, declining only marginally between 2004 and 2010 from 52.4 to 50.7 percent. Transitory shocks can exacerbate rural poverty, pushing an additional 40 percent of households below the poverty line (Dang and Dabalen 2017). For example, severe floods generated by El Nino rains in late 2014 negatively affected more than 1 million people and displaced 200,000 (UNDAC 2015); the associated damage was estimated to have been as high as US$335 million—5.2 percent of GDP (Government of Malawi 2015). This suggests that Malawi can sustain growth and reduce poverty in the medium term only if it becomes more resilient to shocks, both internal and external. It is therefore essential to develop the systems and mechanisms needed to effectively manage shocks.

Moreover, demographic trends will require Malawi’s safety nets to evolve to meet the needs of current and future generations. Malawi’s population is expected to double in 23 years from 17.2 million in 2015 to 34.4 million in 2038 (UN 2015). At present, 56.2 percent of Malawians are younger than 19 years, and the working-age population constitutes a mere 38.8 percent (World Bank 2016b). As Malawi positions itself to reap the potential growth that could come with a demographic dividend, there is scope for the safety net system to strengthen human capital and economic empowerment by, for example, supporting business enterprise development, employment, and earnings. Safety nets thus have a role not just in the short term but as a sustainable part of a permanent system that also addresses the intergenerational cycle of poverty.

The government’s commitment to reform in MNSSP II is highly ambitious and will entail considerable challenges. Social safety net programs in Malawi are estimated to cover 25 percent of the population (Figure 38), compared to an average of 10 percent in Sub-Saharan Africa (SSA) as a whole. Nevertheless, safety net programs still do not reach a sizable portion of the needy, especially children and youth. Moreover, the adequacy of safety net benefit levels is also a concern, driven in part by inadequate financing to the sector. The average expenditure on safety net programs from 2011-2016 in Malawi was equivalent to 0.6 percent of GDP—strikingly low compared to the 1.2 percent SSA average. As a result, many safety net transfers are too small to have meaningful impact on household consumption. Against this backdrop, several priorities have emerged for realizing the potential of safety nets.
Figure 38: Malawi: Safety Nets at a Glance

Key Opportunities and Challenges

Opportunities

In Malawi, safety net programs have a track record of effectively targeting poorest households with income support to smooth consumption and enhance household level investments in human capital. This is particularly clear in comparisons with other priority poverty and relief response mechanisms, such as the Farm Inputs Subsidy Program (FISP), maize purchases by the Agricultural Development Market Corporation (ADMARC), and humanitarian aid. Recent investments in safety net delivery, such as social registries, e-payments, and citizen engagement, are also making safety nets more effective; they also harmonize service delivery in other sectors such as education and health. Innovation and advances in technology are helping Malawi to leapfrog capacity constraints and strengthen such delivery systems.
There is robust evidence that safety nets in Malawi, especially social cash transfers, are an effective investment. Malawi’s Social Cash Transfer Program (SCTP) has had the strongest and most consistently positive impact of any such program in SSA. A review by Ralston et al. (2017) of 27 social safety net programs implemented in 14 African countries since 2005 concluded that Malawi’s SCTP had some of the strongest outcomes in terms of equity, resilience and long-term opportunities. Overall, SCT beneficiaries increased their total consumption by 24 percent and food consumption by 23 percent. Households were also able to build up their resilience to economic shocks by investing more in productive assets, specifically livestock, durable assets, and fertilizer. The study also found that the SCTP has encouraged the development of human capital by incorporating soft conditions and top-up benefits to encourage increased educational attainment in the households. Furthermore, contrary to misperceptions that beneficiary households spend cash transfers on alcohol or tobacco, these beneficiaries did not do so. Critically, these impacts were achieved with very modest transfer amounts, estimated at 18 percent of average household spending on consumption.

