



Pathways to Prosperity

MALAWI CASE STUDY

2022

CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

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Note on Sources

In producing this report, we have relied on four major sources of information. These have provided a broad, deep and rich perspective on the challenges and opportunities that Malawi faces to reach prosperity for all in 2063 – as established in the country Vision.

The first source was over 40 individual interviews and conversations with leading academics, researchers, national and local government officials, traditional authorities, experts and practitioners in Malawi, South-Saharan Africa and around the world.

The second type of source includes secondary data and research analysis from academic articles, reports, news articles and participation in external roundtables via online in Malawi. All elements that provided a strong foundation and evidence base approach to our study.

The third source of information came from a roundtable discussion hosted by the Legatum Institute with experts, practitioners and advisers on economic potential; and two working sessions with governance and decentralization experts.

Fourth, we based our report on the Legatum Prosperity Index 2021, which uses global datasets from the World Bank, World Economic Forum, and International Monetary Fund. We use this to benchmark Malawi's performance on a wide range of indicators.



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List of Acronyms

ACB - Anti-Corruption Bureau
 ACF - Agricultural Credit Facility
 ADC - Area Development Committee
 ADMARC - Agricultural Development and Marketing Corporation
 AIP - Affordable Inputs Programme
 ASYCUDA++ - Automated System for Customs Data
 ATM - Automated Teller Machine
 BoP - Balance of Payments
 BWB - Blantyre Water Board
 CAPEX - Capital Expenditure
 CFTC - Competition and Fair-Trading Commission
 COMESA - Common Market for Eastern and Southern Africa
 COVID-19 - Coronavirus Disease 2019
 DDF - District Development Fund
 DEC - District Executive Committee
 DEM - District Education Manager
 DEVPOL - Statement of Development Policies
 DEVPOL II - Statements of Development Policies (second policy)
 DFI - Development Finance Institutions
 DFS - Digital Financial Services
 DHSS - Director of Health and Social Services
 DLP - Local Development Plan
 DPD - Director of Planning and Development
 EASSy - Eastern Africa Submarine Cable System
 EGENCO - Electricity Generation Company
 EPZ - Export Processing Zone
 ESCOM - Electricity Supply Corporation of Malawi
 FDI - Foreign Direct Investment
 FinES - Financial Inclusion and Entrepreneurship Scaling
 FISP - Farm Inputs Subsidy Programme
 GDP - Gross Domestic Product
 GoM - Government of Malawi
 GVC - Global Value Chain
 HDI - Human Development Index
 ICT - Information and Communications Technology
 ID - Identification Document
 IDF - Infrastructure Development Fund
 IFMIS - Integrated Financial Management Information System
 IFPRI - International Food Policy Research Institute
 ILO - International Labour Organization
 IMF - International Monetary Fund
 IPC - Integrated Food Security Phase Classification
 ITU - International Telecommunication Union
 IVA - Individual Voluntary Agreement
 KPIs - Key Performance Indicators
 LGS - Malawi's Local Government System
 LIC - Low-Income Countries
 LWB - Lilongwe Water Board

MACRA - Malawi Communications Regulatory Authority
MAMN - Malawi Microfinance Network
MCCCI - Malawi Confederation of Chambers of Commerce and Industry
MDAs - Ministries, Departments and Agencies
M & E - Monitoring and Evaluation
MFI - Microfinance Institutions
MIP-I - Malawi 2063 First 10-year Implementation Plan
MITC - Malawi Investment and Trade Centre
MNO - Mobile Network Operations
MRA - Malawi Revenue Authority
MW2063 - Malawi 2063
MSME - Micro, Small and Medium Enterprise
NAIP - National Agriculture Investment Plan
NAP - National Agriculture Policy
NCIC - National Construction Industry Council
NPC – National Planning Commission
NPL - Non-Performing Loans
NRWB - Northern Region Water Board
NTMP - National Transport Master Plan
OCL - Open Connect Limited
ODA - Official Development Assistance
ODPOD - Office of the Director of Public Officers' Declaration
OECD - Organisation for Economic Co-operation and Development
OPEX - Operational Expenditure
ORT - Other Recurrent Transactions
PFM - Public Financial Management
PPP - Public-Private Partnership
PSIP - Public Sector Investment Program
PV - Solar Photovoltaic Plant
RCIPMW - Regional Communications Infrastructure Program Malawi
RBM - Reserve Bank of Malawi
ROA - Return on Assets
ROE - Return on Equity
SACCO - Malawi Police Savings and Credit Cooperative Society
SADC - Southern African Development Community
SAP - Structural Adjustment Programme
SCTP - Social Cash Transfer Programme
SEZ - Special Economic Zone
SME - Small and Medium Enterprise
SMEDI - Small and Medium Enterprises Development Institute
SMS - Short Message Service
SOE - State-Owned Enterprise
TA - Traditional Authority
TEVET - Technical, Entrepreneurial and Vocational Education and Training Authority
TNM - Telekom Networks Malawi
UN - United Nations
UNDP - United Nations Development Programme
VAT - Value Added Tax
VDC - Village Development Committees
WASH - Water, Sanitation, and Hygiene
WTO - World Trade Organization

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FOREWORD



Stephen Brien
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Our mission at the Legatum Institute is to build a global movement of people committed to creating pathways to prosperity and the transformation of societies. Our work is focussed on understanding how prosperity is created and sustained over time. Prosperity applies to more than a society's economy or an individual's financial wealth. It encompasses security, wellbeing, freedom, and opportunity for all. An inclusive, open and competitive economy, free from vested interests, are core elements to empower individuals, communities and businesses to reach their full potential and create lasting social and economic wellbeing.

Malawi—a peaceful democratic nation—has struggled on its pathway to prosperity. Since independence, little progress has been made to improve the means of a sustainable livelihood for the entire country and maximise Malawi's economic potential. A series of reforms in the economic and political infrastructures have failed to deliver a fundamental transformation. The economy is characterised by clientelist behaviour, where wealth and power remain centralised in the hands of a small, predominantly urban elite. In contrast, local administrations lack the fiscal, administrative, and political capacity to deliver services to over 80% of the population. Consequently, there is a significant disparity in the outcomes of urban and rural populations, exacerbated by asymmetric decentralisation across districts and captive political and economic systems.

The Government launched its new vision, Malawi 2063 (MW2063), in 2021 for the purpose of transforming Malawi into 'an inclusively wealthy and self-reliant industrialised upper middle-income country by 2063'. MW2063 positions the Government at the centre of Malawi's development agenda and aims to regain control of the nation's transformation agenda, reducing its dependence on external donors. The Vision's enablers include strengthened systems of governance and institutions promising openness and transparency, competency and capacity, and sound financial and economic management. The first phase of the Vision is underpinned by the Malawi 2063 First 10-year Implementation Plan (MIP-1).

Meaningful structural change is essential. Malawi's economy would benefit from diversification – shifting from subsistence agriculture towards agro-processing and commercialisation. Greater political inclusiveness and opportunity for all Malawians would allow Micro, Small and Medium Enterprises (MSME) and local entrepreneurs – particularly in agriculture, mining, and tourism – to flourish. If rents were diffused across the economy rather than concentrated in government contracts, state-owned enterprises, and land access among others, the opportunities in Malawi would extend beyond a small, well-connected group.

Substantial political reforms must accompany economic changes. Political and economic interests are intertwined and deep-rooted in Malawi, and transformation can come to pass only with greater political participation from rural populations. One of the tenets of the MW2063 is to create inclusive, programme-based political discussions to address the fundamental needs of all Malawians. To ensure these political and economic transformations are successful, the government needs to focus on changing its approach to raising and managing its financial resources.

Decentralisation is imperative at every level across society, so that local communities can access administrative and support services along with economic opportunities. While economic development policy should be centrally led, local implementation should be at the core as it recognises regional differences, needs, priorities and development opportunities.

Malawi faces numerous challenges, but now is an opportune time to shift the economic development trajectory. Strong political will is vital to ending rent-seeking behaviour. An investment in Malawi's untapped potential can transform it into a self-reliant and prosperous nation in a matter of decades. A country where all Malawians can thrive is a worthwhile venture.



Malawian women gather at a clean water pump.
Credit: Oxford Media Library

EXECUTIVE SUMMARY

Malawi – the Warm Heart of Africa – has been a peaceful nation since gaining independence in 1964. The country's political transition to democracy in 1994 has done little to advance the country's economy and wellbeing for its citizens. Only a few, mostly urban, elite have access to economic opportunities. The landlocked country's economy is highly dependent on subsistence rain-fed agriculture, employing nearly 80% of the population.¹ This makes Malawi vulnerable to external shocks, such as those caused by climate events. Philanthropic projects and international development interventions are widespread but may result in unintended negative effects on governance and agency.

Malawi's population of approximately 20 million is highly youthful and expected to double by 2063.² Most of the population reside in rural areas where there is limited economic and political opportunity. In 1998 the country adopted the National Decentralisation Policy; however, administrative, and fiscal decentralisation have not taken place in practice. Corruption is endemic. In fact, several political scandals, such as "Cashgate", have disrupted the flow of aid. Poverty rates also remain high; the country ranks in the lowest category of the Human Development Index.³

On the other hand, Malawi has made progress in certain areas of the social dimension, such as increased life expectancy, better access to water and improved sanitation. Institutional developments are also apparent. Demonstrating a commitment to an independent judiciary's rule of law, the Government has started to tackle systemic corruption. Indeed, today the country has a window of opportunity to achieve meaningful structural transformation in economic and political milieus.

Malawi 2063, the country's vision, was created to meet the pressing needs of the people and to create wealth and sustainability for future generations. The blueprint for achieving the nation's vision is detailed in the corresponding MIP-1. In order to meet the objectives of the Vision, interconnection and participation by all Malawians in global value chains are imperative. Once Malawi is more commercialised, incorporated, and aggregated, economic productivity will follow.

Key Sectors: Agriculture & Infrastructure

Agriculture plays a crucial role in developing a prosperous country. In the Malawian economy, agriculture and infrastructure are the leading sectors that need to be unlocked first, supporting most of the population who are engaged in subsistence farming. Regardless, the agriculture sector represents only about 30% of the GDP.⁴ Hence, progress has been stifled because both sectors are extremely underdeveloped.

The dualistic nature of the agricultural sector favours commercial state farming of cash crops, leaving smallholder farmers behind. The latter group faces multiple challenges: soil degradation, low productivity, lack of diversification, low mechanisation and technology adoption, minimal opportunity for value addition and, consequently, export. The Government has had to consistently subsidise the agriculture sector under the Affordable Input Program (AIP) to ensure food security. However, the effectiveness of the program over time is questionable.⁵

Malawi lacks the critical infrastructure needed for access to global value chains. The road network is sparse despite being the primary means of transportation. In fact, it is among the least developed transport systems in the Southern African Development Community (SADC) region.⁶ Rural roads are considerably less developed than urban roads; thus, restricted connectivity has a direct impact on the livelihoods of most Malawians, making access to markets, along with trade and transport of goods and services extra challenging and expensive.⁷

The country's logistics sector is dominated by large, well-connected firms, vertically integrated due to the lack of demand.⁸ Competitiveness is limited by Government interventions and vested interests.

Water access in Malawi has significantly improved. However, irrigation in the agriculture-dependent country is practically non-existent, serving only 0.5% of crop plots.⁹ Furthermore, 20% of the population still lack access to a quality water source.¹⁰ The inadequate sanitation system presents an even more pressing issue that the Government aims to tackle under MIP-1.

Energy access is also limited. The current supply meets only two-thirds of the current demand.¹¹ This is especially problematic given that supply costs are expected to skyrocket over the next decade.

Another area of concern is digital development. While mobile penetration has been increasing, internet access is available to a mere 10% of the population, representing one of the lowest penetration rates in the world,¹² making access to financial services, mobile money, and digital interconnections in the country highly difficult.

A change of approach in both agriculture and infrastructure is essential for increasing agricultural productivity. Therefore, instead of subsidising subsistence agriculture, this report suggests creating space for smallholder farmers by incentivising agricultural productivity and locally led economic growth.

The Government must shift its focus from Affordable Inputs Programme to provisions of extension services and incubation finance for smallholder farmers. Rural roadways should be prioritised as infrastructure develops to increase farmer connectivity to local markets and urban hubs. Aggregating farm enterprises through cooperatives and associations will also help to boost agricultural productivity. Further investment to establish rural access to energy, communications, and water – including localised small irrigation schemes and water harvesting – would improve the socio-economic conditions of people in rural communities.

Trade and Market Access

Successful integration into regional and global markets is paramount. Malawi attempted economic liberalisation in the 1980s, and the country is a signatory to the SADC Protocol on Trade, the World Trade Organisation (WTO), and the Common Market for Eastern and Southern Africa (COMESA). However, interregional trade of Malawi exports remains sluggish due to unpredictable trade policy, infrastructure gaps, and a narrow basket of products.¹³ Trade is also hampered by the Government's ad hoc maize export bans.

Expansion of Malawi's manufacturing sector is obstructed by the selling of illegal goods smuggled from bordering countries. Malawians face lengthy border crossing delays due to prolonged trade procedures and poor border clearance performance related to import control and lack of trade automation and coordination across numerous agencies.

The country faces numerous market distortions amplified by State-Owned Enterprises (SOE). The Agricultural Development and Marketing Corporation (ADMARC) often intervenes in market activities, by purchasing maize from smallholder farmers, for instance, and then selling it at subsidised prices. Purchases are irregular and unregulated; therefore, this practice is detrimental to the farmers.

National quality and export standards must align with international standards to improve trade and market access. Furthermore, it is vital to rectify and enhance border administration and to clarify tariff and tax-exemption policies. Removing export bans and increasing incentives for MSMEs to trade would also accelerate Malawi's integration into global value chains. Finally, to limit market distortions and increase exports, it would be advantageous to form a broad-based export promotion agency for Malawi.

Investment Environment

Foreign and local investments are critical to achieving economic development for any nation. A conducive investment environment would allow Malawi to decrease the infrastructure gap, expand its private sector and generate a sufficient revenue and tax base.

Currently, Malawi has one of the lowest investment rates in Africa with an average of 15% of the GDP invested in the last twenty years.¹⁴ Although Malawi has multiple incentives for foreign investors, such as One Stop Centre, they have not been successful. Overall, the investment environment and financing ecosystems are more advantageous for foreigners and large-scale businesses, reducing the potential for MSMEs to prosper. Although MSMEs in Malawi dominate in number, not incentivising them deters economic growth.

Another concern is that property – particularly land rights – are surrounded by controversy. Property rights are protected under the Constitution, but the controlling authority is not always apparent. There are various traditions around land inheritance, and there is friction between the Government and traditional authorities. About 7% of private land in the country is held as freehold and 33% is leasehold land, whereas 60% is held under customary tenure.¹⁵ Historically, Malawians are discontent with high rents from the landowners who are usually foreigners or Malawians of different origin. To improve tenure, the Government recently passed a Land Bill prohibiting land ownership by foreigners. The lack of clarity in land laws hinders investment.

Therefore, it is imperative to advance land titling, surveying, and registration for inclusive prosperity in Malawi. Land administration should be locally led, and allocation by traditional authorities should be formalized to ensure land security. Overcoming these ambiguities about land rights will attract further investment and facilitate job creation.

In addition, most businesses in the country are micro enterprises, composed of one or two individuals. Incentivising their productivity and growth can be done with affordable loans and managing risk and access to affordable mobile money. Small businesses can also capitalise on donor engagement in the country and collaborate with development financial institutions to promote specific funding streams aligned with relevant industries. A focus on quality, impact and angel investors can provide small ticket size financing for MSMEs.

Enterprise Conditions

For local businesses to grow and thrive, Malawi must limit burdensome regulations and create a stimulating business climate to cultivate competition. The business environment benefits from a modern legal framework, but at the moment it only works in theory. Malawian entrepreneurs lack access to markets and face macroeconomic instability and inconsistent policies. Small companies are constrained to the informal market with little growth, while large-scale firms with established networks dominate and enjoy the financial benefits of limited market contestability. Extensive market interventions by the Government and the SOEs generate price distortions, most notably under the AIP in agriculture and some subsidies in the energy sector, such as the lifeline tariffs.

Malawian MSMEs face additional barriers due to the low literacy, knowledge gaps, access to finance and affordability, and lack of security to attain an entrepreneurial mindset. Furthermore, local entrepreneurs must endure lengthy and costly bureaucratic processes and have less support for business creation than foreign companies.

Unlocking MSME development entails a reduction of barriers to market entry, decreasing the burden of MSME regulation, and simplifying tax and licensing. Additionally, the SOEs—especially ADMARC— should play a lesser role in the economy. While some intervention might continue, the management of the parastatals needs to be professional and free from political influence. Financial support should also be tightened, and competitiveness in public contracting increased.

Political Structure

In a well-functioning state, executive power is subject to constraints; separation of powers is ensured; and institutional checks and balances must be in place. Malawian discretionary powers and control of financial resources are within the mandate of the elected president with comparatively few executive constraints.

Democracy is widely supported, but the party-political structure is unstable and party-citizen linkages tend to be clientelist and particularistic, rather than programmatic. Politicians are not highly committed to one party, where crossing the floor is a common phenomenon.

On the other hand, the rule of law is comparatively strong in Malawi, with a high-performing judiciary, exemplified by the overturn of the 2019 presidential election.¹⁶ Regardless, access to judiciary and administration of justice is inconsistent.

To ensure Malawi's transition to an upper middle-income country, economic improvement needs to be coupled with political change. The National Assembly's legislative and executive oversight capacity would have to evolve and function without budgetary and administrative control from the executive, and a central independent body for a fair budget allocation needs to be established.

The people of Malawi must also share the Government's vision to effect real change. There would need to be a mindset shift in which people are interested in political participation and willingly align to certain party lines, so their interests are represented. To that end, the Government should strengthen political infrastructure to advance a more programme-based party system. Political party reform could include legislation to support the role of political parties channelling the voices of citizens and to hold parties accountable. The power of vested interests will need to be reduced and rural interests championed.

Finally, greater judiciary independence and integrity is required, and unified legal codes should be implemented across all jurisdictions. It is important that all – regardless of income level – have access to the legal system, and for that to transpire, a long-term lens needs to be adopted. Investing in legal education would intensify market competition in the future.

State Capacity

To sustain long-term development, Malawi needs dedicated and capable leaders to serve public interest. The country's political and economic history shows that in the last decades there has been a deterioration in the public service with a focus on short-term policies instead of long-term development investments. A situation that the current government and key institutions have been trying to remediate with the Malawi 2063, the MIP-1 and the legislations to align party manifestos to the long-term vision of the country.

Malawi has borne numerous corruption scandals, including 'Cashgate' in 2013 and 'Maizegate' in 2016, and as a result recovery has been oriented to appeasing donors. The country has an Anti-Corruption Bureau (ACB), but it is largely underfunded and affected by political interference. Malawi's Office of the Director of Public Officers' Declaration (ODPOD), however, has had success promoting confidence in the public service.

The Government is highly committed to change and improvement. They have produced numerous development plans. However, implementation is deficient especially without private sector support. Meaningful change can arise only if internal restructuring and shifts result in an increased state capacity, marked by a more accountable and transparent government – including public participation and timely access to plans, bills, and budgets.

Battling the systemic corruption and guaranteeing that public servants are serving the people, rather than their vested interests requires strengthened anti-corruption measures and citizen participation to hold the Government accountable. There should be more awareness about the ACB,

and whistle-blowers should be protected. These policies are vital for Malawi to move away from rentier political and economic space towards an open and competitive political and economic market.

Decentralisation

For all to be included in Malawi's growth and development, decentralisation is key for improved service delivery to reduce growth disparities between urban and rural areas. The decentralisation process began in 1998 with the Local Government Act but not as intended, further exacerbating existing power struggles, and alienating the majority of Malawians from civic engagement.

Currently, there are 28 rural councils and seven city/municipal/town councils responsible for 17 functions, including primary schools, health facilities, agriculture extension services, provision and maintenance of basic water supplies, and local roads. Yet, the devolution of functions and decision-making powers from the central to the local level has been asymmetric, slow, and fragmented. In addition, administrative decentralisation is not complemented by the fiscal decentralisation. Theoretically, the local authorities are responsible for local policy implementation, but in fact all the power and the budget allocation remain at the centre. The duality between theory and practice further promotes inefficiencies and corruption.

Against this backdrop, Malawi should prioritise appropriate decentralisation. In fact, to execute MIP-1 and the Secondary Cities Plan, the journey needs to begin with decentralisation. Full devolution of functions, personnel, and finances will require further financial resources from the central Government. It is also important to integrate e-governance tools so that Malawi can progress in digitalisation. For the undertaking to be successful, investment in human capital is critical. Capacity to function at the local level necessitates training in planning, finance, and human resources management for local authorities. Once capacities are built, local leaders should be empowered, and their mandate needs to be amplified.

The Way Forward

For Malawi to accelerate its journey to prosperity and achieve MW2063, the Government must fully commit to comprehensive democratisation of economic and fiscal and administrative decentralisation. The most critical sector of the economy—agriculture—requires increased productivity and commercialisation. This demands a mindset shift from subsidising subsistence agriculture to opening space for smallholder farmers and incentivising agricultural productivity and locally led economic growth. In the same line, efforts need to be put to focalize the support at first in agriculture cooperatives and associations to ensure produce aggregation, agro-processing and manufacturing. The government and key partners also need to expand to other crucial economic sectors for long term development such as mining and tourism. An inclusive economy also involves the promotion of MSMEs in a favourable business environment, free from burdens of regulation, and full of financing opportunities. Better infrastructure – focusing on rural roads, access to water, electricity, and communications – will encourage economic growth. Finally, in order to succeed, economic policies have to be complemented by political will and commitment. Fiscal, administrative, and political decentralisation are key. Accordingly, rural political participation and engagement needs to be increased and sustained. Officials should serve the public and be held accountable. These propositions combined with effective economic policies can propel Malawi on its pathway to prosperity.