Figure 39: Estimated Total and Food Consumption

Source: Ralston et al (2017)

Strengthening core delivery systems offers a huge opportunity to improve the safety net system, positioning it as a major contributor to human capital development. Core delivery systems are still in a nascent stage of development but are increasingly attracting stakeholder attention and support. For instance, Malawi’s Unified Beneficiary Registry (UBR), is a beacon of hope as it boosts government capacity to provide stronger delivery systems and institutional mechanisms within the social protection sector. Other components of a delivery system, such as e-payments and a grievance redress system, are being piloted. Even beyond the social protection sector, these improved and harmonized delivery systems offer a huge opportunity to other human capital development interventions such as education, nutrition and health of how to facilitate better targeting, streamlined delivery, and accountability.

Challenges

Social protection is overshadowed by regressive and less effective programs. While between 2011 and 2016 the equivalent of close to 2.6 percent of GDP was spent on MVAC and 2.2 percent on FISP, spending on social safety nets was only 0.6 percent. Consequently, only 25 percent of the population has access to
safety nets while 33 percent receive benefits from MVAC and 37 percent from FISP. Additionally, the current benefit levels in SCTP flagship programs cover under a fifth of total household consumption, they ultimately have less significant impact on poverty and inequality. Nevertheless, there have been promising findings related to the impact of individual safety net programs like the SCTP on consumption, resilience, and health-seeking outcomes that could be leveraged if interventions were appropriately prioritized, scaled, and financed.

**Given Malawi’s overwhelming dependence on development partner support, financing of safety nets at current levels is not sustainable.** The government currently finances only 6 percent of all Malawi’s safety net spending—which suggests that 94 percent is financed by development partners. Furthermore, the average expenditure on safety net programs from 2011–16 was equivalent to 0.6 percent of GDP, a strikingly low amount compared to the 1.2 percent SSA average. Given these relatively low financing levels in the sector, the adequacy of safety net transfers delivered to beneficiaries is low and thus a concern. However, experience across the region (particularly in Senegal and Kenya) suggests that it is possible to (1) increase the level and strengthen the sustainability of financial resources; (2) identify the most appropriate mix of domestic, foreign, public, and nonpublic funding sources; and (3) deploy a flexible financing strategy to respond promptly to shocks and crises (Beegle et al. 2018).

**Institutional weaknesses reduce the effectiveness of Malawi’s social protection programming.** It also suffers from fragmentation and acute coordination problems. Several different line ministries are tasked with aspects of implementing safety net programs, and the Ministry of Finance, Economic Planning and Development as a central coordinating agency does not have enough social protection coordination capacity to ensure that all stakeholders are held accountable or to enforce cross-ministerial coordination (World Bank Group 2018c). The donors that fund these programs have different financing structures and implementation modalities, which makes it difficult to coordinate their initiatives, even within a single program like the SCTP. Moreover, most of Malawi’s social protection programs have independent implementing structures often involving the same district stakeholders, which overstretches district coordination capacities. This clearly highlights the importance of institutional improvement and strengthening.

**Policy Actions for Immediate Impact**

- **Action 1:** Review the mix and scale of safety net programs and their links to other poverty and relief programs. While safety nets in Malawi cover a relatively high share of the poor, the vast majority of the population do not have access to a safety net. Individual program coverage varies significantly, and the coverage and financing of safety net programs are crowded out by the costlier provision of subsidies and humanitarian aid. It has been estimated (World Bank 2016b) that reallocating spending from the FISP to the SCTP would help prevent leakage of benefits to households in the highest income deciles, and the IMF (2015) has advocated for increased cash transfer programming and investments in agricultural research and development to complement FISP spending. It would be useful to identify an appropriate mix of programs that serve different beneficiary groups across the lifecycle and are also closely linked to social protection outcomes like equity, resilience, and long-term human capital development. Ongoing FISP reforms also feature the scale up of consumption support programmes through SCTP, to compensate the poor.