Tea leaves growing in Malawi.
Credit: 1amGreen



Key Areas of Recommendations

For Malawi to accelerate its prosperity journey and achieve MW2063 goals, the Government needs to commit to comprehensive democratisation at both central and local levels. This will enable the government to minimise governance rentier spaces and effectively transform the economy. Likewise, it is essential to reprioritise a gradual implementation plan within MIP-1 for the Secondary Cities roll-out and focus on the most critical initiatives, ones that can generate economic and political ripple effects.

The following are some of the key recommendations requiring immediate attention:



Enhance agriculture productivity through a mindset shift - from subsidising subsistence agriculture to opening the space for smallholder farmers and incentivising agricultural productivity and locally led economic growth.

- Shift the focus from AIP to the provision of extension services and incubation finance for smallholder farmers.
- Review public spending and government interventions to promote commercialisation and productive diversification, moving away from fixed government subsidies to an increase in private sector participation.
- Invest in targeted support schemes for aggregation through cooperatives and associations.
- Increase targeted investment in farmer-led irrigation schemes and other types of smart farming technologies.
- Invest in de-risking solutions to provide commercial micro-loans with a focus on micro and small enterprises as well as cooperatives.



Promote commercialisation, value addition and manufacturing to start opening domestic and international markets to smallholders and local players, improving trade opportunities, forex in-flow and the Balance of Payments (BoP).

- Invest in local market infrastructure and processing facilities to improve trade opportunities.
- Align national quality and export standards with international standards to increase export values (i.e., COMESA, SADC & AfCFTA).
- Create an export promotion agency for Malawi and Malawian products.
- Improve and expedite border administration and clarify tariff and tax-exemption policies.
- Remove export bans and increase incentives for MSMEs to encourage trade.



Empower the rural population and local businesses through improved access to main urban and export hubs and investment in infrastructure at a district level, starting in areas with important economic activities, followed by those with high economic potential.

- Promote local mini-grid and off-grid systems to increase energy generation in remote locations.
- Focus on deepening engagement to secure energy supply to decrease black-outs and energy fluctuations (i.e., Southern Africa Power Pool).
- Prioritise investments to enhance infrastructure that provides rural access to communications and water.
- Prioritise road development funding to enhance rural access to local markets.
- Deregulate the logistics market to encourage competition and investments.



Shift from rentier deals and vested interests to an inclusive economy, which would open the space for MSMEs to grow, compete and function in a conducive business and investment environment in Malawi.

- Reduce price distortions in the utilities sector.
- Make markets more contestable by opening up government contracting making SOEs more commercially viable and exploring privatisation options.
- Professionalise the management of SOEs while tightening the financial support, limiting government transfer to cover their debts.
- Remove the financial barriers for foreign currency denominated accounts.
- Reform land allocation processes, ensuring proper cadastres, land registration and land titling, especially land for economic activities such as agriculture and tourism.
- Reduce the burden of regulations, registration processes and taxes for micro and small local enterprises to promote business formalisation.
- Prioritise and expand the MIP-1 intervention to include One-Stop Centres for business creation and information for local entrepreneurs.



Commit to comprehensive decentralisation, including effective fiscal, administrative and political implementation, and enhance local revenue collection.

- Ensure that all ministries fully devolve all functions to the local authorities, and check that the districts have the human capacity necessary for the devolution to succeed.
- Increase the financial support transfer from the central government to the local authorities.
- Shift local revenue collection authority to the local authorities.
- Devolve the public servant hiring and administrative support to the local authorities.
- Diminish the power of MPs in the local councils, including reducing the Constituency Development Fund allocation.



Transform political institutions to empower different branches of government and increase political accountability, fulfilling the promise that accompanied democracy in 1994.

- Limit executive powers and put in place strong check and balances in place.
- Engineer corruption out of the system through the elimination of discretionary decision making, burdensome administrative procedures and delivery through automation and e-government services.
- Build state capacity by first focussing on developing key functions, then progress with other functions.
- Reform procurement processes at national and local levels to ensure a transparent, expeditious, consistent and largely digital system across government offices.
- Enhance the independence of the judiciary along with clear processes for disqualification and removal from office to ensure the integrity of the judicial power.
- Strengthen political infrastructure to advance towards a more programme-based party system.
- Expand mechanisms to solicit greater political participation from rural communities.
- Ensure ACB's independence from all government branches and strengthen its mandate.

ENDNOTES

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Maize - the staple food in Malawi.
Credit: Maria Schiffer

Introduction

This case study on Malawi is part of a series of studies examining the links between a nation's Economic Openness and prosperity, comparing the performance of over 150 countries. The purpose of this report is to provide a systematic assessment of the policy environment underpinning Malawi's economy and, in so doing, help to identify specific actions that would improve Economic Openness in the country, and further the realisation of its objective to transform Malawi into an upper middle-income economy. This goal was expressed under the country's vision, the Malawi 2063 (MW2063) and the First 10-year Implementation Plan (MIP-1) along with other sectorial plans.

Context

Often called 'the Warm Heart of Africa', Malawi is a small land-locked country in Southeast Africa that is well known for its welcoming hospitality and kind-hearted people. It has remained peaceful since its independence from British rule in 1964.¹ The country is densely populated, with an estimated population of over 20 million (half of whom are under 18 years old) and is expected to more than double by 2063.² The country went through a peaceful transition in 1994 from a single ruling party to a multi-party electoral system. However, little progress has been made in improving the wellbeing of its citizens and developing its economy.³ Malawi's development journey towards a middle-income country has been an evasive and difficult one, swinging between periods of some economic growth and stagnation.⁴ Its 2019 GDP per capita at US\$371 was ranked 182nd in the world. In 2021, Malawi ranked 129th out of 167 countries in the Legatum Prosperity Index.

Malawi's economy during the twentieth century until today has been highly dependent on agriculture production in a dualistic system. The export of commodities, such as tobacco, sugar and tea, coexists with rain-fed subsistence farming. The sector still employs over 80% of the population and represents 80% of the country's exports.⁵ The agriculture sector also faces structural challenges: small land holdings (because of high population density),⁶ a poorly developed seed sector, weak agricultural extension services, limited access to finance, significant policy constraints and meagre irrigation infrastructure meaning a near-total dependence upon timely and sufficient rains.⁷

Due to limited agricultural development, poverty rates remain high. Malawi ranks 174th out of 189 countries in the UN Human Development Index (HDI). Today, 33% of Malawians face moderate or severe chronic food insecurity.⁸ Child stunting is still high nationwide at around 37%, and more prevalent at rural areas (39% of children) in comparison to 25% in urban areas⁹ Additionally, there are low levels of life expectancy among the country's population.¹⁰

Malawians, especially the poorest 60%, are highly vulnerable.¹¹ Agriculture represents a precarious source of livelihood for the bulk of the population. Its geographical location and low agricultural diversification make the agricultural sector highly vulnerable to external shocks – including environmental market conditions and price volatility pressures.¹² Extended dry spells lead to the shortage of staple crops such as maize, which then contributes to rural poverty.¹³ For example, flooding in the Southern Region in 2015 resulted in the destruction of 4% of Malawi's arable land, and the El-Niño-induced drought of 2016 pushed 40% of the population into food insecurity.¹⁴ Malawi's economy was significantly harmed by the COVID-19 pandemic and its effects.

The country has an active presence of international donors and NGOs and a high dependency on aid. Official development assistance equates to about US\$60 per capita each year and accounts for 25% of Malawi's GDP.¹⁵ Following the 2013 public finance management scandal known as 'Cashgate', the withdrawal of (on-budget) donor support put heavy strains on government finances, as the budget deficit rose from almost 2% to 6% of GDP.¹⁶ Donors have often tied aid to reforms, met by superficial changes, which have reinforced tendencies of 'isomorphic mimicry' and contributed to dysfunctional policy dynamics.¹⁷

There is a low rate of private investment, estimated at 6.7% of GDP in 2017, which is well below the 20–25% of GDP needed for sustained, rapid economic growth.¹⁸ The contribution of physical capital to growth has been quite small since 1980, with the rate of capital accumulation falling far behind labour growth, resulting in thinning of the capital base of the economy. Investment has been low because the cost of capital has been higher than the rate of return of opportunities. Furthermore, it appears that much investment in the economy are dedicated to unproductive infrastructure projects, which initially result in a construction-led boom, followed by a bust when forecasted benefits fail to materialize.¹⁹

Even though a large part of the population is engaged in agriculture, the sector represents only about 30% of GDP, as most people remain locked in low-productivity, subsistence agriculture. While agricultural output has increased by 20% over the last decade, productivity in the sector has not improved. Agricultural productivity remains relatively low for the region 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. Substantial funding to heavily subsidized maize fertilisers has been poorly targeted and undermined crop diversification. This lack of diversification and crop rotation depletes soil quality, further lowering yields.²⁰

The economy of Malawi has experienced modest structural transformation from the agriculture to the non-farm sector, constrained by the low level of urbanisation. If anything, the economy is showing signs of deindustrialisation; the share of employment in industry is declining, whereas employment in services has increased. In recent years, the productivity of the services sector declined at an annual rate of 3.5%, likely due to low human capital of former farmers and the poor “quality” of new jobs in this mostly informal sector.²¹ The overall pace of job creation has been slow – the annual job growth rate was 1.5%, lower than population growth at 3%.²²

Malawi has a very low rate of formal job creation with only 11% of the employed in formal jobs.²³ There is a large Micro, Small and Medium enterprise sector that comprise 1.6 million businesses, employing nearly 2 million people.²⁴ There is also a large share of own-account workers (54%), mostly in the agricultural sector. Consistent with the informal nature of the economy, youth unemployment is relatively low at 9.5%.²⁵ However, underemployment for youths is high at 40%.²⁶ Another consequence of informality is that around 84% of men and 94% of women hold jobs without social protection or employment benefits, which includes own-account workers as well as a large share of paid employees.

Malawi has one of the highest disparities between female and male outcomes in economic status, as well as political and educational empowerment.²⁷ Female headed households tend to be poorer, and fewer own telephones and transportation means compared to male headed households.²⁸ Women-owned businesses are less formal, less profitable, and smaller than those owned by men.²⁹ Agricultural productivity on female-managed plots is estimated 25% lower on male-managed plots.³⁰ Women tend to own smaller cropland and have less access to electricity and improved water and sanitation. Lack of access to improved water and sanitation facilities also affects female school attendance, given that adolescent girls disproportionately collect water.³¹

Furthermore, there are urban-rural and regional disparities in economic development. Poverty is predominantly rural, with nearly 95% of the poor living in rural areas, where 57% of the population is poor, compared to only 17% in urban areas.³² Furthermore, poverty is 45% more prevalent in the southern region than in the northern region.³³ While there are some differences in GNI between the cities and rural district, these are magnified by the disparities in the quality of life and service delivery in cities, specially due to an ineffective and asymmetric decentralisation process that started in 1998 with the Local Government Act.

Multi-party elections were adopted through a referendum in 1993, introducing a period which has been called a ‘transition without transformation.’³⁴ Since then, there have been six peaceful elections. However, the system has been characterised by a small group of elites competing for power and political survival through rent seeking. This settlement trapped the country in a cycle

of crises in which corruption is tolerated as a means of rewarding loyalty, and rents are captured to promote political aims rather than reinvest in prosperity.³⁵

In 2019, there was yet another crisis as Malawi's Constitutional Court determined that former president Peter Mutharika's re-election was fraudulent. Consequently, His Excellency Dr Lazarus Chakwera was elected president in 2020. He has expressed the public commitment and political will to address many of these longstanding issues. This includes supporting the independence of the Anti-Corruption Bureau, dismissing some cabinet members, and subsequently ensuring an unbiased investigation of the Vice President on corruption charges.

In January 2021, the Government, launched a new vision named Malawi 2063. The Vision was arrived at through a widely consultative process facilitated by the National Planning Commission targeting Malawians and multiple stakeholders. It has the main goal of transforming Malawi into an inclusively wealthy and self-reliant, industrialized upper middle-income country, which primarily finances its own development needs by the year 2063. It positions the government at the centre of the Malawi's economic development agenda and establishes a collaborative approach with donors, rather than allowing them to determine the trajectory. The Vision also includes strengthened governance systems and institutions, promising openness and transparency, competency and capacity, and sound financial and economic management. It is the successor of the Malawi Vision 2020, which was launched in 2000, with almost similar goals but did not fully materialize largely due to relying on donors for support and lacking strong accountability mechanisms.

The success of the MW2063 is heavily dependent on the effective execution of a targeted investment programme. Firstly, the Government needs to focus on raising its financial resource base for its activities, without which the continued donor reliance will be exacerbated. Hence, focussed initiatives to increase the tax base should be prioritized. Secondly, due to limited availability of resources, a priority should be on investments that make sound economic sense given the status of the economy and balance of payments in Malawi. Thus, proper management and oversight of mining operations, among other activities, are essential to ensure that the Government secures adequate revenue from concessions. Furthermore, increasing private sector participation from MSME levels to the largest companies (including SOEs) will also help to reduce the fiscal burden, and in time raise the tax base.

In this context and given a legacy of economic stagnation and a new vision for the future, supported by a 10-year plan for the first phase, we seek to assess Malawi's economic openness, evaluate the relevance of the government's plans, and recommend areas that would benefit from further attention.

Overview of the Report

The analysis focuses on the key institutional and economic drivers necessary to achieve prosperity for all by 2063 – as stated in the Malawi 2063. Our research has been organized around key pillars and relevant elements drawn from the Legatum Prosperity Index and Malawi's ranking in a global context. Each chapter provides background information, some of the strengths and weaknesses of each area (including Malawi's relevant ranking in the 2021 Prosperity Index), an overview of the relevant national vision and plans, and a perspective on how those plans should be developed further to best realise the vision.

POLITICAL AND ECONOMIC HISTORY

The first chapter of this report describes how a peaceful nation in Southeast Africa –with more than 80% of its population living in rural areas, high levels of poverty and low levels of human development (HDI)³⁶ – has had an elusive development journey. It looks at the country's development stages from 1954 to 2022. The chapter concludes that Malawi has not progressed significantly since its democratic transition because it took place without substantial and inclusive

political economic transformation.

KEY SECTORS: AGRICULTURE AND INFRASTRUCTURE

This chapter evaluates the core sectors of Agriculture, Transport, Water, Energy and Communications. These sectors are critical to unlock economic growth but have been collectively underperforming in Malawi. Common themes include under-investment, distorted economics and extensive government interference creating opportunities for political rents. The arduous job of resetting these sectors for broad-based growth and development is critical for delivering the objectives of MW2063.

TRADE AND MARKET ACCESS

Building export-led economic growth is a key component of transformation. When markets have few trade barriers, smooth border clearance and a less atomised approach to the market, local and international commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded, and commercialised, ultimately benefitting consumers through a greater variety of goods at more competitive prices. The situation in Malawi is complicated by inefficient border administration leading to additional costs and delays for both exporters and importers, further contributing to high levels of smuggling. Additionally, Malawi's exports are meagre (amounting to \$937M in 2020) due to the lack of economic diversification, value addition to products and services and poor compliance with international standards.³⁷

INVESTMENT ENVIRONMENT

We measure the extent to which investments are protected adequately through the existence of property rights, investor protection and contract enforcement as well as the extent to which domestic and international capital (both debt and equity) are available in the country. The more a legal system protects investments, for example through property rights, the more investment can drive economic growth. For Malawi's case, we look deeper into land rights and how conducive the investment environment is for current and future local businesses and entrepreneurs along with international players. Furthermore, we delve into the financial sector, and compare the business climate for large enterprises versus the MSMEs.

ENTERPRISE CONDITIONS

In this chapter, we evaluate the way business regulation ensures markets are contestable and free from burdensome regulation, so entrepreneurship and innovation can be enabled at a local level. On the one hand, we assess how easy it is for local versus international businesses to start, compete and expand in the formal versus informal sectors of the economy, and on the other, how to better promote and support cooperatives and initiatives that prevent market atomisation. We also cover domestic market contestability, especially the extent of market dominance and local market competition – crucial to enhance locally owned businesses in Malawi – and the burden of regulations in the country. Finally, we discuss the need to transition to a more friendly environment for local business creation, providing essential conditions for dynamism, entrepreneurial activities, and local employment.

POLITICAL SYSTEM

We analyse the strength of checks and balances on executive power, whether the political system can reflect the will of the people, and whether the judicial system works effectively and independently, on national and local levels. Political dynamics in Malawi have been in large part characterised by a stable but low-level equilibrium, in which a small group of elites have competed for power and political survival through rent seeking. This closed system is acting as a constraint on the nation's transformation.

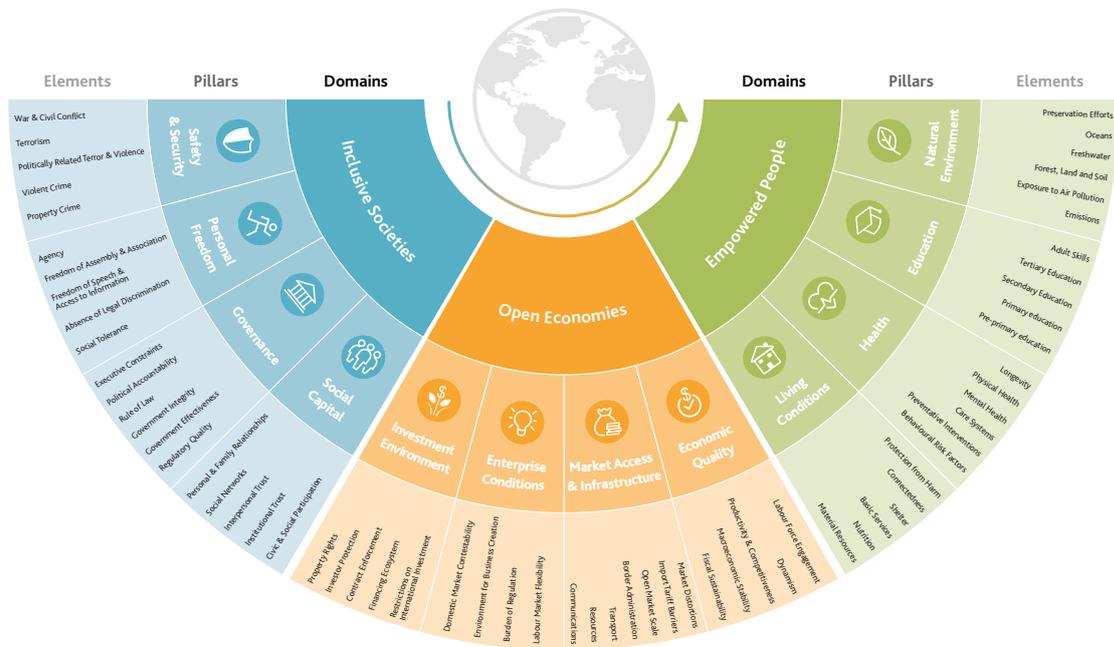
GOVERNMENT CAPACITY

We assess whether the government operates effectively and without corruption at every administrative level. The nature of a country’s governance has a material impact on its prosperity. Low government capacity and high levels of corruption are predominantly a consequence of the political system. They also mean that Malawians experience poor quality public services, which further limits the country’s development.

DECENTRALISATION

This chapter assesses the extent to which decentralisation in Malawi has created a coherent system of local government. It analyses the shortfalls of the ineffective decentralisation that led to low capacity of local government, underfunding and weak accountability, which resulted in poor local services. That creates a particular concern in Malawi given that over 80% of the population live in rural areas and would benefit from effective decentralisation.

THE BUILDING BLOCKS OF PROSPERITY



Source: Domains, Pillars and Elements of Prosperity, Legatum Prosperity Index.

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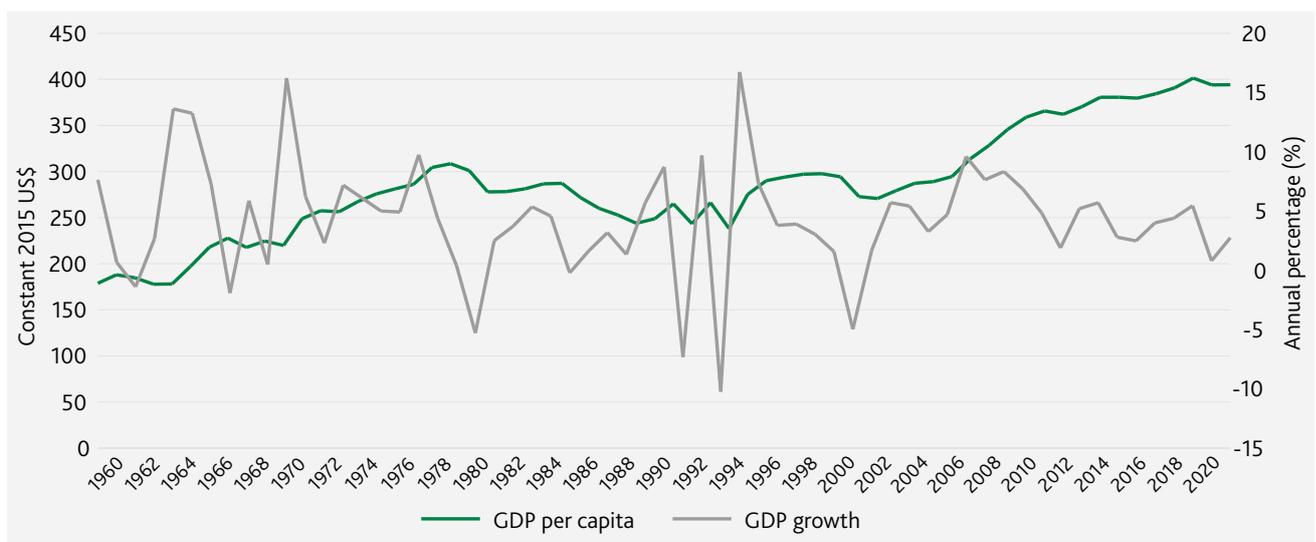


People at the Streetmarket of Namitete in Malawi.
Credit: Hecke61

Political and Economic History of Malawi

Malawi has experienced several phases of political and economic transition since the middle of the twentieth century. Despite peace and stability since independence, Malawi's economic performance has been poor, falling behind its regional peers. The country's history has been characterized by repeated episodes of macroeconomic instability with implications for the country's long-run growth and poverty reduction. Since independence in 1964, the country has implemented multiple development strategies and plans aimed at improving the socio-economic development. However, economic growth in Malawi has generally been low and more volatile than that of its peers, with only two periods of high and relatively stable growth in 1964-1979 and 2003-2010, driven largely by developments in agricultural exports. Other periods have involved a combination of macroeconomic policy variables and outcomes traditionally associated with instability: growth collapses, high inflation, low international reserves, currency depreciation, and large fiscal deficits. This has been largely due to weak institutions with limited commitment capacity, contributing to fiscal slippages and wider policy implementation gaps. That led to stagnating human development, particularly outside of urban areas. Malawi's economic performance may be exogenous in the short run but has been endogenous to governance, institutions, and policies over the long run.¹

FIGURE 1: MALAWI'S ECONOMIC GROWTH



Source: World Bank.

1954–1964: Economic Stagnation

Prior to the country's independence in 1964, Malawi was characterized by a dominant party regime – with colonialism and the British influence in its final stage. The country was adjoined to modern-day Zimbabwe and Zambia under the Federation of Rhodesia and Nyasaland. At that time economic deals and transactions were accessible only to those with political connections, without contributing much to inclusive economic development. Additionally, Malawi did not have a reserve bank or an independent monetary policy.²

During the period, Malawi's economy was dependent on limited external colonial support as the colonial government was mainly focused on Zimbabwe and Zambia. During this decade, Malawi experienced a period of economic stagnation, with GDP per capita remaining at a very low base of around US\$300 in 1964.³ The stagnation was in part a consequence of the lack of infrastructure

development – especially during the 1950s as the development projects were focused mainly on modern-day Zimbabwe, leaving Malawi’s infrastructure investment scarce – almost non-existent. Furthermore, there was a lack of other fiscal expenditure and an all-suited monetary policy based on British pounds as a currency, which was overvalued, limiting Malawi’s exports.⁴

Overall, the colonial policies placed emphasis on agriculture as a means of economic development. The colonial government prioritized revenue extraction rather than meeting the needs of the population.⁵ Main investments in this period took advantage of railway developments at the beginning of the century for the extraction of raw crops such as tobacco, tea, coffee, and sugar⁶; most people worked as labourers in the farms for their livelihoods⁷. The colonial government pursued top-down policies, neglecting citizen participation, and skewing the development to the regions with more natural resources, particularly the Southern Region where most estates were based.⁸ Hence, the colonial period started creating regional disparities that persist to this day.

1965-1978: Independence and Growth Acceleration

From independence to 1979, Malawi had a unique economic regime as the government had total control of the country’s economic and development policies, which led to unprecedented growth.⁹ However, the leadership of President Dr Hastings Banda was characterized by a dominant one-party system where the political elite focused on strengthening relationships with the president for achieving economic and political gains.¹⁰

In its first post-independence decade Malawi experienced strong growth, largely due to select state-driven investment in agricultural estates that cultivated export crops. During this period Dr Banda adopted a dualistic development policy that included active government interventions with targeted private sector leaders in strategic sectors for Malawi’s development.¹¹ The chosen areas were technology, innovation, and quality control for companies in the key commodities to be developed: sugar, tea, textiles, and tobacco.¹² The wealth that the policy generated supported the consolidation of a powerful, one-party state under the highly personalized reign of President Dr Hastings Banda.¹³

Simultaneously, the period was characterized by the implementation of development plans, with the first one launched for 5 years: 1965-69. While the first plan did not present any substantial policies, its successor Statement of Development Policies (DEVPOL), covered a 10-year period, and focused on developing the agricultural smallholder sector. Following a two-fold approach, the plan targeted improvement in extension and farmer training, and in rural development policies.¹⁴ To support this development plan, Dr Banda created ADMARC in 1971. It oversaw engagement in agricultural production and marketing of smallholder agricultural produce, along with the provision of subsidised credit and inputs.¹⁵

Despite this development plan and the ‘emphasis on smallholder farmers’, Dr Banda’s government promoted the agricultural development primarily through ‘estate farming models’, “supporting large scale agriculture for selected investors, awarding them preferential access to land, investment, and credit”.¹⁶ These companies – and investors – had privileged access to the President, who utilised the public sector to generate a conducive business environment for these firms to grow.

These developments were done in a time that the production of commodities such as tobacco became more cost-efficient in developing countries.¹⁷ Hence, Malawi saw a growth acceleration until 1979. For over 12 years the annual average real growth rate was over 5% outperforming the rest of sub-Saharan Africa; and during this period the GDP per capita more than doubled to over US\$770.¹⁸ However, the growth unravelled due to the patronage systems introduced by Dr Banda.¹⁹ President Dr Banda created a system of clientelism that promoted loyalist elites and excluded those deemed economically less productive.²⁰

Therefore, this period further amplified rural-urban inequalities, as migration from rural to urban areas was increasing.²¹ To discourage this migration, the government invested in infrastructure

projects – Growth Centres – outside of the cities and relocated the capital from Zomba to Lilongwe in 1975.²² Yet, policy making was highly centralized, together with the management of resources. Although the second development plan (DEVPOL II) – on paper – focused on smallholder agriculture and rural development, the government continued with its centralised approach and local governance structures were not empowered to implement development interventions.²³ During this first part of Dr Banda’s administration, considering the need to stimulate productive investment and the ‘Malawisation’ of the economy, parastatal organisations started to be created. The Malawi Development Corporation was created in 1964 by a parliamentary act and it started operations in 1965.²⁴ Then in 1972 the Investment Development Bank was established to promote private sector investment and initiatives in the country.²⁵

During this period the output of the state grew at an average annual rate of 17%, whereas production from smallholder farmers (mostly located in rural areas) grew an average of just 3%.²⁶ The government developed a Decentralization Policy, acknowledging the importance of local governance and rural development only in the late 1990s.²⁷

1979-1993: Decline

This period covers a debilitated Dr Hastings Banda regime, which started to lose political control and the economic development approach over incremental internal and external demands for political freedom and market liberalisation. In fact, the DEVPOL II “was never fully implemented as it was overtaken by the Structural Adjustment Programme (SAP) with the support of the World Bank and the International Monetary Fund in the early 1980s”.²⁸ Particular attention was put on liberalising agriculture, privatising and reforming parastatal structures, liberalisation of wages, prices, trade, and of the financial sector.²⁹ As a result, some public enterprises were privatised offering more economic political control to a small, privileged group in the country.³⁰ In fact, research shows that SAPs fail to ensure robust, resilient and inclusive growth and development.³¹

Despite the World Bank’s and the IMF’s push to implement the SAP, this period was marked by fiscal indiscipline and deteriorating terms of trade following the oil price shock and Mozambique’s civil war. The next fifteen years saw an increase in suppression, deterioration in bureaucratic effectiveness and in lack of quality in policy making.³²

Weaknesses that had germinated in the earlier acceleration period under Dr Banda’s regime were critical elements that prevented economic development in rural Malawi and neglected the focus on local capacity building that would have allowed most Malawians to move away from subsistence agriculture. These included:

1. The weak and deteriorating state capacity due to Dr Banda’s development strategy in the 1960s and 1970s, where the President selected a small number of players – one per sector – and did not invest sufficiently in state capacity.³³
2. The control over a closed group that represented the political and economic elite, and the utilisation of the state institutions for personal gains, diminished any potential and opportunity for institutional development and political capacity at a central and local levels.
3. The limited number of private sector players in the economy, a limited competition, the lack of broad-based growth, and hindered market conditions to allow Malawians to prosper.
4. The exclusion of most of the population from the high value economy due to the state-based nature of agriculture,³⁴ leaving more than 80% of the population outside the productive economy and its benefits.³⁵

During the 1980s, as global demand declined, credit became more expensive, [affecting] Malawi’s tobacco sector.... [resulting in] a domestic banking liquidity crisis”.³⁶ Additionally, severe drought and weather conditions resulted in food shortages which had negative effects on agriculture productivity. This was made worse by rising population growth, a thin economic base outside estate farming, fiscal indiscipline, and poorly implemented and sequenced liberalisation initiatives.³⁷

The country was also impacted by the conflicts in South Africa and the civil war in Mozambique leading to an over one million refugees' influx into Malawi and damage in railway structures.³⁸ Such regional crises negatively impacted exports and revenue generation for Malawi. Between 1980 and 2002 Malawi trade declined by 43%.³⁹

Indeed, the combination of oil shock in 1979, the bottlenecks in transportation caused by the Mozambican War, as well as the resulting influx of refugees led to an economic crisis in Malawi between 1979 and 1986.⁴⁰ The crisis revealed Malawi's vulnerabilities to external shocks and reinforced the decision to adopt the SAP and IMF stabilisation measures.⁴¹

Therefore, after 13 years of growth acceleration during the first part of Dr Banda's regime, the deceleration process started and lasted for over 20 years, characterized by a reduction in GDP per capita, declining from over US\$770 in 1977 to US\$431 in 2001.⁴² Malawi adopted structural adjustment policies which severely limited the rents that held together Dr Banda's patronage network. As the economy declined, political competition and grievances emerged, leading to a loss in policy focus as political survival took priority.⁴³ Ultimately, internal pressure led by church groups and trade unions, together with external pressure from donors led to a democratic regime change.⁴⁴

1994-2003: Democracy and Stagnation

The phase is characterised by the promise of economic development, inclusion and gains that were expected to come with the establishment of democracy and a multi-party system. In 1994, Malawi transitioned to a multiparty democracy, and to a competitive clientelist political settlement. Multi-party elections were adopted through a referendum in 1993, introducing a period of democracy, which has nonetheless been called a 'transition without transformation'.⁴⁵

President Bakili Muluzi was elected in 1994 and again in 1999. His politics favoured his inner circle, "leading to corruption in government contracts and a higher mismanagement of State resources"⁴⁶ Many contracts were given to powerbrokers who did not deliver on development goals.⁴⁷

In the late 1990s the government introduced a series of initiatives to guarantee food security, primarily through targeted inputs, subsidies, and price stabilisation interventions. The system was readily manipulated for populist political purposes while providing significant opportunities for patronage via non-transparent targeting, pricing, and procurement.⁴⁸

Additionally, in 1998 there was a shift in policy direction, recognizing the importance of the role of the local governance structures.⁴⁹ The Decentralization Policy emphasized a district-focused approach input from citizens for various development policies,⁵⁰ although most of the policy implementation remained centralized. Due to the failure of SAPs to generate economic growth, the Poverty Alleviation Programme (PAP) was initiated and then the first long-term development vision – Vision 2020 – launched in 2000. Its goals were for the country to become democratically mature, self-reliant, technologically mature and a middle-income economy.

However, the result was an economy more oriented towards short-political and economic gains due to a series of reasons. First, President Muluzi's economic approach was free-for-all trade without efforts to account for and manage market failures.⁵¹ This continued weak macroeconomic management and led to economic instability and indebtedness. In 1998, Malawi's debt to GDP ratio increased to 141% from 83% just a year earlier. The debt remained that high until 2003, and only started to decrease substantially after 2004.⁵²

In 2002, President Muluzi tried to alter the constitution in order to stand for a third presidential term. In consequence, donors cut aid, so the President had to appoint a successor outside his party for the presidential elections in 2004. GDP per capita dropped from US\$298.4 in 2002 to US\$267.4 in 2003 and only reached the 2002 level again in 2006.⁵³

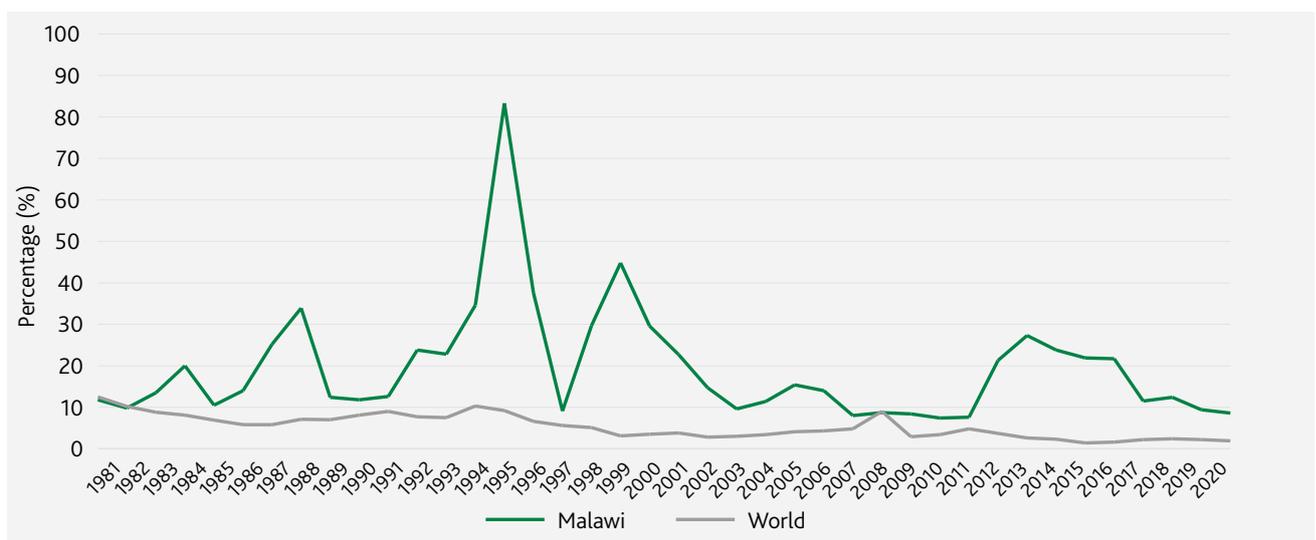
2004-2010: Growth Acceleration

In 2004, Malawi's economic growth started accelerating. This period covers most of the two presidential terms of President Bingu wa Mutharika. His first term can be characterized by a more open economy. The President brought in a former IMF economist as the minister of finance who set sound macroeconomic policies and opened the economy to the private sector by strengthening public-private dialogue. This led to numerous growth factors, including the return of development partners and the birth of the uranium, which expanded the mining sector by 23% in 2004.⁵⁴ With the debt relief, total aid inflows equalled 93% of GDP in 2006 and 50% in 2007.⁵⁵ Between 2004 and 2009, Malawi enjoyed uninterrupted economic growth with an average annual GDP growth of 7%.⁵⁶

In addition, the introduction of a large fertiliser and seed subsidy programme added to the economic acceleration. The Farm Inputs Subsidy Programme (FISP) proved successful in preventing droughts and famines that had plagued Malawi right up to 2005 and allowed Malawi to create a maize surplus for the first time in almost two decades.⁵⁷ Furthermore, Malawi experienced rain seasons that caused a boom in the tobacco sector. Finally, the key factor behind the growth acceleration from 2006 onward was the fixing of the exchange rate above market equilibrium, resulting in a sharp decrease in inflation and a boom in consumption. As a result, GDP per capita doubled from \$267.4 in 2003 to \$535 in 2011.⁵⁸ Inflation decreased from 14% in 2006 to 8% in 2007 and stayed at a similar rate until 2011.⁵⁹

The President – following President Dr Hastings Banda's approach – identified strategic partners particularly Chinese mining, and infrastructure investors⁶⁰ – “who won most road construction and rehabilitation projects”. Likewise, specific providers benefited from the introduction of the FISP, although for the first time, this also benefitted small farmers.⁶¹

FIGURE 2: INFLATION, CONSUMER PRICES



Source: World Bank.

2011-2019: Mixed Bag

President Bingu wa Mutharika's second term was different—his leadership style was increasingly being seen as autocratic, which proved to be problematic for the donors.⁶² The President also resisted nominal devaluation of the Malawian Kwacha, which led to a foreign exchange crisis in 2011 caused by a combination of economic and political factors. The overvalued fixed exchange rate, a structural trade deficit that continued to raise, as well as issues with the “management of governance and development assistance”⁶³, a diplomatic incident with the British higher commissioner⁶⁴ and the cutting of aid later this year led to significant economic growth deceleration from 9% in 2008 to 1.8% in 2011.⁶⁵

In 2012, Dr Joyce Banda being Vice President became the first female President of Malawi as per dictates of the Malawi constitution following death of President Bingu wa Mutharika. Her first months in the presidency represented a return to an orderly deals space, with the reversal of distortionary policies taken by President Mutharika, freeing up the exchange rate and the return of aid.⁶⁶ One of the first economic policies she undertook was devaluing the Malawi Kwacha by 33%.⁶⁷ At first, this caused a surge in inflation averaging over 20%. This coupled with banks raising their lending rates as high as 30%, stifling access to finance particularly for small to medium enterprises⁶⁸. In the same line, President Joyce Banda adopted an Economic Recovery Plan and reinstated an IMF-extended credit facility.⁶⁹

Nevertheless, 2013 was marked by the ‘Cashgate’ crisis – a major corruption scandal – that led to the international donors stopping the aid flow, and hence harming the economy for years to come. The IMF resumed aid in 2016, leading to economic growth that lasted until 2019.

Prof. Peter Mutharika was elected president in 2014. The currency started appreciating in 2014 under the Presidency of Professor Peter Mutharika. Subsequently, interest and inflation rates began falling. After six years of double-digit rates, year on year headline inflation receded towards single digit levels. Inflationary pressure subdued in the latter half of 2017, with the year-on-year headline rate falling to 7.1% in December.

President Peter Mutharika's economic policy was dominated by vows to fight corruption and create a more prosperous country. Following two years of depressed economic activity due to floods and a drought, real GDP growth picked up to 4% in 2017. GDP per capita grew during the second part of his term, from 2016 (\$316) to 2019 (\$592).⁷⁰

However, 2019 saw yet another crisis as Malawi's Constitutional Court determined that former President Prof. Peter Mutharika's re-election was fraudulent. Consequently, His Excellency Dr Lazarus Chakwera was elected president in 2020.

2020- : External Shocks and Uncertainty

The latest stage in Malawi's economic development has been marked by economic shocks. The impact of the Coronavirus (COVID-19) pandemic has significantly harmed most sectors of Malawi's economy, including manufacturing, construction, wholesale retail trade and transportation. It also created fiscal pressures that led to a 3% increase in fiscal deficit from 2019 to 2020.⁷¹ Simultaneously, while the authorities have requested an increase in financial assistance under the Rapid Credit Facility to support the BoP, the new Government cancelled the existing IMF Extended Credit Facility in September 2020.⁷²

In 2020, the country witnessed the lowest registered growth rate since 2001.⁷³ The impacts were carried into 2021 as well, with the GDP growing 3.9%.⁷⁴ Importantly, the World Bank cites the growth at an even lower rate—at 2.8%.⁷⁵ Furthermore, the current account deficit contributed to decreasing gross international reserves that declined from \$625 million⁷⁶ in October 2020 to \$406 million (or about 1.5 months of next year's imports) by the end of October 2021.⁷⁷ Consequently, to increase the dwindling foreign currency reserves, the Reserve Bank of Malawi (RBM)

devalued the Kwacha by 25% in May 2022—for a second time in a decade.⁷⁸ The decline in currency reserves has been further compounded by the recent rise in the cost of imports, particularly of raw materials as well as fertiliser and fuel, with headline inflation reaching 15.7% in April 2022—the highest since March 2017.⁷⁹

Following the economic hardships and the current critical situation in terms of public debt and fiscal imbalances, Malawi has engaged a debt advisor and has begun consultations with the IMF to address the impact of the COVID-19 pandemic, spill overs from war in Ukraine and climate-related shocks.⁸⁰ Hence, the political willingness to improve the country's economy presents positive signs towards resumption of aid and economic improvement.

The additional political commitment towards improving Malawi's socio-economic development was expressed in January 2021 as the Government launched its long-term vision, the Malawi 2063 (see Box 1). The MW2063 promotes an inclusive, wealthy, and self-reliant nation to become an industrialised upper middle-income country which can primarily finance its own development needs by 2063.⁸¹ The vision emphasises the need for an alliance with the private sector to realise the Vision and recognises that it is necessary to strengthen governance systems and institutions. All parties, civil society leaders and key public and private sector actors, share this commitment (see Figure 1). Furthermore, to tackle the effects of the COVID-19 pandemic, the Government created Malawi COVID-19 Socio-Economic Recovery Plan 2021-2023 (SERP) that prioritises the MIP-1 interventions which could speed up the recovery.

Frequent exposure to natural disasters – cyclones, floods, droughts, and storms – along with severe long-lasting macroeconomic imbalances, high dependency on foreign aid and remittances, and rising inflation and commodity prices⁸² are making Malawi's recovery from the pandemic difficult. According to the World Bank, the projected growth is expected to be "subdued due to unfavourable weather conditions, the impact of several tropical storms, which have damaged farmland and destroyed key infrastructure"⁸³ that are critical for the overall performance of Malawi's economy and one of the most important sectors in the country – agriculture.