- **Action 2:** Improve the design of safety net programs, especially beneficiary targeting. Current efforts to improve the targeting of support to the chronic and transitory poor should be sustained. At the core of this work, the Malawi Social Registry—Unified Beneficiary Registry (UBR) should be expanded to administer the intake, enrollment, and registration of eligible beneficiaries for all safety net programs and to establish links with other human development and humanitarian interventions.
However, UBR scale-up must be guided by a clear strategy that has enough flexibility to adapt to lessons learned along the way. If the UBR can be successfully applied nationwide, it can become a best practice example for other African countries currently taking initial steps to create their own unified registries.

❖ **Action 3: Engage donors in discussions about revising financing reform.** Humanitarian aid for food security and nutrition averaged 2.2 percent of GDP between 2011 and 2016, rates significantly higher than levels spent for other countries in the region. Humanitarian aid provided outside government is not fungible, raising questions regarding whether existing donors would be willing to make multiyear commitments to finance seasonable and scalable safety net interventions rather than short-term humanitarian aid. Thus, any radical shift to better integrating safety net and aid will require discussion with both donors and authorities.

Policy Actions for the Medium Term (One to Five Years)

❖ **Action 1: Gradually implement a national financing strategy for social protection.** With the suggested shift to more effective and dynamic safety nets, it is increasingly important for the Government of Malawi in the medium term to gradually implement a sustainable social protection financing strategy. The government must set and adhere to domestic spending budgets for safety net interventions, while also utilizing existing evidence to shape a better-funded, more efficient, and more flexible safety net strategy. The financing strategy should identify and ensure (1) more sustainable financial resources; (2) the most appropriate mix of domestic, foreign, public, and nonpublic funding; and (3) flexibility to respond effectively to shocks (Beegle et al. 2018). Realization of the planned Malawi National Social Support Fund in the medium term offers a potential opportunity to advance this agenda. The financing strategy must also include contingency financing to consolidate safety net, humanitarian, and disaster responses, and also to consolidate existing donor funding arrangements for various programs.

❖ **Action 2: Revise the benefit levels delivered by safety net programs to increase their impact.** Although some progress has been made in expanding safety net coverage, the poorest Malawians tend to receive a disproportionately low level of benefits from safety net programs compared to the poorest people in other countries. The distribution of benefits across income quintiles in Malawi tends to be flat, though this is partly a reflection of the country’s high poverty levels. However, a sustainable and incremental financing strategy should also incorporate a plan to review benefit levels to ensure more poverty reduction impact.

❖ **Action 3: Develop systems to support shock-sensitive safety nets.** Given Malawi’s susceptibility to frequent seasonal shocks, its safety nets need to be designed so that they can be scaled up during temporary crises in order to heighten household resilience and reduce the country’s dependence on humanitarian aid. Currently, safety nets and humanitarian aid operate completely separately from each other, despite having many overlapping functions. The fact that shocks will occur is predictable, but their timing and scale is not, so there will always be households that repeatedly need periodic support. Other households require assistance during certain seasons. There is thus a need to improve the predictability and adequacy of household support by designing into safety net programs flexible targeting mechanisms, stable contingency financing, and capacity to scale up and down as needed.

❖ **Action 4: Move toward multisectoral collaboration that improves human capital.** Malawi’s safety net programming must take a more systematic approach to building the human capital of its beneficiaries and creating new livelihood opportunities for them in the context of changing demographic patterns, skill requirements, and the political environment. One major lesson emerging from experience elsewhere in Africa is the importance of ensuring that interventions are
complementary and coordinated and that all relevant sectors cooperate. For example, taking a unified approach to education, health, and nutrition interventions is likely to be much more effective in breaking the inter-generational cycle of poverty than if the sectors operate independently. Two immediate areas where this approach could be useful is promotion of early childhood development through nutrition-sensitive safety net interventions, and livelihood enhancement interventions focusing on skills development and access to capital.
**Key Message**

- Malawi’s environment is rapidly degrading, made worse by climate change and more frequent natural disasters. Land degradation is widespread and severe. Half of the country’s forests have disappeared. Fish stocks and biodiversity are declining.
- Malawi has an opportunity to respond to environmental challenges and natural disasters to reduce poverty and support economic development. Action taken today can turn this situation around. To address these issues, Malawi should:
  - Fast-track recent progressive policies for environmental and disaster risk management,
  - Strengthen climate information systems,
  - Scale up sustainable land management (SLM) approaches nationally, and
  - Promote private sector investment in environmental management efforts.

**Key indicators**

<table>
<thead>
<tr>
<th>Population dependent on rainfed agriculture and vulnerable to weather fluctuations (%)</th>
<th>Over 80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soil loss per hectare per year</td>
<td>29 metric tons</td>
</tr>
<tr>
<td>Loss of forests and woodlands between 1972 and 1992</td>
<td>Over 50%</td>
</tr>
<tr>
<td>Population using biomass energy (firewood, charcoal, and crop residues)</td>
<td>98%</td>
</tr>
</tbody>
</table>

**2015–17 flood and drought:**

- People left food insecure: 6.5 million
- Annual cost of agricultural loss and damage: US$365 million
- Cost of recovery interventions: US$500 million

Source: Malawi Country Environmental Analysis (2019)

**Context**

**Malawi’s environment is in an alarming cycle of decline, made worse by climate change and increasingly frequent weather-related natural disasters.** A rising population puts further pressure on resources by increasing demands on already-stressed land, forests, water, and other natural resources.

**Malawi does not have the resilience** it needs to deal with this situation. Institutional capacity is weak and its economic resources, national and household, are limited. The additional burden of an increasing population and the impact of shocks and stresses from climate change and other natural disasters undermine the country’s ability to cope.

**The environmental cycle of decline and degradation in Malawi is caused by a complex inter-relationship between key drivers, environmental pressures, and their impacts** (Figure 40). It is vital that the country builds its resilience to disasters and environmental degradation. Greater capacity to address and manage these challenges will relieve the stresses on Malawi’s natural resources and on the economy as a whole.

---

12 Resilience is “The ability of countries, communities and households to manage change by maintaining or transforming living standards in the face of shocks or stresses without compromising their long-term prospects (Sturgess and Sparrey, 2016).”
Disaster Risk Management and Resilience

Managing the risk of disasters is at the heart of the government’s development plans and is a cross-cutting component of the Malawi Growth and Development Strategy III (MGDS III). The Malawi Disaster Risk Management Policy (2015) was developed to ‘mainstream’ disaster risk management (DRM) into sustainable development (GOM, 2015a). This policy is now being drafted into legislation as the Disaster Risk Management Bill. The government is committed to building the resilience of the nation to respond to natural disasters and is close to launching a National Resilience Strategy in order to move from relief to resilience (Malawi Nyasatimes, 2018 and Nation Publications, 2017) with the help of civil society organizations, the private sector, and other agencies.

Natural Disasters

Malawi is at high risk from natural disasters. After the 2015 floods, Malawi was categorized by the Climate Change Index as the third most vulnerable country to climate change (Kreft et al, 2017) and INFORM’s Global Risk Index 2017 ranks it as 16th most vulnerable to humanitarian crisis and disasters.

Between 1980 to 2017, Malawi has experienced eight major droughts and 33 floods (EM-DAT 2018) and since 1946 more than 600 disaster events have been recorded. The floods of 2015—the worst in 50 years—were followed by a drought in 2016/2017 that affected 6.5 million people, over a third of the total population. Flooding in recent years has cost the country the equivalent of 5 percent of GDP (GoM, 2015b) —a financial burden made worse by poor watershed management, absence of water regulating infrastructure, and human encroachment into high-risk flood zones.