Nonetheless, expectations from the Ministry of Finance are that the economy will grow by 4.1% – if the effects of Storm Ana that hit Malawi in January 2022 do not persist – due to an increase of economic activities in mining and quarrying, manufacturing, transportation, construction, and wholesale and retail sectors.⁸⁴ A similar rate of growth is expected for 2023.⁸⁵

Implications

Malawi's economic and political stagnation is in large part driven by a stable but low-level equilibrium, in which a small group of elites compete for power and political survival through rent seeking. This entrenched political clientelism creates strong incentives for policies that appear to address short-term common needs (such as agriculture subsidies, market, and price distortions). The result is fragmentation along identity lines: high international donor dependence and a limited social contract based on food security, and maize in particular. This settlement has trapped the country in a cycle of crises, followed by reactive responses rather than greater commitment to fiscal discipline and long-term reforms needed to spur productive structural transformation.⁸⁶

In the first two decades following independence, President Dr Hastings Banda's centralised patrimonial system built around control of productive resources allowed for investment in a capable bureaucracy where 'patronage followed policy'. However, the current fragmented politics, where the public sector is the key source of rents and the main player in the local financial ecosystem, has led to a logic of 'policy following patronage'.⁸⁷ This perpetuates a political logic in which corruption is tolerated as a means of rewarding loyalists, and rents are captured to promote political aims rather than to reinvest in prosperity.⁸⁸

Policies concerning maize—the country’s food staple—are at the heart of this political economy. Periodic suffering from food shortage and the dominant role of agriculture in the economy has put the availability of maize at the centre of the social contract between the state and the people.⁸⁹

Malawi’s heavy dependence on aid adds a further dimension to these cycles, as donors have suspended budget support in response to poor economic mismanagement and corruption scandals three times in the last two decades, most recently the 2013 ‘Cashgate’ scandal.⁹⁰

Where reform efforts have had traction, elite incentives have been aligned due to either being in a vulnerable political position and therefore the need to shore up citizens’ support through performance, as was the case in the first term of President Prof. Bingu wa Mutharika, who held a minority government, or because of the need to address a threatening economic crisis and reinstate donor aid for example in the case of President Joyce Banda.⁹¹ At these junctures, the government has demonstrated the ability to establish discipline and implement sound policy, at least temporarily.⁹²

Despite the long-lasting economic and political stagnation history of Malawi, His Excellency Dr Lazarus Chakwera has an opportunity to regain control of not only the country’s development agenda through the MW2063, MIP-1 and other key flagship initiatives, but also, its approach to public service, transparency, corruption and fiscal management.

Fiscal management should be a top priority of the Government to ensure an appropriate mix of funding and financing to achieve fiscal sustainability without compromising the economic development agenda. Along with planning, prioritising, and implementing policies and programmes, the Government, on the one hand, needs a strategy to raise additional fiscal resources without continued donor reliance and exacerbating fiscal debt. Hence, the focus should be on facilitating key economic activities and sectors which have the potential to generate positive ripple effects on the Malawian economy and increase revenue and the tax-payer base. On the other hand, resource allocation and fiscal expenditure must be prioritised for investments at the core of the development agenda, which will unlock further economic and social development for Malawi.

BOX 1: MALAWI VISION 2063

Malawi 2063, the country's vision, follows a precedent of creating holistic plans for the nation's development, aiming to cast an image of how far Malawi could develop based on several key sectors and aspects of society. It is complemented by practical implementation plans which detail the policy needed for this vision to be realised. The Vision is based upon three pillars of Malawi's development, beneath which lie seven enablers to drive this forward: **Pillar 1: Agricultural Productivity and Commercialisation; Pillar 2: Industrialisation that includes mining as a key integral; and Pillar 3: Urbanisation that has creation of secondary cities and tourism hubs as key components.**

Each of these pillars is seen as a key arena of activity which possess the potential to unlock the nation's ability to create wealth sustainably and inclusion. The Government's principal approach is to expand productivity through public-private sector partnerships, and to follow a trajectory from subsistence agriculture to market-based agriculture, paving the way for industrialisation and urbanisation.

Enablers

Enabler 1: Mindset Change

Enabler 2: Effective Governance Systems and Institutions

Enabler 3: Enhanced Public Sector Performance

Enabler 4: Private Sector Dynamism

Enabler 5: Human Capital Development

Enabler 6: Economic Infrastructure

Enabler 7: Environmental Sustainability

Each of these enablers represents a shift in how key actors across Malawi function – by the government policymakers, politicians, citizens, businessmen and women or otherwise. Shifts in behaviour will facilitate growth and ensure it remains inclusive and sustainable.

It is guided by key principles of good governance including citizen engagement and participation, and the fair conduct of elections; responsiveness; efficiency and effectiveness; openness and transparency; the rule of law; ethical conduct; competency and capacity; innovation and openness to change; sustainability and long-term orientation; sound financial and economic management; human rights, cultural diversity, and social cohesion; accountability; and sustainable peace and security.

The Government have expressed commitment to a national development framework based on each of these principles and priority areas, which the Vision states will underpin its growth into sustainable and inclusive wealth creation.

To implement MW2063, the government, under the NPC, developed the Malawi 2063 First 10-year Implementation Plan (MIP-1). The National Planning Commission has produced a stage-by-stage policy framework to guide the development goals laid out in the Vision document, along with the pillars and enablers. For this first 10-year period, key flagship programmes have been identified as significant accelerators of Malawi's development especially in the areas of Agricultural Productivity and Commercialisation; Industrialisation; Urbanisation; and Economic Infrastructure.

The MIP-1 outlines the initial steps of how to begin laying the groundwork, and then allow each sector to accelerate. These are divided into 5-year 'quick wins', and then further policy developments in the following five years. Initial 'quick wins' often involve reviewing legal and regulatory frameworks or operationalising policies and infrastructure awaiting renovation or implementation.

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Malawian woman working in cassava plantation.
Credit: Golero

Key Sectors: Agriculture & Infrastructure

Agriculture has been the backbone of the economy in Malawi, with much of the population engaged in rain-fed subsistence farming. The sector employs over 80% of the population and represents 80% of the country's exports (primarily tobacco, sugar, and tea).¹ Despite a large part of the population being engaged in agriculture, the sector represents only about 30% of GDP, as most people remain locked in low-productivity, subsistence agriculture. While agricultural output has increased by 20% over the last decade, productivity in the sector has not improved. Agricultural productivity remains relatively low for the region, 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.

In almost every country, the road to prosperity starts with the transformation of its agricultural sector. For example, Brazil, China and Vietnam all started their rapid growth with agriculture, at least doubling the value of the sector in 20 years. Moreover, agriculture is a key to unlocking the development of the industrial and service sectors, and to protect the environment and biodiversity by sustainable sectoral practices. Therefore, transforming the agricultural sector is a key steppingstone in the country's journey towards prosperity, as with a developed smart agriculture led by value addition and aggregation the country can compete with other players in the global market. Additionally, enhancing the sector will lead to better jobs, higher incomes, improvement in the nutrition and the human development of Malawi.

Notably, another key sector is infrastructure, which is critical for rural development and commerce, providing the backbone for the production and flow of goods and services within Malawi and with its trading partners. Underdeveloped infrastructure constrains "the prospects of economic growth and competitiveness in the short, mid, and long run".² In addition to hindering economic and business development opportunities, poor access to reliable services – especially energy and water supply – has aggravated the levels of poverty and vulnerability of Malawians, negatively impacting their health.³

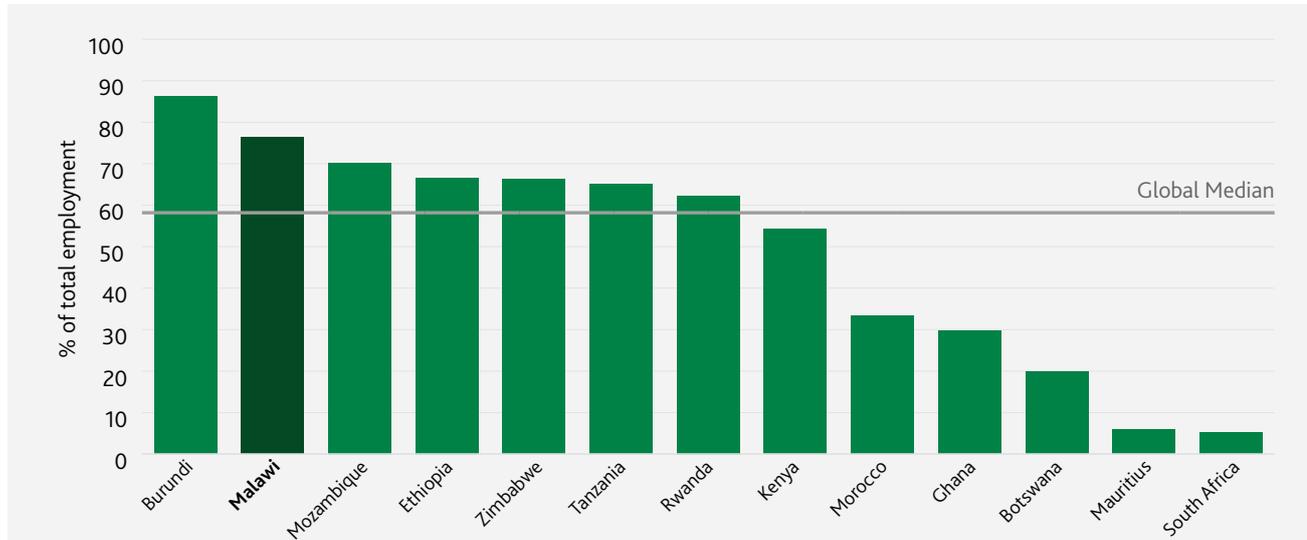
Infrastructure development involves large amounts of up-front capital expenditure that are difficult to raise given the country's limited fiscal room, low growth, high vulnerability to external shocks and dependency on Official Development Aid (ODA).⁴ There is evidence that public investment in infrastructure in Malawi has been neglected the last two decades.⁵ During that period infrastructure investment was on average 4.18% of GDP.⁶ The total level of public investments in the last two decades has been lower than in Mozambique (10.7%), though similar to Zambia (4.82%) and Tanzania (4.21%) over the same period.⁷ According to World Bank estimates, infrastructure investment of about 8% of GDP is needed to meet at least some of the most pressing large requirements.⁸

Agriculture

Agriculture is the second largest sector in Malawi's economy, after services; however, it is considered to be the dominant one as it is not just the main employer (more than 80% of the population engaged in subsistence farming),⁹ but at the same time it supports the livelihood of 9 out of 10 people in the country. The sector is dominated by crops and animal production, followed by forestry and logging and fishing and aquaculture.¹⁰ Together, agriculture, forestry, and fishing contributed 22.7% of Malawi's GDP in 2021.¹¹

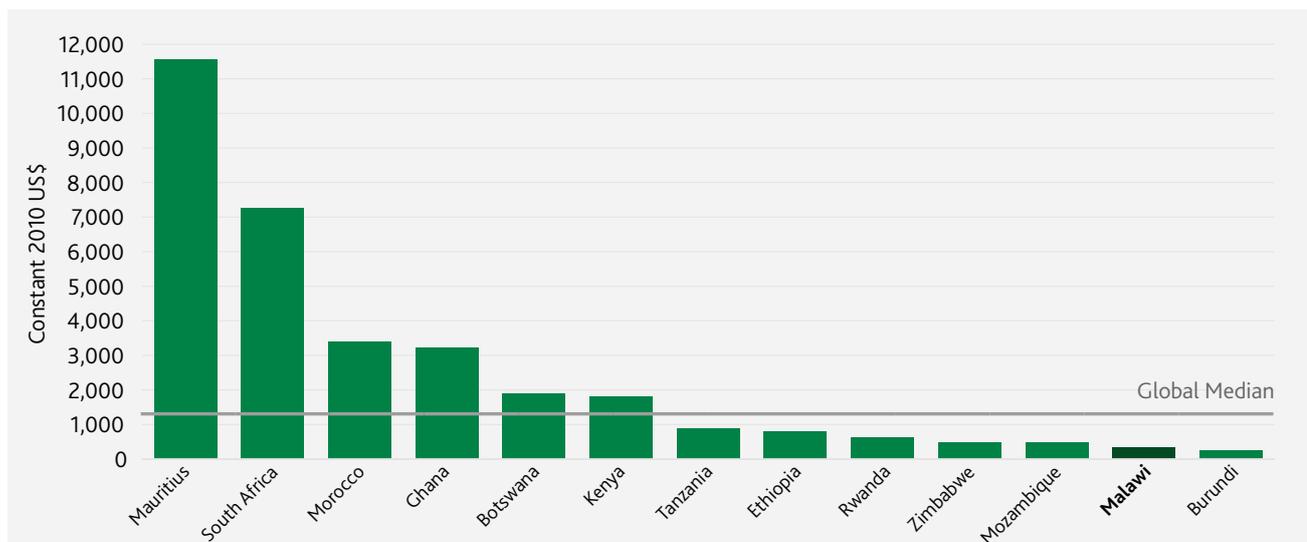
The agricultural sector in Malawi faces the long legacy of a dualistic economic development approach, which is especially challenging for smallholder farmers. Substantial issues include increasing soil degradation – overuse of fertilisers; severe climate shocks (tropical storms and droughts); low productivity; low mechanisation and technology adoption; atomisation of the production and poor access to markets; minimal or non-existent opportunities for product value addition; and low-quality outputs that do not meet international standards.

FIGURE 3: EMPLOYMENT IN AGRICULTURE



Source: World Bank.

FIGURE 4: AGRICULTURE, FORESTRY, AND FISHING, VALUE ADDED PER WORKER



Source: World Bank.

LAND DEGRADATION AND CLIMATE SHOCKS

The country’s agro-ecological environment is weak.¹² And it is becoming even weaker as Malawi ranks among the countries with high vulnerability to climatic shocks and low levels of preparedness and adaptation to these challenges.¹³ Soil quality is poor – just around one third of the country’s land has agricultural potential, and it is getting more degraded over time. Additionally, it is estimated that less than 1% of land is irrigated, posing a key challenge for Malawi’s agricultural production, as this leaves farmers producing crops just in the rainy season.¹⁴ As a result, the sector is particularly vulnerable to unreliable rainfall and weather shocks, such as floods and drought.

Furthermore, Malawi has one of the highest rural population densities in Africa: 238 people/km² of agricultural land compared to the average level of 53 people/km² in neighbouring countries.¹⁵ This contributes to small farms averaging around 0.8 ha per household, with limited land for livestock.¹⁶ Maize has dominated Malawi’s agricultural sector for decades, representing more than

90% of the cereal production, fluctuating between 100–250kg produced per capita in the last decade.¹⁷ However, the lack of crop rotation and the overuse of fertiliser deplete soil quality, lowering yields. Recently, the country has seen some crop diversification with nuts and legumes, which face less distorted markets and contribute to soil fertility. In many parts of the country, farmers are also constrained by weak land tenure and administration, coupled with the matriarchal versus patriarchal land heritage system—a lack of clarity that can discourage further investments.¹⁸

LOW PRODUCTIVITY AND TECHNOLOGICAL ADOPTION

Agricultural productivity remains relatively low due to limited adoption of modern technologies caused by lack of affordability, poor research and extension services, limited access to mobile services, and almost no presence of smart farming initiatives in the country. Given the high abundance of rural labour and limited financial resources, less than 1% of households in Malawi own any type of equipment. On the other hand, nearly 80% of households in Malawi use inorganic fertiliser, a function of the history of extensive subsidisation of inputs. Despite the vast use of fertiliser and improved seeds, maize yields are not far above other countries. On the contrary, in the last few years the effectiveness of the AIP has been questioned.¹⁹

SMALLHOLDER MONOCULTURE

The limited diversification, monoculture – maize – and limited incentives and support for crops diversification and aggregation has hindered Malawi's potential in the agriculture sector. Today, a vast majority of farmers focus on the production of maize solely for their household needs.²⁰ Although 94% of farmers produce maize, only 14% sell it.²¹ Thin markets and low density of economic activity in rural areas, as well as poor road connectivity to markets, mean that farmers are unsure whether they can purchase or sell the crops in the market.²² Similarly, traders cannot be sure whether there will be enough suppliers in a given market to justify the high costs of getting there. As a result, few maize farmers can profit from seasonally high demand for their produce, and trade is less effective in reducing price differentials within the country and over time.²³ This in turn means that farmers remain cash-poor, which constrains their ability to purchase inputs or other productivity-enhancing technologies, which is exacerbated by limited access to finance.²⁴



RENEWED APPROACH TO AGRICULTURE THROUGH THE GOVERNMENT POLICIES, VISION, AND PLANS

Malawi has multiple agricultural policies, including the National Agriculture Policy (NAP), the National Agriculture Investment Plan (NAIP), the revised National Seed Policy, and the Strategic Grains reserve among others.²⁵ These policies and plans primarily focus on enhancing irrigation, extension services and capacity building in the sector, additionally covering cooperatives and product aggregation, value addition and soil degradation.

Agricultural productivity and commercialisation is one of the primary pillars of the MW2063. Given the centrality of the agriculture sector in the country, the Vision acknowledges that in order for other sectors to thrive, and for industry to develop, agricultural innovation is essential. Malawi envisions a shift from subsistence farming that is currently dominating the country to highly productive and commercialised agriculture systems with manufacturing linkages. To do so, Malawi envisions adapting modern technology and engaging the youth. Furthermore, while developing the sector, the Government wishes to promote climate smart technologies to ensure sustainable land management as well as soil and water conservation. To engage the citizens, the Vision believes it is important to increase access to information on markets, prices, and regulations for both local and international trade.

To achieve the MW2063, the MIP-1 proposes to work on multiple aspects of agricultural commercialisation, including agriculture diversification, irrigation development, anchor farms, agriculture inputs, agriculture mechanisation, structured markets, and research, innovation and dissemination. While the plan offers numerous initiatives, the six 'game changer' interventions include land titling, strengthening agricultural extension services, access to high quality affordable inputs, introduction of structured markets, enhancing cooperatives and investing in large-scale irrigation.

SHORTFALLS OF GOVERNMENTAL INTERVENTIONS IN THE SECTOR

Historically, since independence in 1964, the Government has focused on subsidizing the sector and mainly guaranteeing maize production contributing to the low development of small-scale farming in the country. Additionally, government interventions in the sector – from ad-hoc bans of export of agriculture products to government control over prices and the key players in the sector – have further hindered local agriculture development, other than subsistence practices and cash crops production.

In fact, commercial state farming – enhanced by the vested interests over the decades – has led to having an agricultural export sector mainly focused on the production of sugar, tea, coffee, macadamia, cotton, and tobacco. The latter cash crop historically has cycled between estate- and smallholder-dominated production, largely depending on shifting regulatory preferences. Due to the nature of the country's economic development, even today, agriculture is the sector in which Malawi competes most successfully in international markets—the sector contributes 80% of exports, but just 20% of these are produced by smallholders' subsistence farmers.²⁶

Furthermore, the asymmetric decentralisation within and between institutions, districts and macro-zones in the country has led to additional inequalities in smallholder farmers' opportunities and economic development from access to market, to fertilisers, government programmes and all the factors mentioned above.



PRIORITIES FOR TRANSFORMATION

The priority for Agriculture is to enhance productivity through a mindset shift from subsidising subsistence agriculture through AIP to opening the space up for smallholder farmers and incentivising agricultural productivity and locally led economic growth through the provision of extension services and incubation finance farmers, along with investment in targeted support schemes for aggregation through cooperatives and associations. Promote commercialisation, value addition and manufacturing, to start opening the market to smallholders and local players.

- **Shift focus from AIP to provision of extension services and incubation finance for smallholder farmers.** Rationalise AIP and reduce its reach - gradually repurpose these financial resources for the provision of more substantive extension services to smallholder farmers, including technical advice, input supply and the necessary services to increase agricultural productivity. Additionally, allocate part of the funds from the AIP to incubation funds, moving away from monoculture and diversifying agricultural production. The resource re-allocation from AIP would allow the Government to implement multiple goals expressed under MIP-1: developing and implementing business incubation strategy and providing market-oriented agricultural extension services.
- **Support schemes that promote the formation of cooperatives and associations.** In accordance with the policy interventions prioritized in MIP-1, provide supportive legal frameworks (such as Cooperative Development Policy), along with tools for the entire value-chain (from farm to fork), financial and non-financial incentives and access to credit through revolving funding schemes to cooperatives – to enable farmers to aggregate their interests and increase commercialisation.

BOX 2: MIP-1**PILLAR 1: AGRICULTURAL PRODUCTIVITY AND COMMERCIALIZATION****Game changer interventions:**

1. Land titling to offer land tenure security for long-term investments.
2. Strengthening agricultural extension services to improve agricultural production and entrepreneurship.
3. Sustainable access to high quality affordable inputs and modern production technologies.
4. Introduction and sustainability of structured markets for all strategic agriculture commodities (as prioritized under the existing NES).
5. Scaling up of vibrant cooperatives for easing access to markets, financing, extension services and input supply.
6. Investment in infrastructure for large-scale irrigation.

Priority Areas & Prioritized Interventions:

1. Agriculture diversification:
 - Provide fiscal incentives for the production of high value non-traditional crops such as industrial hemp, flowers, horticulture, cereals (especially rice and wheat), legumes, cotton, macadamia, pulses and livestock products as defined under NES II.
 - Scale-up fish cage farming on Lake Malawi for commercial aquaculture
2. Irrigation development:
 - Construct large-scale irrigation schemes and support initiatives by the private sector in this area
 - Implement Small Farms Irrigation Project II
3. Anchor farms:
 - Support the establishment of anchor farms that connect with surrounding smallholder farmers in the production of localised agricultural products (livestock, crops [including horticulture], bee keeping, and fish) across the country
 - Facilitate the establishment of at least one megafarm in each district as per the existing NES high value crops, fisheries, and livestock
4. Agricultural inputs:
 - Multiply and distribute seed of high value 2021-2030 crops as defined under the existing NES
 - Review farm input subsidy strategy for proper cost sharing, and diversification to other agricultural products and commercial farmers
5. Agricultural mechanization:
 - Implement farm machinery and equipment hire and ownership scheme especially targeting cooperatives and the youth
 - Facilitate the production of low-cost and small-scale farm machineries for farmers, largely through PPP arrangements

6. Structured markets:

- Establish aggregation centres and commodity exchanges largely targeting small scale farmers in rural areas
- Organise farmers into functional cooperatives
- Capacitate producers' compliance to international/regional standards for increased market access
- Set up agro-processing, packaging and storage facilities for small scale processing and value addition

7. Agricultural research, innovation, and dissemination:

- Scale-up the Fish Genetic Improvement Program
- Scale-up the Crops (Cereals, legumes, Roots & tubers, horticulture) Genetic Improvement Program
- Scale-up the Livestock Genetic Improvement Program
- Build research capacity in non-traditional crops, such as industrial hemp



Transport (159th)

Transport infrastructure is essential for the Malawi's private sector to grow and increase its competitiveness, especially given the country's landlocked nature. Malawi has a highly limited transport system which is one of the least developed in the Southern African Development Community region.²⁷ This is problematic given that most of the country's trade and freight transit through neighbouring countries.

The lack of connectivity has had a direct impact on the livelihoods of most Malawians—making it more difficult and more expensive to trade and transport goods and services, particularly concerning given that most households rely on agriculture.²⁸ Despite the fact that high transportation and logistics costs are often listed as the main constraint in Malawi's overall competitiveness, export rates "decreased in the five years prior to the pandemic... comparable to regional benchmarks for efficient transport services... [lower than] Central and West Africa"²⁹. Yet, the cost of importing remains nearly double than the cost of exporting, especially due to large trade imbalances.³⁰ The cross-border transportation rates over time showcase these mismatches on costs. Although the costs for exports from Lilongwe to Beira – 944 kms – decreased from US\$8 in 2015 to US\$6 per ton per km in 2019, and from Blantyre to Beira from US\$11 in 2015 to US\$6 per ton per km in 2019, the import costs from the same destination to Lilongwe decreased from US\$14 per ton per km in 2015 to US\$10 in 2019³¹, rendering economic and social development presently challenging. The main drivers for high transportation costs are attributed to poor infrastructure; long distances to sea ports; long wait-times and unwieldy formalities at ports and border crossings; lack of competition due to small haulage industry; protective policies in neighbouring countries; poor logistics services; and use of old vehicle fleets.³² Domestic constraints to transport costs also include higher fuel prices than elsewhere in the region (except Zimbabwe), expensive spare parts and equipment, prohibitive cost of finance, elite connections of key firms, and supply chain constraints, rendering Malawi uncompetitive in larger transport contracts.³³

Notably, the transport costs between farm and market centres remain 10 to 20 times higher than comparable costs in Mozambique mainly due to poor feeder roads, low volume of trade between rural locations and market centres, and low level of competition among service providers.³⁴ The country's logistics sector is also underdeveloped and dominated by large, well-connected firms that are vertically integrated due to lack of demand.³⁵

High transport costs affect Malawi's economy in two ways. First, it reduces the country's competitiveness when it comes to its exports, and second, it increases the price of imported goods. Additionally, given the importance of connectivity for developing the tourism industry, the lack of transport infrastructure hinders tourism in Malawi.

The COVID-19 pandemic has also impacted the transport sector itself since the import of crucial materials especially for construction has proved to be more challenging since the movement of goods from country to country has slowed down.³⁶ Environmental pressures, such as flooding, present another challenge as the possibility of damage to critical infrastructure increases.³⁷

Moreover, other relevant challenges are related to current vested interest and government interventions which affect the competitiveness of the transportation sector in general. There are persistent challenges in freight transport, passenger transport, shipping and ports and in air transport³⁸ associated with concessions and private sector pressures to maintain the status-quo in the industry.

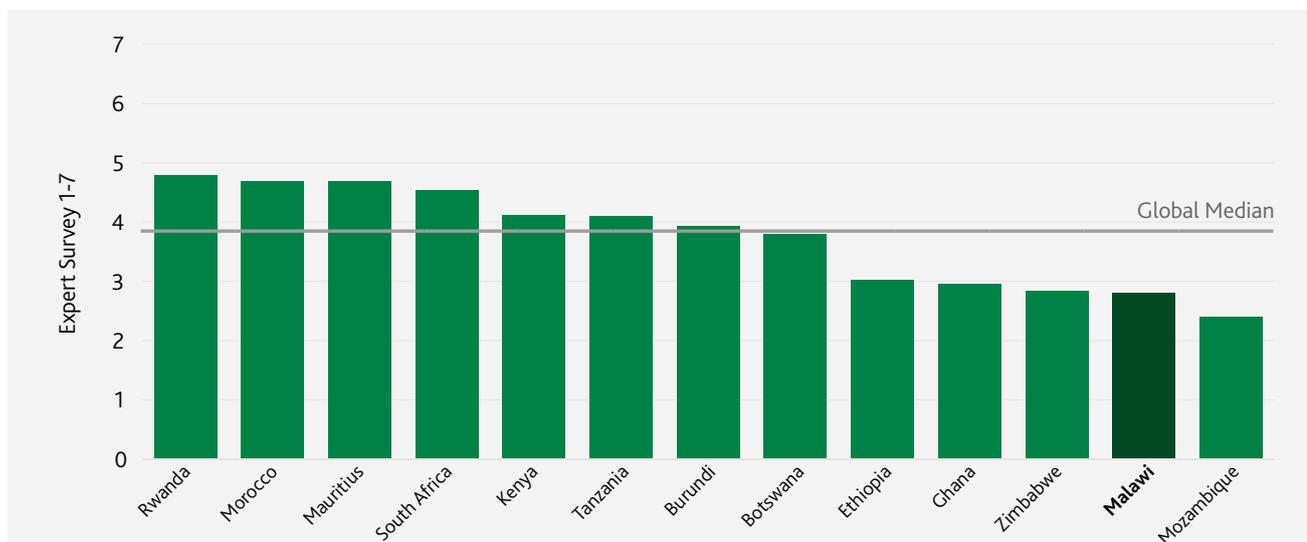
In the case of shipping/ports, the IFC identified that the "concession for shipping services and ports have been granted to firms owned by a single shareholder, creating a risk that this could lead to a port management company using its control of key infrastructure to exclude other providers of shipping services".³⁹ Likewise, for freight transport, foreign cabotage restrictions remains in place in bilateral agreements due to the pressure of specific transport associations, limiting the access of other foreign competitors into the market.⁴⁰ Moreover, there are vested interest as well

in the passenger transport sector, where the National Bus – linked to the former SOE operator – is being accused of leveraging its control over access of bus terminals.⁴¹

ROADS

The main method of transportation for local and international destinations is road, carrying 70% of all goods traffic, 99% of passenger traffic⁴², and 90% of the international freights.⁴³ Comparatively, road transportation is more expensive than other means of transport, such as rail and water.⁴⁴ Road transportation is also severely limited by Malawi's road network of merely 24,929 km, out of which 20,856 km are gravel/earth.⁴⁵ In addition, most district roads are in poor condition and are vulnerable to flooding, particularly in rural areas.⁴⁶ Lack of road development and damage to the road network contribute to high transport cost, which includes costly vehicle repairs due to damages incurred on rough roads.⁴⁷ Additionally, the country's roads lack flood resistant infrastructure and are marked by inadequate design standards.⁴⁸ Given that agricultural exports are reliant on efficient transport networks, any damages to the roads have a significant effect on Malawians.⁴⁹ For instance, the 2015 rainy season amounted to US\$62.4 million of damages and losses associated to road infrastructure.⁵⁰

FIGURE 5: QUALITY OF ROADS



Source: World Economic Forum.

The poor state of rural transportation further constrains the development of economic activities and hence poverty reduction in rural areas, especially given the low value of unprocessed agricultural produce.⁵¹

A shortfall was noted in the Roads Fund Administration (RFA) for the expenditure needed to improve the quality of the transportation network.⁵² In order to offset the imbalance, bonds were issued in the private placement market to mobilise private capital for road construction.⁵³ Introducing tollways is another option being considered to increase revenue sources for the RFA.⁵⁴ Due to numerous initiatives, the World Bank notes that RFA is "the most creditworthy SOE in Malawi and sets an example of market access for other SOEs in the infrastructure sector."⁵⁵ There has been some progress in constructing the Blantyre city bypass road; however, according to the Vice President, if the funding continues at the current slow rate, it will take more than 30 years to finish this one road.⁵⁶

WATER TRANSPORT

Malawi's transport system is also comprised of inland water transport which extends from the Northern to the Southern regions passing through the centre.⁵⁷ The main ship ports are Monkey Bay in the South, Chipoka and Nkhota-kota in the Central region, Nkhata Bay, and Chilumba in the Northern region.⁵⁸ However, the sector has witnessed slow development due to political differences with Mozambique, the poor state of existing infrastructure, and the lack of private sector participation. In Malawi, demand for cargo transport remains very low, and service providers are unable to meet the quality and reliability requirements of major traders.⁵⁹ Hence, recently, the Government deprioritised investment in waterways.⁶⁰

RAIL

Rail transport accounts for most of the other 10% of the international freight,⁶¹ and it has become more competitive with road transportation in the last few years due to all recent investments.⁶² Efforts have begun to revamp the railway infrastructure, as 2021 saw the beginning of the project aimed at improving the Malawi-Mozambique rail line.⁶³ Rail investment projects include the Nkaya-Mchinji Railway Line rehabilitation, targeting two infrastructure sections, namely the 297-kilometre Nyaka section and the 696-kilometre section from Mchinji to the Chipata border.⁶⁴

Additionally, billions of dollars in public and private investment have been made in the last few years to improve the rail network and other infrastructure along the Nacala Corridor.⁶⁵ The modernization of the corridor offers Malawi an opportunity to reduce trade and transport costs and attract investments, as well as export products to Mozambique.⁶⁶ The World Bank expects that there will be "opportunities for the development of the downstream gas, forestry, tourism, and agro-processing value chains in areas where connectivity to the corridor will be improved."⁶⁷ For the moment, the corridor is used mostly for imports while exports account for only one-quarter of freight.⁶⁸

AIR

Air connectivity is limited in Malawi despite investment from Ethiopian Airlines that connected the country to Ethiopia's international flight network.⁶⁹ In 2013, Malawi Airlines Limited was created in a partnership with Ethiopian Airlines (49% stake) and had been operating two domestic and six international routes prior to the pandemic.⁷⁰ Six years into their operations, the airline had not made a profit in passenger services.⁷¹ However, recently, in 2022, Malawi Airlines announced a 4 billion kwacha profit.⁷² On the other hand, low-cost operators, such as Fastjet, have been unsuccessful after entering the market, primarily due to high fuel prices.⁷³ The high cost of internal freight transport has a major impact on agricultural commercialisation given the low value of much unprocessed agricultural produce.⁷⁴

International air cargo accounts for less than 1% of the trade volume in the country,⁷⁵ making air transportation less relevant for good transit. Today, the country has two international airports: Chileka in Blantyre and Kamuzu in Lilongwe. Despite the limited flight network and just two international airports, "a potential entrant in air transport was not permitted to land at Blantyre's international airport despite other carriers being granted such permission".⁷⁶ This suggests that preferential treatment and vested interests are present in the air transport sector.

An additional pressing challenge in air transport is related to the concession agreements for airport services – which are granted to SOEs Lilongwe Handling Company and Air Cargo Limited. These agreements are usually extended, often without proper advertising to get alternative provider in the bidding process.⁷⁷

INVESTMENT PLANNING

The Government has developed multiple plans and strategies to develop a sustainable multimodal transport system that will reduce trade costs for producers and consumers and improve connectivity between national and international economic centres.⁷⁸ Under the 2015 National Transport Policy, Malawi sets out an ambitious agenda for both regulatory and institutional reforms, addressing cross-cutting issues that hinder multimodal integration.⁷⁹ These goals were translated into the 20-year National Transport Master Plan (NTMP) released in 2017.

The Government's primary focus for investment in infrastructure has been through public-private partnerships. Currently, Malawi has more than 12.2 trillion Kwacha (\$12 billion) of active projects.⁸⁰

However, oversight of construction projects has often been weak, and road construction industry is known for collusive rent-seeking relationships.⁸¹



GOVERNMENT'S VISION AND PLANS

Under the MW2063, the Government intends to develop an integrated transport system that would both support the domestic economic activity and link Malawi to the global chains. Additionally, Government aspires to reduce high transportation costs. The Vision acknowledges the need for investment across all sectors of the transport network: roads, rails, ports, and airports. In order to do so, Public-Private Partnerships (PPPs) in investment will be supported.

Simultaneously, the MIP-1 sees infrastructure and transport development as one of the enablers to reach MW2063 goals. It aims to increase the length of paved roads to more than 50%, especially in rural areas and areas attractive for tourism and mining. Furthermore, the plan prioritises maintenance and rehabilitation of infrastructure. The MIP-1 underlines the need to expand international connectivity by upgrading ports, airports and the railway system.

Currently, Malawi has around 37 transport-related ongoing projects, as well as more than 10 projects in the pipeline. Out of the active projects, 32 are road-related, and 5 are under the pipeline of the Road Fund Administration. In addition, 5 ongoing larger projects and 5 planned projects are conducted under the Ministry of Transport and Public Works. Moreover, the Malawi Investment and Trade Centre (MITC) has developed 5 investment projects focused on roads, for which public investment is expected.⁸² At the moment, most of the active infrastructure projects are at up to 50% of their implementation. The biggest current projects include⁸³:

- the \$1.5 billion Kamuzu International Airport Aero-City – aiming to create a city next to the airport, that would accommodate hotels, townhouses, shopping malls and transport systems. It is planned to be completed by 2038.⁸⁴
- the \$1.4 billion Nankumba Peninsula tourism project that includes the development of the Mangochi International Airport, located at a holiday resort at Cape Maclear, and a logistics park in the area.
- the \$1 billion Nkaya-Mchinij Railway Line rehabilitation where Malawi is investing in two infrastructure sections, particularly the 297-kilometre Nyaka section and the 696-kilometre section from Mchinji to the Chipata border. The initiative has been 92% completed.
- Southern Africa Trade and Transport facilitation project: Karonga - Songwe road has been completed, while the construction of Dedza and Mwanza One Stop Border Post are at 50% and 49% respectively.⁸⁵



PRIORITIES FOR TRANSFORMATION

The priority of transportation is to increase the connectedness of local populations and businesses through better access and investment in infrastructure at a district level, as well as connecting rural areas to main urban and export hubs. Improvement in transportation and road infrastructure should be accompanied by the right logistic components. To unlock economic growth, the sector needs to become open to competition. Deregulation of the transport market and promotion of logistics solutions across the entire value-chain will be especially helpful in connecting rural areas to market facilities.

- **Prioritise road maintenance, extension, and rehabilitation of the rural roads network.** Reallocate resources of the transport budget and infrastructure development from the cities to the rural districts, where ensuring connectivity to local market infrastructure and processing facilities is crucial for economic development. Prioritize the intervention of decentralizing road maintenance by reconstituting District Infrastructure Roads Maintenance Programme (DRIMP) as expressed in MIP-1. Implement public works schemes as a means of employing local labour to improve local infrastructure. Approaches such as the Mahatma Gandhi National Rural Guarantee Scheme that was successfully implemented in India are worth considering.
- **Increase passenger transportation,** focusing on bus terminals, bus lines and associated services around it. Focus on rural areas, as much as on cities (that are prioritized under MIP-1).
- **Build logistics infrastructure such as warehouses, temperature-controlled logistic services, and rural logistic platforms.** Invest in local market infrastructure and processing facilities.
- **Deregulate the transport market to allow new players to enter and compete.** Through the prioritisation of deregulation and removal of state intervention on contracts, bids, and licences for new players, the competition for cargo and passenger transport will increase. Additionally, these changes will lead to an attractive market for service and logistic provisions.
- **Strengthen and consolidate the long-term infrastructure development plan to attract foreign investors and international financial institutions to connect rural areas, primary and secondary cities, and main export points.** Enhance transport planning – including integrated road network planning, financing, contracting criteria and transparency. Simultaneously, identify and develop the necessary ecosystem to attract adequate investment schemes into the country, along with exploration of the capital markets to create fiscal space, revenues, and financing to transport infrastructure.
- **Improve the leadership, service delivery and independence of the transport sector, limiting the state interference.** Assess and limit the influence of the SOEs and public officials, moving towards a professional and independent leadership that enhances transparency for public contracting, and opens the area to new players. Place an emphasis on 1) reforming the institutions – including a deep revision of the SOEs and key agencies as well as their leadership nominations; 2) capacity building for the local contractors to be integrated into the suppliers' space in a competitive environment; and 3) expanding the use of intermediate equipment technology and labour-intensity methods.

Water

Water is a critical resource for economic activity and life itself. The water sector is highly relevant for Malawi's domestic consumption, agriculture, and industrial developments, yet resources remain scarce.⁸⁶ When it comes to the latter two, water-reliant sectors contribute 35% to the country's GDP.⁸⁷ Meanwhile, the country's energy sector is dependent on hydropower.⁸⁸ Environmental pressures and growing demand mean that water scarcity is also a regional problem, leading to drought, famine and disease. In water-scarce countries, the husbanding and management of limited water resources are central to progress.

SUPPLY

Currently, the total renewable water resource available in Malawi is estimated at 17.3km³ per year, or 1,027m³ per capita per year, which is close to water scarcity.⁸⁹ The rapid population growth has led to a decline in water availability, and two major cities are facing shortages of water supply.⁹⁰ Additionally, water resources in the country are variable between wet and dry seasons, making Malawi the top 5 country with the highest proportion of population at risk of frequent water shortages.⁹¹

The lack of water supply presents a challenge to businesses, as Malawian enterprises are often experiencing water disruptions, particularly in Blantyre.⁹² In Malawi, firms experience an average of 5.3 days of insufficient water in a typical month—the highest number 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).⁹³

ACCESS

Malawi has made significant progress in the past two decades to increase access to water supply.⁹⁴ While in 2010, only 53%⁹⁵ of people had access to water, today the number has reached 80%.⁹⁶ Regardless, that leaves 20% of population without access to a clean water facility. Although there have been remarkable improvements in the last 20 years, the infrastructure and service gap in the country remain high, particularly related to sanitation,⁹⁷ especially since clean water access is mostly lacking in rural areas. Although 87% have access to improved drinking water sources in urban areas, only 63% have it in rural communities.⁹⁸ Additionally, in rural areas it takes 30 minutes to fetch drinking water, whereas in urban areas the time is decreased to 13 minutes.⁹⁹

IRRIGATION

In Malawi, it is estimated that the total irrigable land comprises over 400,000 hectares. It is estimated that "only 0.5 percent of crop plots are under irrigation, rendering production levels and smallholder incomes particularly vulnerable to changing rainfall patterns and associated price swings".¹⁰⁰ If the land is irrigated, farmers can produce maize and most other crops in both the rainy and dry season. whereas in non-irrigated lands, they can produce crops only in the rainy season. Furthermore, supplemental irrigation can help to prevent longer dry periods and increase yields in the rainy season. For instance, according to the International Food Policy Research Institute (IFPRI)'s evaluation on the Bwanje Valley Irrigation Scheme (BVIS), farmers in irrigated lands more than doubled their agricultural incomes and could increase daily per capita caloric intake significantly.¹⁰¹ However, it is necessary to improve water storage to maintain water flow during droughts as well as the dry season.

According to the National Irrigation Master Plan and Investment Plan (IMP), the Government of Malawi plans to double the irrigated cropland by 2035 with the implementation cost of US\$2.4 billion (in 2014 prices).¹⁰²

SANITATION

Sanitation access has also been lagging behind and has improved only slightly—from 20.8% in 2000 to 26.2% in 2017.¹⁰³ In Lilongwe, only 5% of the population is served by a sewer system, whereas the majority rely on on-site sanitation systems (70% pit latrines and 25% septic tanks).¹⁰⁴ Sewage and sanitation management in urban areas is poorly done or non-existent, while in rural areas mostly not present. However, the Government has prioritised water, sanitation, and hygiene as an enabler to human capital development under the MIP-1 and aims to reach universal coverage in improved water sources and sanitation by 2030.¹⁰⁵

INDUSTRY STRUCTURE

Different SOEs are responsible for the management of the water supply and sanitation: Lilongwe Water Board (LWB), the Northern Region Water Board (NRWB), and the Blantyre Water Board (BWB). Likewise, urban and small-town water supply is under the responsibility of the two urban water boards (LWB and BWB) and the three regional water boards (Northern, Central, and Southern).¹⁰⁶ Additionally, the Waterworks Act of 1995 mandates urban water boards to provide waterborne sewerage services within their areas of jurisdiction in the municipalities.¹⁰⁷

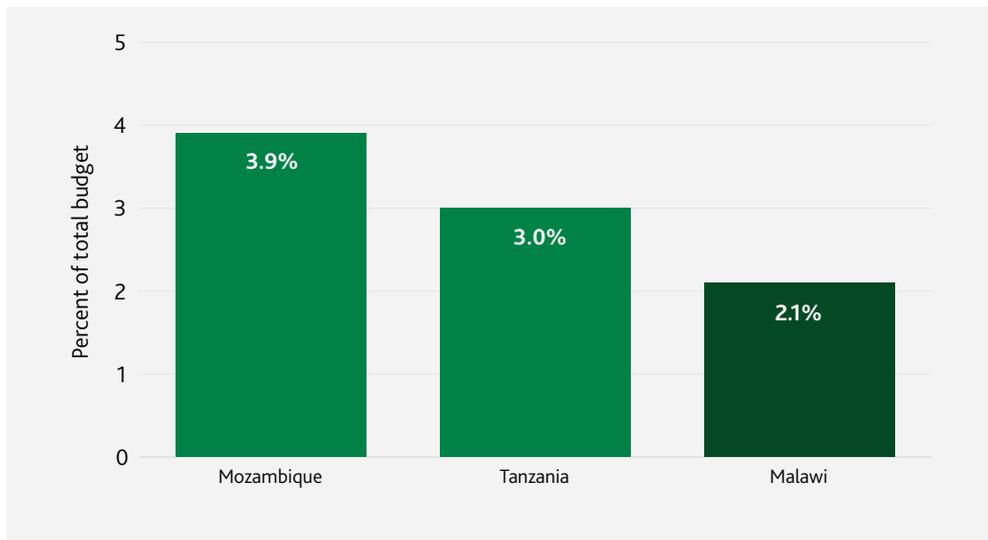
However, despite their mandate, none of the water boards are providing waterborne sewerage services, and all sewerage assets (where they exist) remain with the city councils.¹⁰⁸ Moreover, sanitation is currently under the mandate of the city council, but the Government intends to transfer the responsibility to water boards.¹⁰⁹ The Ministry of Natural Resources is responsible for the oversight of the water sector, including water resources management, irrigation, and water supply and sanitation; however, the issue related to sewage services exemplifies that oversight is ineffective. The World Bank points out that the lack of independent regulator for economic regulation and the performance of water boards is a critical concern.¹¹⁰ For example, tariff adjustment decisions are currently made by the line ministry and there is no clear and transparent methodology for such decisions.¹¹¹ After reviewing the approved tariffs for the Lilongwe Water Board in 2018, the Government deemed that the price increase was illegal and refunded MWK 1.6 billion to customers.¹¹² Overall, tariff adjustments are not predictable, and are often subjected to political influences.¹¹³ Hence, there is a lack of regulation, oversight and the clarity of the mandates, coupled with the budget allocation for the aforementioned responsibilities.