Malawi also experiences frequent earthquakes. Between 1964 and 2005, 1,350 earthquakes were recorded (World Bank, 2017b). While most were relatively minor, some killed dozens of people and affected the lives of thousands (Biggs et al, 2010). Malawi’s land is already suffering from degradation and
soil loss. Stronger and more frequent earthquakes will further undermine the stability of the soil and increase the risk of landslides and soil erosion.

Natural disasters put economic growth and people’s livelihoods at risk, and strain environmental resources and ecosystem services. Hail-storms, lightning, earthquakes, pest infections, and wildfires worsen the threats, and such disasters are hard to predict, manage, and recover from. Women and children are particularly vulnerable to natural disasters like droughts because women are disproportionately responsible for food production and livestock (GoM, 2015a).

Climate Change

Climate change increases Malawi’s vulnerability. Most of Malawi’s economy and livelihoods depend directly on rainfed agriculture. However, weather and climate variability make it harder for farms to be productive as cropping cycles are interrupted and soil health undermined. When land is degraded and forest cover lost, natural ecosystems are less able to provide the protection they offer against extreme weather events. Floods, droughts, and heatwaves affect the wider ecosystem and lead to crop and livestock losses, damage to roads and storage facilities, and spoiled produce. These climate-driven shocks have a direct impact on human livelihoods and poverty, especially in rural populations. Incomes are lost, food insecurity increases, transport and trade are disrupted, and GDP is reduced. The constant struggle to deal with a deteriorating situation also erodes coping and resilience strategies.

There is growing recognition that climate change will cause temperatures in Malawi to rise, and that temperature extremes (hot and very hot days) will be more frequent. Figure 41 shows the actual and projected temperatures between 1950 and 2097 from 34 climate change models. The bold black line represents actual temperatures for 1950–2014. The bold red line shows the trend through 2099. The consensus emerging from these multiple models is clear. Temperatures are already on the rise and by the 2040s average temperatures will have risen annually by 0.5–1.5°C (UMFULA, 2017). Changes in annual rainfall are less clear, with projections showing wetter periods and some dryer.

![Figure 41: Time Series: Mean Annual Temperature (°C), 34 CMIP5\textsuperscript{13} Models, 1950–2097](image)


The agricultural sector is most at risk from climate change because it is highly sensitive to changes in temperature and precipitation (GoM, 2017a). Low-level droughts that are likely to occur approximately

\textsuperscript{13} Coupled Model Intercomparison Project (CMIP)5
every five years, are estimated to result in a 1.1 percent loss of agricultural GDP. Severe droughts that are expected to occur roughly every 25 years or so, are estimated to result in a 25% loss (Pauw et al, 2011). Between 2015 and 2017, floods in southern districts were followed by a countrywide drought, with annual loss and damage estimated at US$ 335 million. Infrastructure is severely affected: for roads alone, climate scenarios suggest that without adaptation measures, the total annual average cost of for maintenance and repair could reach US$ 165 million (Chinowsky et al, 2015).

**Land Degradation**

*Land degradation has reached alarming levels in Malawi.* It is estimated that during the 2001-09 period land degradation cost Malawi US$244 million per year (in 2007 prices) – an amount equivalent to about 6.8 percent of Malawi’s GDP (Nkonya et al, 2016). This figure increases when the costs associated with sediment management to maintain hydropower are factored in. Land degradation ‘hotspots’ cover about 41 percent of the land area—and most affected is the highly productive Shire River basin.

*Soil erosion and nutrient depletion are reported to affect more than 60 percent of the country’s entire land area.* Average annual national soil loss rates in 2014 was 29 tons per hectare (Vargus and Omuto, 2016). The condition of the land, and associated erosion and flooding, severely impacts both the landscape and community livelihoods. There is also a close correlation between highly-degraded land and a high incidence of poverty, although there is currently insufficient evidence to support a causal link.