INDUSTRY ECONOMICS

Water delivery is complicated by the long distance to the source, which also increases the production costs.¹¹⁴ Of the three SOEs, only LWB and NRW cover their operational costs (OPEX) from internally generated revenues or tariff and service long-term concessionary loans.¹¹⁵ Additionally, NRW is sustained by grants, since it covers a large rural service area where affordability is low.¹¹⁶ For the moment, BWB is not able to be financially viable without external assistance due to a combination of inefficiencies and low tariffs, which are hard to increase due to poor service delivery.¹¹⁷ However, the tariffs are not sufficient to contribute to CAPEX.¹¹⁸

INVESTMENT

The government-funded capital projects declined by almost a half from 2017/18 to 2018/19, from 16% to 7% — indicating that Malawi has been spending less than other countries in the region.¹¹⁹ Furthermore, the water, sanitation and hygiene (WASH) sector relies heavily on donor funding. On the other hand, unlike other sectors, the WASH sector received an increase in donor funding, from 84% in 2017/18 to 93% 2018/19.¹²⁰ Nevertheless, to achieve universal coverage by 2030, CAPEX of about \$112 million will be required every year, meaning that the current spending levels fall short of the required investment, even with the contributions of the donors.¹²¹

FIGURE 6: AVERAGE WASH SPENDING OF MALAWI VERSUS REGIONAL PEERS

Source: UNICEF budget briefs for Mozambique and Tanzania.



GOVERNMENT'S VISION AND PLANS

The MW2063 prioritizes investment in sustainable irrigation systems, as well as approaches that assist in tackling climate variability. The Vision recognizes the need for effective irrigation infrastructure to achieve agricultural commercialisation and food security.

Simultaneously, the MIP-1 aims to increase the area under irrigation. It aims at constructing large-scale irrigation schemes and support initiatives by the private sector, as well as establishing PPPs. Furthermore, acknowledging the importance of clean water for the socio-economic development, the MIP-1 intends to improve safe and sustainable drinking water supply in rural areas. In addition, plans are made to enhance sanitation services at a household level as well as in public places. Finally, recognizing the issues related to water management, MIP-1 foresees improved regulatory framework for water management, including oversight on tariff setting and tracking performance of the water boards.

The Malawi Investment and Trade Centre has developed six investment projects related to the water sector that are aiming to attract private funding.¹²² Meanwhile, there are 14 active projects under the Ministry of Water and Sanitation. Two are in inception phases, seven are in mid-implementation, while five are completed or nearing completion. Some of the largest undertakings include the Shire Valley Transformation Programme that intended to increase agricultural productivity and commercialisation in the Shire Valley and to improve sustainable natural resource management.¹²³ The programme started in 2018 and will run until 2031. It is currently on track. In addition, Sustainable Rural Water Supply and Sanitation project is nearing completion at 94%.¹²⁴ However, another five projects that were conceived a decade ago have not been implemented or are on track.¹²⁵

Although irrigation and water access are top priorities of MW2063 and MIP-1, there are no clear lines of investment or explicit plans to focus on small dams near highly dense agricultural areas that would support farmer with irrigation systems nor an immediate plan to quickly introduce water harvesting infrastructure.



PRIORITIES FOR TRANSFORMATION

Investment in irrigation and water harvesting systems is needed to decrease the insufficient water supply challenges and to unlock potential for business development in agriculture, mining, and tourism. Addressing water supply shortages as well as increasing access, improving sanitation conditions and sewage management in urban and rural Malawi should be a priority.

- **Increase targeted investment in farmer-led irrigation schemes and other types of smart farming technology.** Identify and promote schemes and linkages with the public and private sector, along with the donor community and impact investors, to introduce smart irrigation and smart farming – for climate resilience – in Malawi as has been done in neighbouring countries. Initial efforts should focus on the northern and central parts of the country, seeking to reduce the asymmetries in regional economic and social development. The small-scale irrigation schemes need to focus beyond PPP models and incentivise lease-to-own or pay-as-you-go models.
- **Invest in rehabilitation and further construction of large water harvesting infrastructure and dams.** The current limited infrastructure needs to be rehabilitated and additional new large investments are needed to provide the necessary water and sanitation conditions. For water harvesting infrastructure investments the government needs to go beyond their current PPP schemes – consider models, such as build-operate-transfer (BOT) and build-own-operate-transfer (BOOT) for high CAPEX infrastructure. MIP-1 prioritises small multipurpose dams and water tanks, but the country would benefit from larger water harvesting infrastructure.
- **Invest in sewage management in main urban areas and localised solutions for secondary cities and rural settings in that way implementing MIP-1 prioritised intervention.** A phased plan should start with main urban areas, followed by the identified secondary cities, and finally focusing on geographical areas where water is more polluted due to sewage and human waste that puts the population and the potential agro-industry, among others, in danger. Improving waste management is critical for Malawi to attract tourism, fulfil international quality standards and increase the exports of processed foods and agricultural products, so improving waste management is critical.
- **Reform the water tariff system and create a new water regulation model.** This includes revisiting tariffs and developing a new regulatory model with clear lines that--in the case of subsidies¹²⁶ being introduced-- ensures that the subsidies are clearly targeted, not distortionary, and transparent to minimise the rent capture of particular players. The revision should also be focused on ensuring water and sanitation services are affordable, potentially through blended finance approaches, as well as via welcoming impact investors into the sector. This will make room for an improved regulatory framework for water resources management.
- **Implement MIP-1 priority of reforming water administration bodies and institutional governance, especially at the district level.** Deepen the efforts to improve the governance of the water utility sector and establish clear mandates for sewage and sanitation. Ensure clear budget lines and accountability at central, regional, and local levels.

Energy (148th)

Access to affordable and reliable energy is a fundamental requirement for citizens and business alike and continues to be the most pressing infrastructure need in the country.¹²⁷ Without this, it is difficult to establish a functioning modern economy or support basic living standards. Demand is expected to increase along with population growth and increased economic activities. Given that the country's population is expected to double in size in just over a generation, the demand for supply of electricity is going to "skyrocket... especially if the economy is to keep pace."¹²⁸ Lilongwe and Blantyre are among some of Sub-Saharan Africa's fastest growing cities, which will increase the demand substantially in the next decade.¹²⁹ The demand is expected to increase to 1,873 MW by 2030, and 4,620 MW by 2040.¹³⁰

TABLE 1: BASE, LOW, AND HIGH ELECTRICITY DEMAND FORECAST

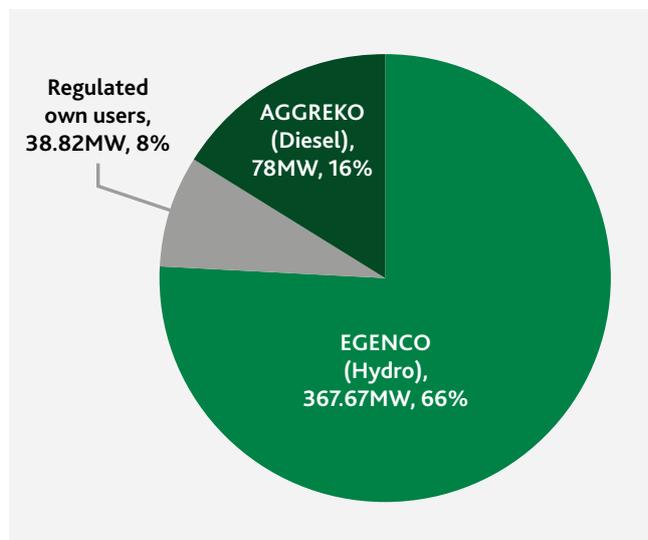
Maximum demand, MW Sent Out			
Year	Base	Low	High
2020	719	567	982
2030	1,873	1,236	2,591
2037	3,566	2,245	5,217
2040	4,620	2,841	6,946

Source: Malawi Integrated Resource Plan (IRP) (2017).

SUPPLY

The available power supply is only two-thirds of current demand: "an installed capacity of 482 megawatts trying to meet an estimated demand of 720 megawatts."¹³¹ Additionally, regional disparities are apparent, given that all major power stations are in the Southern region, along the Shire River, while there is only one small hydro station operating in the North.¹³² This is particularly important given that out of Malawi's 482 MW of installed capacity, hydropower contributes roughly 75% and "emergency" diesel accounts for the remaining share.¹³³ Given that the majority of Malawi's hydropower generation is derived from the Shire River located south of Lake Malawi, the hydrology of the river determines the available output of electricity at any time.¹³⁴ Hence, there are often shortages of capacity, that frequently exceed 60 MW, or over 17% of peak demand in Malawi.¹³⁵ Furthermore, low rainfall in recent years led to inadequate water levels during the dry season, leaving the system operating at less than 50% of the full hydro capacity.¹³⁶

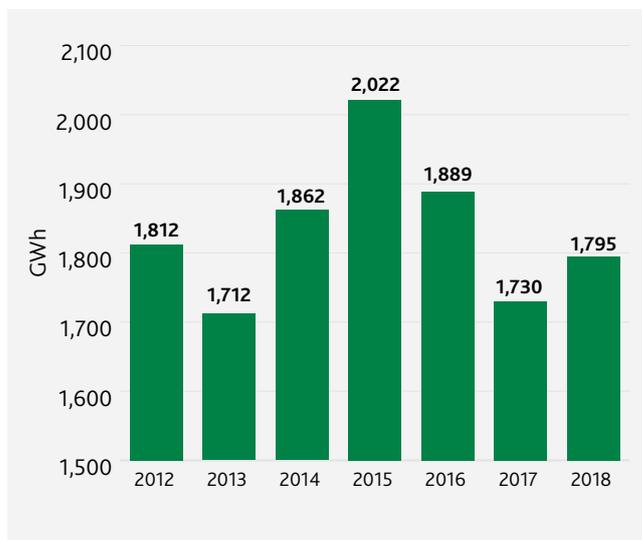
FIGURE 7: MALAWI ELECTRICITY GENERATION INSTALLED CAPACITY



Source: World Bank calculations based on ESCOM^a, EGENCO^b figures.

Notes: a. Electricity Supply Corporation of Malawi
b. Electricity Generation Company

FIGURE 8: ANNUAL POWER GENERATION

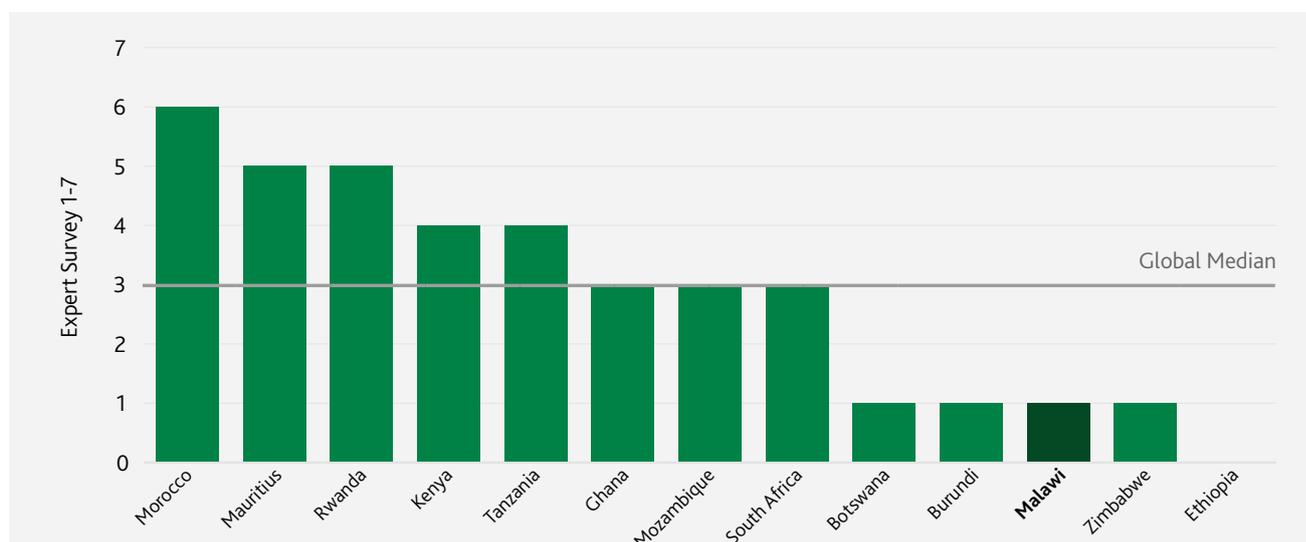


Source: World Bank calculations based on ESCOM, EGENCO data.

RELIABILITY

With no reserve margin, the reliability and quality of electricity supply is extremely poor.¹³⁷ Under the Doing Business report, Malawi scored 0 out of 8 on the reliability of electricity supply and the transparency of tariffs.¹³⁸ The lack of reliable energy creates multiple challenges for businesses, including high operational costs, low productivity, and reduced sales, incomes and further investment prospects.¹³⁹ For example, if a business needs to operate backup generating facilities, that can triple the marginal cost of electricity supply, which is only feasible for firms with margins sufficient to absorb such incremental costs.¹⁴⁰ Large scale enterprises are affected the most, especially in the manufacturing sector.¹⁴¹ However, firms of all sizes identified low and unreliable access to energy as the second biggest constraint to doing business in Malawi.¹⁴² According to the most recent Enterprise Surveys, annual losses linked to power outages are estimated at 7%.¹⁴³ Unreliable access to energy presents a serious constraint to the development of the formal sector in Malawi.

FIGURE 9: RELIABILITY OF ELECTRICITY SUPPLY



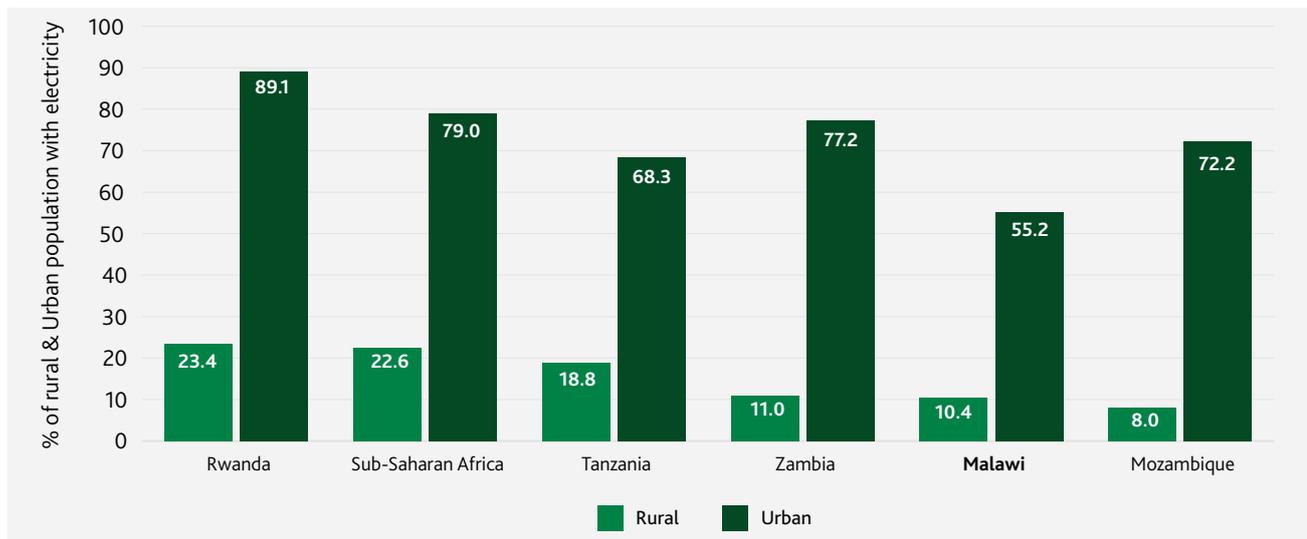
Source: World Bank.

ACCESS

The country “has one of the lowest electricity access rates at 11 percent of population, compared to 42 percent in low-income countries (LICs) and 48 percent in Sub-Saharan Africa”.¹⁴⁴ The disparities are even sharper between rural and urban areas of the country. Just over half of the urban population (54%¹⁴⁵) have access to electricity, while only one in ten citizens (6.6%¹⁴⁶) have electricity access in rural communities.¹⁴⁷ Given that 9 million Malawians live more than 5 kilometres away from the national grid connection, off-grid solutions and mini-grid renewable energy systems can present alternative solutions.¹⁴⁸ However, to date, investment in the off-grid market has been limited due to the poor performance of pilot projects, lack of economies of scale and maintenance issues.¹⁴⁹

A further problem firms are faced with is the time and cost of connectivity. According to the 2020 Doing Business Report, getting electricity in Malawi is more difficult than elsewhere in the region – on average connecting to the grid takes 127 days, and costs 12 times the average citizen’s income.¹⁵⁰

FIGURE 10: ACCESS TO ELECTRICITY, RURAL & URBAN, SELECTED COUNTRIES, 2018



Source: World Bank, World Development Indicators.

Note: Sub-Saharan Africa (excluding high income) data is for 2017.

INDUSTRY STRUCTURE

There is no separation between the function of the state as the owner of SOEs and the responsibility of the board of directors as the highest decision-making bodies within SOEs. Political interference and corruption are common.¹⁵¹ For example, board members, including the former CEO of Electricity Supply Corporation of Malawi (ESCOM), were arrested for mis-procurement.¹⁵²

In 2017, the Government undertook reforms of the national power system to unbundle the ESCOM’s generation assets and functions into the newly created Electricity Generation Company, Malawi (EGENCO).¹⁵³ In 2019 ESCOM’s system and market operator functions were unbundled, and a new single buyer of energy, Power Markets Ltd. (PML), was created.¹⁵⁴ The PML is mandated to source power from generators such as EGENCO and other IPPs.¹⁵⁵ ESCOM has started the process of transferring its functions to PML; however, several legal issues remain.

The private sector currently assumes a small role in Malawi’s energy sector. However, it is becoming a greater and a more important player. Prior to the pandemic, private investments in the

sector were on the rise, with eight private investments announced in solar and hydro generation, amounting to about 257 megawatts, which would increase current installed capacity by nearly half.¹⁵⁶ However, further involvement from the private sector will depend on how effectively the government manages the role of SOEs in the energy sector.¹⁵⁷

INDUSTRY ECONOMICS

Currently, the country lacks a cost-reflective tariff. It is insufficient to cover capital expenditure and operational costs, and thus discourages private sector investment.¹⁵⁸ The tariffs are too low not only because they have to ensure affordability for Malawians, but also because utilities are inefficient, which limits the ability of Malawi Energy Regulatory Authority (MERA) to increase the tariff.¹⁵⁹ In order to increase the tariff MERA expects the ESCOM's performance to improve first.¹⁶⁰ For example, in 2018 MERA set a tariff 19% lower than requested by ESCOM.¹⁶¹

There is a lack of clarity on how each of the different power institutions will become financially sustainable.¹⁶² ESCOM continues to operate at a significant loss—in 2019 operational losses were 13% larger than revenue.¹⁶³ Although in recent years it has made substantial progress in improving its balance sheet, the World Bank has noted that the “inability to recover costs undermines the financial sustainability of Malawi’s power sector SOEs and discourages private sector participation.”¹⁶⁴

Furthermore, both EGENCO and ESCOM are often criticized for inefficient governance, lack of independence, and government interference. For instance, five out of nine directors on the board of ENGCO are also government office holders.¹⁶⁵ Meanwhile, a recent scandal has exposed that the Government pressured the board of ESCOM to appoint its chosen candidate as the CEO, despite the candidate coming in fourth during the selection process.¹⁶⁶



GOVERNMENT'S VISION AND PLANS

Under MW2063, Malawi intends to develop a diversified range of affordable energy sources that will help to increase energy supply and ensure reliability.¹⁶⁷ Similar to other infrastructure projects, establishing PPPs is a priority. Furthermore, inefficiencies like the tariff structure plan to be addressed.