*The two main drivers of land degradation are growing population pressures in marginal areas and a changing climate.* The problem is aggravated by poor land management practices (encouraged by poorly designed farm subsidy programs) and land tenure insecurity. Smallholder farmers are reluctant to adopt SLM practices when their right to farm in the future is uncertain. Current input subsidies also work against resilience efforts by discouraging crop diversification and encouraging forest clearance. Moreover, the cost of the subsidy program crowds out the agricultural budget leaving little left to spend on other activities like agricultural and forestry extension services.

**Forest Loss, Degradation, and Wood Fuels**

*Over the last 40 years, more than half of Malawi’s forests and woodlands have vanished and those that remain are being ‘thinned’ through over-extraction and more frequent forest fires.* Yet, these remaining forests provide most of Malawi’s energy supply in the form of charcoal and firewood. Forests and trees are sources of soil fertility and they have a vital role in protecting watersheds. Forests also provide habitat for biodiversity and wildlife that is a main attraction for Malawi’s tourism sector. And as natural forests disappear, prices for wood fuel and charcoal will escalate as supplies diminish.

*A key driver of forest loss is over-harvesting for firewood and charcoal (biomass energy).* Wood fuels are used by 98 percent of the population, primarily for cooking (GOM, 2017b), and rural households rely almost exclusively on this source of fuel. Inaccessible, unreliable, and unaffordable electricity is the main reason for high dependency on biomass fuels. The only other source of fuel suitable for cooking is liquefied petroleum gas (LPG). However, market penetration is extremely low because it is relatively expensive compared to biomass energy.

*Malawi’s wood fuel sector is also mostly informal and unregulated.* Recent progressive policy reforms that could incentivize the legal production and trade of charcoal are encouraging. But the implementation of these policies has been slow so far and only one or two producers have been licensed to produce and trade in ‘legal charcoal’. In the longer-term, a switch to cleaner technologies (e.g., LPG or ethanol) will be

---

14 Hotspot’ is used here to describe land areas that are experiencing evident and dramatic change that, if left unattended, could harm both the environment and those that depend on it.
needed to reduce the enormous health impact associated with household air pollution. At present, there are no affordable fuel options to replace biomass and charcoal for cooking and heating.

**Biodiversity and Fisheries**

Wildlife is an important draw for tourism providing a valuable source of livelihoods for a significant number of people – yet, Malawi’s biodiversity is in decline. This decline is due to increasing population pressure, poor governance of natural resources, and in some cases illegal activity. As a result, certain species of conservation importance are increasingly confined to protected areas. It is generally accepted that the fish stocks in Lake Malawi, particularly Chambo, are diminishing. Chambo is now considered an endangered species according to the IUCN Red List, and catches in Lake Malawi, Upper Shire River, and Lake Malombe have declined by over 70 percent over the last 10 years. This is due to poor management of fisheries.

**Water Resources**

Malawi has the lowest water availability per capita amongst neighboring countries, and water is rapidly becoming less available (GRID-Arendal, 2013). The main driver is high population growth resulting in an increased demand for water. In the future, Malawi is likely to experience considerable water stress as demand for water begins to exceed the amount that is available and accessible. Climate change is likely to worsen the situation. In addition, deforestation and land degradation put pressure on water resources by releasing high sediment loads into streams, rivers, and lakes. More investment is needed to both protect watersheds and develop water resources.

**Natural Capital: An Important Asset**

Malawi’s wealth is dominated by renewable natural capital such as forests, wetlands, fisheries, and cropland. In 2014, natural capital constituted 43 percent of Malawi’s overall wealth. Human capital had increased slightly and produced capital (such as infrastructure) had declined. The decline and degradation of Malawi’s natural resources, such as land and forests, put Malawi’s future growth under threat. Future growth will depend on reversing land degradation to improve productivity, and Malawi sustainably managing its natural capital, especially forests. Figure 42 shows the assets and capital that drive wealth and development.