The Government has prioritized energy generation and supply as one of the enablers for economic infrastructure under the MIP-1. Malawi intends to increase access to electricity to 50% by 2030 while “matching the proportion of energy generation to that of energy demand.”¹⁶⁸ The IRP44 for Malawi funded by the World Bank estimates that to meet these goals by 2030 and beyond, the necessary priority investment amounts in generation and transmission stand at about US\$3.3 billion and US\$1.1 billion, respectively, over 2020-40.¹⁶⁹ Under these estimates, the annual required investment is US\$220 million.¹⁷⁰ However, the investment requirements for priority generation and transmission projects are too large to be funded through public sector financing alone, and the involvement of the private sector will be needed to fill in these gaps.¹⁷¹

The Government has already introduced legislation and initiatives to encourage private sector participation in the energy sector, including a viable framework for PPPs.¹⁷² However, for the past two decades Malawi’s investment in PPPs has been extremely low. The global average is 0.5% of the GDP, but Malawi’s ratio is as low as 0.07%.¹⁷³

On the other hand, there are several projects that are driving the change in the energy sector in Malawi. Currently, there are three active projects under the Ministry of Energy. Additionally, the MITC has proposed three private investment projects, and three investment projects under the PPP framework. Out of the current projects, the PPP is to develop the 350 MW Mpatamanga Hydro-power Project is meant to transform the energy sector which could boost economic growth by 7% in the medium-term.¹⁷⁴ The project aims to almost double Malawi’s installed capacity and serves as a flagship initiative to test the country’s strategy of attracting private investment. The project

is presently in the inception phase. The second priority project is the Zambia-Malawi and Mozambique-Malawi interconnectors that can help the government meet short-term power needs without capital investment in new generation projects.¹⁷⁵ Connecting to the Southern Africa Power Pool will allow Malawi to mitigate supply interruptions. The Malawi-Mozambique interconnector is expected to be completed by the end of 2022. Furthermore, the Government has resumed negotiations on a regional electricity interconnector with Mozambique as the IPP framework has been finalized and one PPA has been signed for the construction of a 41 MW hydro power plant.¹⁷⁶

Moreover, private solar energy developers have also begun to invest in the country, indicating that the private sector sees profitable opportunities in Malawi.¹⁷⁷ The Government approved two PPAs with IPPs, a 60 MW solar photovoltaic (PV) plant in Salima in 2019 and a 46 MW plant in Nkhotakota in 2020.¹⁷⁸ In fact, Malawi has substantial renewable energy potential that could meet the growing demand, help the country to diversify its energy portfolio and deliver on its climate commitments.¹⁷⁹



PRIORITIES FOR TRANSFORMATION

The Government should focus on accelerating rural electrification, through innovative schemes where it is helpful. Attracting investment for energy generation is critical to improve the access, reliability, and supply of energy to urban and rural areas in the country. Malawi needs to open up the energy market, remove government distortions and move to targeted investments to unlock economic growth. Improving the efficiency and quality of ESCOM's service, as well as its credit-worthiness, will facilitate more private sector participation.¹⁸⁰ To do that, it is essential to improve the overall performance of ESCOM, particularly in OPEX, so that the service can meet its revenue requirements and investment programmes.¹⁸¹

- **Increase rural access to electricity.** Rural electrification is a priority. Provide the rural populations with communal access to electricity via local community hubs, such as clinics, schools and retail centres, or through mini-grid or stand-alone solar systems. For this to happen, the Government should focus on increasing investments from the private sector, impact investors and international financial institutions.
- **As indicated in MIP-1, deepen engagement with Southern Africa Power Pool (SAPP)** to enhance physical connections and supply agreements – thereby increasing security of supply.
- **Phase in electricity tariff adjustments** to allow cost recovery and ESCOM to financial sustainability, while ensuring adjustment mechanisms are in place to protect low-income consumers.¹⁸²
- **Promote local mini-grid and off-grid systems.** Support subsidiary small-scale solar projects by relaxing licensing rules for solar, minimise import tariffs on solar equipment, and encourage banks to offer loans on attractive terms. Localised solar generation for housing, small agro-processing and cold-storage facilities will be supported by such changes.
- **Professionalise the governance of energy sector SOEs.** The government needs to remove its control – including political nominations – to the SOEs. Ensure that the selection process is competitive for the executive management and board seats of ESCOM to ensure more efficient management. Additionally, the government should increase its oversight of the agency.
- **Further develop the sector's regulatory framework,** following an investment friendly approach that can attract private sector capital to finance critical infrastructure projects in energy.

Communications (138th)

The Communication sector today is more important than ever, as it connects citizens to services and opportunities, allowing them to build a better future. Whole societies have been transformed by this evolution in communications technology, which has enabled those without access to banks to store and send their money safely, and to provide information on everything from weather to current market prices to farmers.

Currently, Malawi is lagging in development of its communication services. There is an apparent digital divide between rich and poor, urban, and rural and men and women.¹⁸³ The country ranked 168 out of 175 countries in the latest International Telecommunication Union's (ITU) 2016 Global ICT Development Index.¹⁸⁴ While mobile penetration has been growing, the access to digital public services remains low due to limited e-government services and inequalities in communication penetration. In 2020, the UN's E-government Index, which measures provision of online services, telecommunication connectivity, and human capacity, ranked Malawi 165th out of 193 countries.¹⁸⁵ The reasons for the limited access and advancement in digital technologies can be found in the lack of affordability, availability, quality of broadband connectivity and digital devices, coupled with low human and institutional capacity and low-income levels.¹⁸⁶

However, there is potential for digital technologies, particularly mobile phone-based digital connectivity that can create new opportunities for e-commerce. In fact, one out of every six non-farm enterprises are mobile-based businesses.¹⁸⁷ With greater connectivity at lower costs, Malawi's entrepreneurs may be able to quickly scale up e-commerce activities, similar to neighbouring markets like Kenya where the digital economy has blossomed.¹⁸⁸

PENETRATION

Mobile cellular subscriptions have been steadily increasing, reaching 52 out of 100 people in 2020, meaning that slightly more than half of the population is using mobile phones.¹⁸⁹ Additionally, the fixed broadband subscriptions have been steadily increasing over the years, reaching 12,225 subscriptions in 2020,¹⁹⁰ but the rate of broadband subscriptions per 100 people is still as low as 0.06.¹⁹¹

Internet connectivity presents yet another challenge. Currently internet is still accessible to only 10% of the population in the country, representing one of the lowest penetration rates in the world.¹⁹² Additionally, the few who have access to the Internet face slow speeds at high costs.¹⁹³ A basic plan costs an average citizen more than a third of their monthly salary, ranking Malawi 173rd out of 179 countries in the International Telecommunication Union (ITU) price index.¹⁹⁴ It is estimated that 60% of the population would be able to access services if they were more affordable.¹⁹⁵ Additionally, there is a regional divide, as access network infrastructure is lacking or deficient in most rural areas and secondary cities, limiting the opportunity to high-quality ICT services, even for those willing to pay a premium price.¹⁹⁶

However, initiatives have been undertaken to improve internet access. The Regional Communications Infrastructure Program Malawi (RCIPMW) seeks to improve the quality, availability, and affordability of broadband internet connection through a private-public partnership model. The programme encourages the support of broadband connectivity to institutions in rural areas.¹⁹⁷ It provides internet access and information technology equipment, such as computers and printers, to public institutions, including District Information Offices, teacher training colleges and secondary schools. It supports students and villagers who do not have access to the internet due to lack of education, the absence of private sector internet service provider(s) and affordability.¹⁹⁸ This project does not seek to provide direct access to ICT for individuals across the country. Instead, it uses public institutions to reach people, including students and farmers.¹⁹⁹ Other initiatives to improve ICT include expansion of the national fibre backbone through Tanzania, in addition to Mozambique, with plans to extend access to users across the country.²⁰⁰

DIGITAL SERVICES

The high costs of mobile and cellular connection limit the extent of the digital services in Malawi. While there has been an increase in government service automation, the development of digital services and e-government initiatives still extremely low.²⁰¹ Regardless, the education technology sector has helped encourage a rise of digital services throughout the COVID-19 pandemic. The demand increased due to schools transitioning to online classes, as well as adults wanting to improve their skills while at home. The Malawi Research and Education Network provided free internet connectivity to university campuses and other higher learning institutions in the country for a period of three months so that they could continue to roll out their Open Distance and e-Learning program.²⁰²

Additionally, Malawi has seen an increase in the usage of mobile money even though the sector is highly concentrated – only two companies provide this service. The mobile network operators have been expanding into rural areas and targeting rural communities with mobile products and services.²⁰³ In mid-2019, there were 45,929 registered mobile money agents in Malawi.²⁰⁴ The majority of bank branches and ATMs are in urban areas along with their agents, with only 19% stationed in rural areas.²⁰⁵ Mobile network operators are expanding agent networks in rural areas motivated by the possibility of the Social Cash Transfer Programme (SCTP) being digitized across all districts.²⁰⁶ However, to ensure that the mobile money is used effectively, it is essential to implement financial literacy programs so that new users do not fall into debt and become victims of predatory lending.²⁰⁷ Malawi is now piloting SADC's mobile money guidelines to increase financial inclusion.²⁰⁸

INDUSTRY STRUCTURE

The legal framework of the telecommunications sector is governed by the Malawi Communications Regulatory Authority (MACRA). In 2016 legislation was passed to modernize the governance framework of the ICT sector, particularly strengthening the regulatory role of MACRA.²⁰⁹

Malawi's telecommunications markets are dominated by a few large firms. The market is segmented into two retail markets, for fixed and mobile retail services and for five wholesale markets.²¹⁰ The mobile retail markets are characterized by the relative duopoly of Airtel and Telekom Networks Malawi (TNM).²¹¹

It has proven difficult for new telecom and internet providers to enter the market due to overwhelming regulatory and licensing regulations. The Government has unsuccessfully attempted to license a third national mobile operator on three separate occasions. The lack of competition in the telecommunications sector prevents it from growing and leads to highly expensive mobile data and voice plans.

Furthermore, in the fixed broadband market, Open Connect Limited (OCL) owns the most extensive and, in many areas the only fixed network infrastructure.²¹² OCL also held a monopoly on international connectivity through access to the East Africa Submarine System (EASSy) submarine cable, until the recent market entry of SimbaNet Malawi and investments from other entities.²¹³

There are some governmental related challenges that hinder the competition and entry of new players in the industry. Issues related to lack of the enforcement of regulatory mechanisms, infrastructure sharing, and the network interconnection are limiting the entry and expansion of smaller or new Mobile Network Operations (MNOs).²¹⁴ These issues showcase how some existing vested interests and controls in key industries lower the potential to further expand the use of mobile money, increase mobile penetration and democratise the access of telecoms in Malawi, especially for the many Malawians that currently cannot afford the services.

INDUSTRY ECONOMICS

The communications sector faces high taxes. The taxes in the sector include 17.5% value added tax (VAT) on mobile phones and services, 16.5% on internet services including mobile data, 10% excise duty on short message service (SMS) and mobile data services, regulatory fees, and Universal Service Fund levies.²¹⁵ This high taxation regime adversely impacts penetration, services, and profits.²¹⁶ MACRA has previously tried to cap the retail prices, although unsuccessfully due to the lack of clear legal authority, as well as the lack of regulatory mechanisms for network interconnection, number portability, and infrastructure sharing between service providers.²¹⁷



GOVERNMENT'S VISION AND PLANS

Under the MW2063, Malawi aspires to have a robust ICT infrastructure with cross-country coverage of affordable and reliable services that would promote the technological development of the country.²¹⁸ The country wishes to engage in E-commerce, E-learning, E-health, and E-governance. In addition to developing telecommunications, Malawi envisions the usage of inclusive financial services.

Meanwhile, MIP-1 can facilitate digital development by reviewing the levies on digital devices and services, as well as other tariff and non-tariff barriers on ICT access.²¹⁹ Furthermore, the plan intends to improve digital literacy through training and education. An upscale of the on-going ICT projects, as well as building a fibre backbone from Nacala to Lilongwe should also reduce landing costs, a significant driver of high data cost in Malawi. An objective of SERP is to prioritise the fast tracking of the above-mentioned initiative as well reduce internet costs by phasing out the 10% excise on data and text package purchases.

At the moment there are five active projects under the Ministry of Information and Digitalization: NACIT Enhancement, Last Mile Rural Connectivity, Digital Malawi Project, Digital Migration Project, and National Fibre Backbone Project Phase II.²²⁰ All of these projects are in advanced stages or near completion.





PRIORITIES FOR TRANSFORMATION

Effective ICT can empower the government, businesses, and people by allowing them to communicate, trade, perform transactions, and access information and services. The Government and its respective relevant regulatory bodies need to review the governance and legal framework to encourage the growth of the private sector to ensure affordability and access to ICT services in both urban and rural areas.

- **Increase provision of rural communication infrastructure.** Increase the number of programmes similar to the Regional Communications Infrastructure Program Malawi that uses public institutions to help overcome the challenges of providing information and communications technology in remote areas.²²¹
- **Reduce the cost of mobile licenses.** This would attract small new MNOs to provide services in a highly concentrated sector and should achieve lower mobile tariffs, enabling a faster roll-out of 3G networks to rural areas.
- **Reduce restrictions and (if needed) incentivise commercial infrastructure sharing.** Encourage mobile operators to upgrade 2G infrastructure in rural areas and to provide services in community hubs, including schools, hospitals, police, and local council offices. By removing the infrastructure sharing constraint, which is indicated in MIP-1, the Government can encourage upgrades of ICT infrastructure, especially in rural areas.
- **Remove end-user taxation.** The MRA (Malawi Revenue Authority) should engage with the mobile network operators in a discussion on how to reduce operating and consumer costs. This should reduce the costs of ICT services, primarily of mobile phone ownership and mobile broadband data.
- **Strengthen Telecommunications Regulator capacities.** Ensure the independence and professional capacity of the regulator, removing any government intervention that is hindering the role of the regulator. Ensure a focus on fostering competition and expanding internet services to rural areas. The body should ensure a level playing field, that is, a market with no preferential treatment of SOEs or any private companies.

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Market vendor selling pineapple fruits.
Credit: Golero

Trade and Market Access

For many developing countries, progression from low income to middle and upper middle-income status depends on successful trade in regional and global markets. Sustained economic growth within developing nations is enhanced by developing and selling a diverse range of goods and services within a highly competitive global marketplace. It requires nations to acknowledge the need to be willing and active participants in global trade.

Successful trade provides foreign currency to finance imports of capital equipment, technology and energy supplies. Increased employment in export and related industries leads to rising per capita incomes and falling prices for consumers can help to increase real incomes as markets are opened to new competition.

Malawi has sought to liberalise its economy as part of the 1980s SAPs.¹ Additionally, Malawi is a signatory to the SADC Protocol on Trade, which paved the way for gradual liberalisation of intra-community trade in goods and the formation, with a few exceptions, of a Free Trade Area.² However, Malawi's foreign trade is still subject to foreign exchange and export controls that hinder the attractiveness of investing in and extensively promoting agriculture production for export outside large well-connected companies.³

To date interregional trade has not been a strong component of Malawi exports.⁴ Malawi's regional integration has been hampered by the incoherence and unpredictability of Malawi's trade policy, as well as the gaps in infrastructure and a narrow basket of products.⁵ Hence, the country has been experiencing a trade imbalance. For example, in 2020, Malawi imported significantly more products than exported – US\$2.53B in imports, versus US\$937M in exports.⁶

Despite having agreements, Malawi lacks integration into the global value chains, so its access to knowledge and technologies that could boost productivity and innovation are limited.⁷ This could in part be explained by Malawi's geography as the country is "more than 30,000 kilometres (km) from the three major global hubs in GVC networks – the United States, Western Europe, and China—but also far from Kenya, Nigeria, and South Africa, the region's major trade hubs."⁸ The only sector in which Malawi has succeeded in integrating into the global value chains is agribusiness due to the presence of the multinational corporations in the country.⁹

Border Administration

The efficiency of customs procedures (i.e., the cost and time associated with clearing a border) has an important bearing on international trade. Inefficient and bureaucratic trade barriers limit the effectiveness, efficiency and dynamism of economies, and such barriers are often connected with corruption and cronyism. Delays in trading reduce the quantity of goods traded.

When it comes to importing into Malawi, one of the significant hurdles that companies face is lengthy border crossing delays.¹⁰ Particularly, trade is slowed down by lengthy trade procedures, lack of trade automation across numerous agencies, poor border clearance performance that includes numerous inspections coupled with a lack of inter-agency coordination.¹¹ Likewise, the lack of clarity on norms and subjectivity on tax exemptions allow for further 'regulatory interpretation', situation that can translate into additional spaces for corruption and 'un-equal implementation of custom norms by different agents.¹² Additional challenges include the private sector's low level of engagement in the trade reform process.¹³ The issues related to lengthy and inefficient border crossings – along of high logistic and transport costs – prevent Malawian firms from gaining access to low cost imported inputs. Hence, Malawian entrepreneurs cannot take advantage of export opportunities, not allowing the private sector to grow.

Additionally, the issue of smuggling across borders to Tanzania and Zambia remains prevalent, defying revenue collection by the Malawi Revenue Authority.¹⁴ According to the Director of Business Environment and Advocacy at Malawi Confederation of Chambers of Commerce and Industry (MCCCI), Madalitso Kazembe, smuggling has proven to be among the biggest challenges in the manufacturing sector in Malawi as it affects production levels for most of the manufacturing companies in the country.¹⁵ Importantly, smuggling distorts market prices, hence, depriving traders of fair competition that could lead to a collapse of local industries.¹⁶ Currently, there is confusion with regards certain products, that are so prevalent that the public thinks they are legally produced in the country.¹⁷ However, the issue of smuggling is currently not mentioned neither in MW2063, nor in the MIP-1.

To improve border administration, Malawi launched several trade facilitation initiatives, including the opening of one-stop border posts, enhancement of the COMESA Simplified Trade Regime, the adoption of a national single window programme, and migration from its current Automated System for Customs Data (ASYCUDA++) to the web-based version ASYCUDA World.¹⁸



GOVERNMENT'S VISION AND PLANS

The MW2063 underscores the need for efficient cross-border security systems. Meanwhile, MIP-1 addresses the border administration issues from three perspectives: trade, security, and tourism. Regarding trade, an MIP-1 goal is to legislate border/port/airport Inspection & Quarantine Systems to assure quality of food imports and exports.¹⁹ When it comes to security, the plan emphasises the need to strengthen intelligence services to be able to tackle cross-border crime and human trafficking. Furthermore, from the tourism perspective, MIP-1 acknowledges the need to roll out e-visa and passport system to the border posts of all regions and districts. Finally, the SERP prioritises improving the control and management of infectious diseases at border posts by installing permanent facilities for screening, treating, and holding entrants into the country with contagious or infectious diseases.

Current projects related to border administration include²⁰:

- Computerization of Border Entry and Exit - So far, Immigration Headquarters, KIA, CIA and Mwanza border post were automated with an IBCS which is in operation. It is planned to automate 7 more border posts. Furthermore, refurbishment of 8 offices has been completed. Refurbishment for Monkey-Bay and Mangochi is underway.
- Boarder Control Project – aims to improve efficiency of border security and to facilitate legal trade, yet, currently only at inception stage.
- Establishment of New Border Posts – the project aims to construct two offices and four staff houses at Mchinji and Mangochi borders.



PRIORITIES FOR TRANSFORMATION

The government should improve and expedite border administration, along with the reduction of corruption within border points, as well as tackle the issue of smuggling. The Malawi Bureau of Standards, National Enquiry Point (NEP) and the MRA need to enhance the awareness about trade regulations, standards, and the smuggled goods across the population, entrepreneurs, and public servants. Increasing the awareness of the legal framework, penalties and issues associated with smuggling is critical. For example, through communication campaigns the MRA can explain which products are smuggled illegally, so that the public is less inclined to buy them for normative or social norms. Additionally, the relevant bodies need to increase cooperation with foreign border agencies in the country.

- **Tackle smuggling through the enforcement of penalties.** Even though the MRA has clear penalties on smuggling, the enforcement of the anti-smuggling policies and regulations needs to be severely strengthened, increasing penalties for officials and public officers that do not comply with the enforcement of the regulations. The penalties should also be extended to commercial places that sell smuggled goods. Regular inspections of supermarkets and shops to enforce the prohibition for selling smuggled illegal goods in stores are needed. This will require a joint effort between relevant institutions from the executive, judicial and legislative arms of the country.
- **Build awareness campaigns for clearly communicating import incentives and restrictions for goods and services across the general population, entrepreneurs, and public servants.** This will allow further clarity from officials at customs and border controls, along with critical awareness of citizens and entrepreneurs about current incentives, taxes, and official processes that need to be fulfilled and enforced in border controls. In the long term, these initiatives can enhance accountability and transparency – increasing public knowledge and empowerment – to fight corruption and smuggling.
- **Implement clear training programs within border points and the security forces to tackle corruption, reduce smuggling and the sale of illegal goods.** The government should accelerate training programs for the border personnel to implement a unanimous understanding on tariffs, tax exemptions, and standards – to avoid space for interpretation on regulations and directives that lead to asymmetric enforcement of the regulations.
- **Increase the cooperation with foreign border agencies to reduce the number of inspections and expedite trade across border controls.** A relevant example is the certifying inspections in South Africa and Mozambique. Furthermore, it is relevant to increase the engagement in the Nacala Corridor Development Trilateral Committee to harmonize rules and regulations that will reduce border delays and trade costs along the corridor.²¹ This recommendation compliments the policy under MIP-1 aimed at working with foreign border agencies to curb cross-border crimes.
- **Consolidate trade management under one agency.** This will remove the current overlap of different ministries in import and export regulations and processes, and will clarify roles, responsibilities, and accountability.

Open Market Scale

Export-oriented growth is a crucial driver for structural transformation, as well as poverty reduction; however, only few Malawian businesses export their goods and services.²² Most Malawian firms (83.5%) sell their goods to final consumers in the domestic market.²³

TRADE AGREEMENTS

Malawi is part of several trade agreements but does not have extensive market access. It is a member of the World Trade Organization and two regional trade blocs: the Southern African Development Community and the Common Market for Eastern and Southern Africa. According to the COMESA Treaty, all goods may be traded among member states under preferential treatment as long as they satisfy the prescribed rules of origin.²⁴ Furthermore, Malawi ratified the African Continental Free Trade Area (AfCFTA) treaty in 2021 which could provide significant expansion of trade for the country. In addition to the trade blocs, Malawi maintains bilateral trade agreements with Mozambique, South Africa, China, Zimbabwe and a customs agreement with Botswana.²⁵ However, as noted by the World Bank, "the implementation of commitments within these regional economic communities has been slow and mostly incomplete."²⁶ Self-interest has impeded regional cooperation. However, the Government has made efforts to increase cooperation with neighbouring countries through high-level diplomatic visits.