**Figure 42. Assets and Capital that Drive National Wealth and Development**

Source: Malawi Country Environmental Analysis (2019)
Planning for policy commitments and sector budgets need to fully take into account the real wealth of the country. Currently, Malawi’s national accounts do not capture the economic contribution that renewable natural resources make to the economy and for this reason, renewable natural resources are not prioritized sufficiently in economic planning. For example, the enormous contribution of forests to domestic energy supply, or the drawdown on land fertility, is not recorded in economic statistics or indicators. The value of key natural resources needs to be recognized by mainstreaming natural capital accounts into national economic policy and planning.

Key Opportunities and Challenges

As the context section points out, Malawi’s road from relief to resilience faces numerous challenges, which demand attention to setting priorities for action. The following issues need to be addressed urgently.

Delays in Policy and Legislation

Building resilience to environmental pressures, climate change and natural disasters needs strong legal and institutional frameworks to be enacted and implemented. In recent years, government has sponsored many such policies and legislation; some of these are still completing their legislative journey, while others just need to be implemented. However, administrative delays are common, and impede the government’s ability to deliver as planned. One important example is the Environmental Management Act (EMA) of 2017 and the creation of the supporting Environmental Protection Agency (EPA). This Act has not yet completed its legislative journey. However, without it, it will be a challenge to drive the environmental management changes that are needed.

The 1998 decentralization drive is another example of policy that is struggling to be implemented effectively. The policy was aimed at bringing services closer to citizens and shifting decision-making powers to district and local levels. However, virtually all decision-making on Environmental Impact Assessments is still centralized at national level within the Environmental Affairs Department. The process of decentralization has also been undermined by a slow and fragmented assignment of functions and resources to local authorities. Without sufficient resources, local government struggles to play an effective role in shaping environmental management. As a result, efforts to address land degradation, restore forest cover, or effectively manage fish stocks fail.

The National Resilience Strategy has also experienced significant delays. This year, the government declared that it will be launched and steps have been put in place supporting structures and organizations. Because this policy is an important tool for building resilience to deal with the impacts of natural disasters and climate change, it needs to be implemented in a timely manner.

Inadequate Climate Information Systems

The short-, medium-, and long-range weather forecasting available to farmers, government, and other stakeholders is often not reliable, relevant, detailed, and timely. The problem is worsened by inadequate databases, tools, and information systems that cannot factor the risks of climate change into the design of both the hard and soft infrastructure\(^\text{15}\) that provides weather and climate information (GoM, 2017a). Improving the delivery, accuracy, quality, and timing of forecasts would improve the ability of stakeholders to respond and adapt effectively to changes in Malawi’s climate. The National Meteorology Policy is currently being prepared for submission to the Cabinet. This will provide a clear mandate and legislative framework for effective and efficient meteorological services (GoM, 2014) and boost the

---

\(^{15}\) Hard infrastructure is physical, such as bridges, roads, and buildings; soft infrastructure consists of institutions essential to the economy and quality of life, such as government, education, health, and financial services.
capacity of the Meteorological (Met) agency. However, risk assessments and early-warning systems also need to be improved.

**Weak Institutional Capacity**

Malawi’s ability to implement policies and legislation, both national and local, needs to be strengthened. At the national level, policies and institutional frameworks relating to environmental and disaster risk management are reasonably well-developed. However, monitoring is often limited and ineffective, compliance is low, and the structures to provide guidance and procedures are not in place. At the local level, the slow pace of decentralization limits the ability of district councils and extension services to introduce and support interventions that could build resilience. In addition, severe under-resourcing reduces the ability of district and local institutions ability to function effectively.

Institutional capacity to effectively design and implement policy and legislation is further frustrated by failure to understand the importance of Malawi’s natural capital to its economic development. There is an urgent need to closely align the policies and laws that guide the management of the country’s natural resources. Mainstreaming natural capital accounting in economic planning will provide the evidence institutions need to prioritize the management of this crucial wealth asset.

**Poorly-designed Subsidy Programs**

The costly Farm Input Subsidy Programme (FISP) has worked against diversification. It has encouraged the planting of maize in areas often poorly suited to the crop, such as in marginal areas on steep slopes. Fertilizer use has not been enough to compensate for failing soil fertility (Record et al, 2017), leaving farmers without sufficient profits to invest in fertilizer in subsequent years. As a result, soil fertility has continued to decline and farmers have been forced to search for new land, often at the expense of forest and woodlands.

**Limited Private Sector Investment**

Improving environmental and disaster risk management will be expensive and the government has limited resources to address this. However, the government is committed to boosting private sector involvement, and there are successful public-private partnerships that can be used as models and these could be extended. One example has been attracting private investment in protected areas. This has been achieved by introducing concessions, some of which are ‘fully delegated’ to private operators. These have demonstrated impressive results in terms of both conservation outcomes and boosting revenues from tourism that benefit conservation management and local communities. Malawi has also made good progress in addressing wildlife crime—a problem caused by rising international demand for illegally-sourced wildlife products.

**Policy Actions for Immediate Impact**

❖ **Action 1:** Implement and harmonize policies and legislation. Recently enacted policies and laws equip Malawi to break the cycle of vulnerability and build environmental and disaster resilience. They encourage immediate action to change current trends of decline and degradation. These policies and laws include:

- *The National Resilience Strategy* – mainstreams resilience through the development of a climate-smart agricultural sector; measures to control flooding, such as upstream catchment management; enhancing household resilience; and building reliable early warning and response mechanisms.

- *The Disaster Risk Management Bill* – strengthens existing DRM legislation and introduce risk reduction measures to minimize the impact of hazards, reduce vulnerabilities, prevent
conditions that create new vulnerabilities, and increase the resilience of human and natural ecosystems.

- The EMA (2017) – mandates establishment of an EPA that has the power to enforce the right to a clean and healthy environment, and to monitor and enforce compliance by lead agencies with environmental and natural resource (ENR) related policies and legislation.
- Ten new land and land-related laws (Mlaka, 2018) – allows small-holder farmers to get legal title to their land and provide for decentralization of land management.

❖ Action 2: Strengthen climate information services. Investment is needed to strengthen Malawi’s weather and climate services capacity; improve flood and drought forecasting; and build more effective early warning systems. Considering the country’s exposure to extreme weather events, it is essential that climate information be available to a wider percentage of the population. Climate information is vital for both short-term decision-making and longer-term planning across all the sectors but especially for agriculture, disaster risk reduction, land and water use, and energy.

Policy Actions for the Medium Term (One to Five Years)

❖ Action 1: Leverage private sector investment to address environment challenges. Target scarce public financing so as to leverage additional private investment to address natural resources management and environmental challenges. Previous successful public-private partnerships to manage wildlife and protected areas provide useful models.

❖ Action 2: Accelerate and support the decentralization of environmental management. Support the decentralization process by increasing the transfer of funds and human resources to districts and, as mandated in the EMA, appoint environment officers at district level to be members of District Development Committees. This would strengthen compliance monitoring of EIAs and improve coordination with other officers and entities at district level and below, such as with District Forestry Officers and Village Natural Resources Management Committees. The Local Development Fund also offers the possibility of increasing investment in interventions that tackle environmental degradation, such as SLM and forest regeneration.

❖ Action 3: Value natural capital properly in economic planning. Support the National Statistical Office to prepare national capital accounts to build national economic accounting and statistics and enhance policy analysis and policy making. A good starting point would be to prepare accounts on topics that could best inform policy on priority environmental challenges, such as land, forest, and water accounts.
References


—. 2017c. Revision of Malawi Soil Maps for Improved Crop Production, Department of Research, Lilongwe