In addition to the regional agreements, Malawi has arrangements with the European Union, such as Everything but Arms (EBA). Together with other countries from Eastern and Southern Africa, Malawi has been negotiating for an agreement under the Economic Partnership Agreement (EPA). The EPA introduces a new dimension to the trade relations between the EU and Malawi as unlike its predecessor, the Cotonou Partnership Agreement, the EPA requires reciprocity in terms of trade preferences granted by each of the trading partners. Hence, Malawi can benefit from the EU's EBA Agreement as the EU is a key export destination for the country. Furthermore, Malawi is a beneficiary of the African Growth and Opportunity Act.²⁷

EXPORT INCENTIVES

Export is incentivized in Malawi as exporters can enjoy several incentives under the Export Incentives Act if the company is registered with the Malawi Investment and Trade Centre. These include: 22% tax allowance on export proceeds excluding unmanufactured tobacco, tea, coffee and cane sugar; transport tax allowance of 25% of international transport costs quoted CIF; duty drawback on imported raw materials including packaging materials made locally for manufacturers in bond; no duties and Value Added Taxes on imports of capital equipment used mainly in the manufacture of exports; and no excise taxes and Value Added Taxes on purchases of raw materials and packaging materials made in the country for manufacturing in bond.²⁸

Additionally, the Government of Malawi enacted the Export Processing Zones (EPZ) Act of 1995, that provides multiple incentives, including: no withholding tax on dividends; no duty or capital requirement on capital equipment and raw materials; no excise taxes on purchases of raw materials and packaging materials made in Malawi; no VAT on inputs and export produce/manufacture.

Despite the current incentives, several entrepreneurs and leading experts in the agriculture, tourism and ICT sectors have highlighted that there are main challenges for them to access to the import and export incentives in the country.²⁹ For example, they mentioned that there is a lack of clarity in terms to which incentives can you utilise for exports if you are an MSME in Malawi; no comprehensive list that includes all the tax incentives and non-tax incentives for imports and exports per sector and sub-sectors of the economy that addressed the reality of local MSMEs, entrepreneurs and innovators, and no dedicated centres that promote, empower and guide local entrepreneurs to level-up the services, products and innovations in order to increase their value and sophistication.



GOVERNMENT'S VISION AND PLANS

The MW2063 strives for an export led economy that requires a strategic negotiation for better market access with bilateral, regional, and multilateral partners. Hence, Malawi's production needs to be first focused on higher-value crops and livestock as well as niche products; and second exports need to diversify from agricultural sector to include mining and tourism.

To achieve these goals, MIP-1 focuses on three key areas: alignment with trade partners, agricultural diversification, and value addition of Malawian products. Hence, MIP-1 would align tax, tariff, and excise to SADC-COMESA best practice. For the second area, the plan focuses on providing fiscal incentives for production of high value non-traditional crops. Additionally, MIP-1 intends to improve the quality of Malawian products by establishing various value addition programs, such as an export training programme to build export readiness of entrepreneurs and the enterprises. Finally, in 2021 Malawi launched a second National Export Strategy (NES II), an endeavour to "increase exports of 'Made in Malawi' products and services by 22% in the next five years through export promotion, export development, export facilitation and organisation efficiency and effectiveness."³⁰ The policy focusses on exporting high value strategic products and capitalising on Af-CFTA and emerging markets.

Projects in progress include Special Economic Zones (SEZ) and the Value Chain Development Project geared at promoting small scale processing and value addition across the country targeting secondary level cooperatives.³¹



PRIORITIES FOR TRANSFORMATION

The Government should place emphasis on increasing Malawi market access by removing ad-hoc export bans, expanding bilateral trade agreements, meeting international standards for Malawi's goods and services, and creating incentives for MSMEs to increase their exports. This should be aligned with an ADMARC overhaul to become an agrarian export promotion agency with a mandate to gradually expand to other economic sectors. Additional focus should be placed on targeted niche products and services that have traction in the neighbouring markets.

- **Remove ad hoc export bans** (on maize and other products).
- **Expand bilateral and multilateral agreements with neighbouring countries.** Ensure that these agreements cover Malawi products and services that have potential for competition and obvious niche markets, like kilombo rice, eggs, macadamia nuts and spices, for example.
- **Transform ADMARC into an export promotion agency for Malawi and its products.** Since ADMARC's mandate already supports marketing for agricultural products, and because agricultural exports comprise 80% of Malawi's exports, this is a natural transition. Subsequently either ADMARC's marketing function should expand beyond agriculture to other sectors, namely mining, manufacturing, and other products, or another organisation should be formed to promote non-agrarian exports.
- **In accordance with MIP-1, increase awareness and further develop incentives for MSMEs to improve the quality of their products to international standards.** The Ministry of Trade and Industry should lead this effort among relevant authorities in consultation with the private sector.
- **Ensure export incentives following potential market best-practices,** as well as international benchmarks to ensure that Malawi's products can be competitive in global markets—a MIP-1 prime objective. Priority should be given to COMESA, SADC, and AfCTA countries.

Import Tariff Barriers

Malawi requires import licenses for multiple goods, including cement, cooking oil, laundry soap, fresh milk and liquor (in plastic packaging or bottles).³² The country maintains a liberal tariff regime on most agriculture products. Fertiliser and agrichemicals can be imported duty-free and are zero-rated for value added tax.³³ Additionally, most classes of seed fall under 5% import duty and are VAT exempt.³⁴ Although this approach counters key impediments in agriculture, the main import barrier is disruption from the prevailing government-controlled AIP which import products must pass through, hindering indirect import.

On the other hand, Malawi maintains relatively high tariffs on many products from agriculture outputs. Those include livestock, meat, and dairy; grains and flour; oilseed and edible oil; sugar and other foods.³⁵ Customs rates on poultry and fish are as high as 30%.³⁶ While high import tariff rates on agricultural commodities help to protect domestic producers from international competition, they also contribute to high consumer prices and further domestic inefficiencies.



GOVERNMENT'S VISION AND PLANS

Under the MW2063, the Government recognises the importance of import and excise tax free importation of raw materials and intermediate products, preferential income tax rates for certain target industries, and tax rebates for manufacturing industries involved in exporting.³⁷ Under MIP-1 it is plans to align tariffs to SADC-COMESA best practices.



PRIORITIES FOR TRANSFORMATION

Ensure favourable tariffs to MSMEs by adopting import tariff exemptions.

- **Review import tariff exemptions** for micro and small entrepreneurs.



Market Distortions

The Government has often imposed ad hoc export bans, especially maize, in order to prevent food shortages and maintain low food prices.³⁸ These non-tariff barriers undermine private investment in the sector, as well as regional trade.³⁹ Repeatedly, the bans have been left in place for indeterminate periods of time, often throughout the duration of productive harvests.⁴⁰ While the bans result in a temporary increase of maize availability, the policy is self-defeating in the long term because it discourages maize production.⁴¹ Eventually, this practice constrains supply, thus increasing food prices. More recently, the Government re-imposed the maize export ban in January 2018.⁴² Another key ban in the agriculture sector is sugar imports, a situation that, according to the IFC, “supports a quasi-monopoly in the market”⁴³ and limits any competition in this sector.

The World Bank points out that State-Owned Enterprises also contribute to market distortions. The management and performance of the SOEs are often poor, which is problematic given that they compete with the private sector and at the same time receive regulatory and financial advantages.⁴⁴ Those include softened budget constraints, preferential access to land, tax concessions on acquisitions or even government bailouts.⁴⁵ The Agricultural Development and Marketing Corporation have often intervened in the market. ADMARC maize purchases from smallholder farmers, especially those in more remote areas, are often at above-market prices then sold at subsidised prices.⁴⁶ However, with no regulatory framework on ADMARC purchases, they tend to be inconsistent from one year to another, making market prices impossible for farmers to predict.⁴⁷ At the same time, the parastatal itself suffers from “prolonged conflicts between ADMARC board of directors and management, leading to poor governance and abuse of company finances and theft by some employees.”⁴⁸ ADMARC is also struggling financially, reporting a net loss-after-tax of K3.7 billion in 2021.⁴⁹



GOVERNMENT'S VISION AND PLANS

Under the MW2063, the Government strives to boost private sector dynamism. They acknowledge that the private sector suffers from market distortions, partly due to political interference and control—confirmed in the Vision agenda. To that end, the MW2063 emphasises the necessity of increasing effective oversight of the SOEs.

In addition, the Government plans to reform ADMARC through MIP-1 into a fully functional agriculture produce commercial entity with international market linkages. The Government recently closed ADMARC and sent all of its staff on paid leave in an attempt to redefine the parastatal's functions and improve its performance.⁵⁰



PRIORITIES FOR TRANSFORMATION

The Government and related institutions should focus on removing market distortions by negotiating the elimination of non-tariff barriers with its regional partners.

- **Leverage engagement in the Nacala Corridor Development Trilateral Committee** and African Continental Free Trade Agreement negotiations to eliminate nontariff barriers to trade, harmonizing rules and regulations that will reduce the time and cost of trade for Malawi's traders.⁵¹

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Traditional mud bricks, used to build houses, drying in the sun in a rural village in Malawi.
Credit: Brytta

Investment Environment

Foreign and local investments are critical to economic development for every nation across the globe. In the case of Malawi, generating a conducive investment environment is essential for the country to decrease the infrastructure gap, expand its private sector and generate a sufficient revenue and tax.

Malawi has one of the lowest rates of investment in Africa with an average of 15% of the GDP invested in the last twenty years.¹ The number is much higher in the region: almost a quarter in Tanzania and over one-third in Zambia.² Therefore, the financial ecosystem, the attraction of foreign investment and relevant factors constituting a business conducive environment for investors are quite challenging in Malawi.³ Likewise, the issues in the financial ecosystem and the private sector composition tend to exclude MSMEs, which leads to an environment where Small and Medium Enterprises are prevented from accessing finance⁴, and hence destined to stagnation and non-competitiveness. In turn, Malawi's ability to advance from subsistence agriculture to an economy with vibrant commercial sectors is an enormous challenge.

Property Rights (94th)

The existence and enforcement of property rights help to ensure that investment propels good ideas, that productivity is rewarded appropriately, and that material growth is possible in an economy. Property rights can catalyse other economic endeavours, giving individuals an asset against which they can borrow. Land tenure security is particularly important in largely agrarian economies – being disposed of land means being excluded from economic opportunity. By protecting property rights, governments incentivise widespread participation in the national economy. Weak or uncertain property rights tend to amplify the deprivation of the poorest in society.

Malawi has laws and regulations that govern acquisition, disposition, and the recording and protection of all property rights – land, building, housing – as well as intellectual property rights (copyrights, patents, trademarks, and others).⁵ However, in the case of land and intellectual property registration, their records are centralised and inefficient, generating important challenges for protecting rights.

LAND LAW

Property rights in Malawi have often been controversial, especially because of lack of clarity around authority, different traditions regarding inheritance of the land and the friction between the Government and traditional authorities. In practice, Land law in Malawi is ambiguous. A comprehensive Legal and institutional framework has been established by law, but enforcement is limited.⁶

Land in Malawi is categorised as public land, customary land, and private land. In the country, 18% of the land is public and 82% is a combination of private land and customary land.⁷

Malawians primarily gain access to land through inheritance (52%) and marriage (18%). Other ways to access land include allocations from traditional authorities or agencies such as Malawi Housing Corporation for urban plots. In contrast, only 1% of landholders obtain land through purchase.⁸

About 7% of private land is held as freehold, 33% is leasehold land, whereas 60% is held under customary tenure.⁹ Land held under customary tenure is usually administered by a traditional leader on behalf of the community. Customary land that has been individualized carries a presumption of exclusive use in perpetuity, although there are no title deeds in the name of the individual. The family or individual can lease the land or bequeath it, but they cannot sell it outside of

the community.¹⁰ The 2002 land reforms granted greater authority to local Traditional Authorities due to the conflict between the 1967 Lands Act and 1970 Town and Country Act, which created contradictory legal frameworks over local land jurisdiction.¹¹ The Government's proposed 2022 amendment to the Land Act makes it clear that land is deemed 'public land, customary land OR private land', and the amendment explicitly states that customary land comes under customary law, which gives preference to traditional land management.

However, customary land can often generate insecure tenure since it is based on custom and practice that is unwritten.¹² That in turn can affect the rights of vulnerable groups, such as women, youth and the disabled. In fact, the existence of customary land tenure has led to numerous conflicts over the years, prompting the creation of several commissions of inquiry on land tenure.¹³ Importantly, the latest Customary Land Act of 2016 was sparked by the latest commission of inquiry. The Act aims to formalize land rights in customary estates.¹⁴

Another social challenge associated with the current land ownership system is general discontent—many Malawian leaseholders feel that their rent to Malawians of other origins or foreigners who have acquired multiple plots of land is high and pushes the locals out of the market. The issue is especially relevant in urban areas like Lilongwe, Mzuzu and Blantyre where many inhabitants own their houses but not the land they are built on. They are essentially tenants paying rents to the government or private individuals. In fact, 65% of the urban population live in slums.¹⁵ Meanwhile, occupants of rural, unplanned, and traditional areas usually own the land or have the legal option to own the land in freehold.¹⁶

Moreover, gender disparities present an additional obstacle. The Constitution establishes land rights – regardless of gender – and prohibits discrimination based on sex, and the 2016 Land Act also recognise women's customary land rights.¹⁷ However, only around 17% of Malawian females are landowners, despite the fact that 70% of women work in agriculture.¹⁸ Often, the reason for limited female land ownership can be found in customs and traditions, as male relatives are likely to take over the land. Examples include customs such as widow-cleansing ceremonies, during which a widow is formally released from the dead husband's family, leaving the land to her in-laws, even when legally the land is owned by the widow.¹⁹

Rights to land through marriage and inheritance are governed by one of two customary systems. The way the land is inherited differs across the country. In central and southern regions of Malawi, the land is passed under a matrilineal system, where land is handed down through the female line, but in the northern region, land is transferred from father to sons under a patrilineal system.²⁰ However, even in the matrilineal system, the real power often lies in the hands of the woman's brother.²¹ Given the heterogeneous inheritance system, it is not surprising that in Malawi the major causes of land disputes are disagreements over ownership, boundaries and access to and use of land and water.²²

Another bottleneck is related to the inefficient and centralised record keeping system of land ownership, limiting the capacity to properly monitor land tenure²³, collect property taxes and ensure appropriate access to and distribution of land.

Malawi is transitioning from a system of deeds registration to title registration. Deeds registration is time-consuming, chronological and archaic, without any guarantee for the underlying title. Searching the deeds registry is time consuming. Title registration has already covered important urban centres and provides reliable ownership details that also support access to credit.²⁴ However a shortage of funds has impeded progress in completing the roll-out of title registration. This presents another challenge given that the complexities under current land registration process fuel corruption, so applicants often resort to bribes to speed up the process.²⁵

Regarding public land, information is only available for very few public properties, and the information that does exist is not publicly accessible.²⁶ Hence, public land is not monitored and the surrounding communities do not know the boundaries of public land unless there is a dispute.²⁷

Furthermore, public land is priced below the market price and the process of its disposition is not transparent.²⁸ For instance, the previous Minister of Land has admitted that there is a significant corruption in land allocation, which can even lead to one plot being allocated to several applicants in some cases.²⁹

One more issue promoting bureaucracy in land service delivery is the slow adoption of technology.³⁰ Simple tasks such as production of cadastral maps are still done manually, prolonging the waiting time for the client, and hence encouraging corruption—bribes as a motivation to provide the service quicker. To tackle the bottleneck, the Ministry of Lands intends to digitalise land information as a measure to achieve equitable distribution of land in Malawi.³¹ In addition to decreasing the procedure time, digitalisation would expose the individuals, especially those from abroad, who acquire multiple land plots and take advantage of the locals. Reliable documentation of land ownership provides a basis for efficiency-enhancing transactions in rental markets, which can support positive structural transformation and the growth of the rural non-farm economy and facilitates leasing of farming lands to more efficient farmers, which can create scale economies and make mechanization profitable.³²

Seeking to address the challenges around land ownership in Malawi, the President recently signed into law 15 new bills, while the National Assembly has additionally passed the Land (amendment) Bill of 2022. The amendment prohibits granting land to persons who are not citizens of Malawi.³³ Sale of land to foreigners is also forbidden. The bill further aims to ensure the development of land—if owners of freehold land fail to develop their land they will have to relinquish ownership to the public.³⁴

INTELLECTUAL PROPERTY

Most of Malawi's intellectual property laws were inherited from Great Britain and are outdated. Industrial intellectual property rights are protected under the Patent and Trademarks Act of 1948.³⁵ The Registrar General maintains a public record of patents and patent licenses, and trademarks that are registered after a specific period and opened for public contestation.³⁶ In recent years some additional regulations and policies regarding intellectual property have been introduced (see Box 3), including the 2019 National Intellectual Property Policy to increase trademarks in Malawi.³⁷

The main challenges are in the accessibility, implementation, and enforcement of these regulations. The registration and the objection process for trademarks is burdensome, and the enforcement of IPR is inadequate.³⁸ Registration of patents and trademarks rights is centralised, limiting the access to the registries for entrepreneurs operating outside main cities. The cost of obtaining a patent or a license, along with the administrative burdens limits the access to the registry for all entrepreneurs and start-ups.³⁹ Even though enforcement officials routinely seize counterfeit goods and goods suspected to be counterfeit, Malawi does not have a systematic approach to tracking and reporting on such seizures and no reliable estimates of the number of seizures, type or value of goods seized, or related information are available.⁴⁰ The governance structure creates additional problems. The structure that governs property rights in Malawi is currently under inter-ministerial committee and a national working group which is coordinated by the Department of Registrar General, generating confusions in roles, lines of authority and responsibilities.

BOX 3: KEY POLICIES, ACTS, AND REGULATIONS FOR INTELLECTUAL PROPERTY RIGHTS IN MALAWI

- The Registrar General administers the Patent and Trademarks Act of 1948
- The Copyright Society of Malawi (COSOMA) administers the Copyright Act of 2016, which protects copyrights and “neighbouring” rights in Malawi
- Copyright (Levy on Storage Devices) Regulations in February 2018
- National Intellectual Property Policy 2019



GOVERNMENT’S VISION AND PLANS

The MW2063 aims at strengthening land tenure with laws and regulations that govern land acquisition, ownership, and utilisation. According to the Vision, land laws should provide ceiling to land hold and usage, enable land re-distribution where fit, and target productive but landless farmers to ensure inclusivity. The land tenure should support both local and foreign investment.⁴¹

Meanwhile, the MIP-1 would review land laws to establish clear land titling and roles of land tribunals in terms of land acquisition for agriculture investment. As regards land management, the plan also envisions reviewed urban laws and policies that transfer urban land management functions to town/city councils. MIP-1 further addresses urban land by confirming the need for law review in the area. The plan intends to establish and capacitate the Companies and Intellectual Property Office to promote and enforce intellectual property rights.

The Government has made progress in implementing its land policy by passing the 2022 Land (Amendment) Bill and the 15 accompanying bills. These acts, once fully implemented, are likely to result in greater security in land tenure, which would in turn encourage investment in land and greater access to credit as land becomes viable collateral. They also create opportunities for making land surveying more affordable to allow the poor to register and gain formal title for their parcels.



PRIORITIES FOR TRANSFORMATION

The government should lead a reform of land allocation processes, ensuring proper cadastres, land registration, and land titling. A well-functioning registration system would allow a fair land distribution by enforcing the new land Bill. The goal should be to increase the rate of people with property titles in rural and urban areas, and simultaneously to strengthen female property rights to ensure opportunities for economic growth and economic integration for everyone. Local administration of the land registration system under local governments needs to be improved, ensuring local revenue collection and appropriate connection with national systems to monitor fair ownership, leases, and rents.

- **Continue to improve land titling as per MIP-1 – and expand the goal to include land surveying.** Continue with current and planned initiatives to digitalise and properly survey the surface of the land to clearly define size, borders, and ownership, along with a proper cadastre of the districts, cities and municipal territories.
- **Formalise, at a local level, the land allocation made by traditional authorities** – including registration of those transactions – to protect recipients' claims under legal framework.
- **Roll-out a centrally specified but locally administrated land registration, tax collection and declaration system.** Ministries and other centrally managed institutions and bodies need to devolve the necessary functions and responsibilities to allow districts and city councils to have proper land and property right registries. Although nationally specified, the registries would allow the local governments to have control of the registration, and the urban and rural planning would support revenue generation and proper settlement development.
- **Increase the mandate of local authorities to verify whether the land is passed to its legal owner,** do not allow the land to be taken away when the legal owner is a woman. This would strengthen the enforcement of female property rights by local authorities from both the executive and judiciary branches.

Ensure that intellectual property rights are respected and enforced to promote entrepreneurship and review the governance structure of intellectual property rights in the country, focusing on making the enforcement, monitoring and fulfilment of requirements clear and easy.

- **Designate one government body that will be responsible for implementing intellectual property rights policy with clear lines of accountability.** Capitalising on the MIP-1 priority to establish the Companies and Intellectual Property Office, a body to review current enforcement processes and implement reforms to make it easy for innovators, entrepreneurs and MSMEs to comply with the requirements.

Investor Protection (96th)

Domestic and international investors are the key drivers that can inject capital and dynamism into the country's economy. This requires, among other things, strong investor protection, including minority investors that would be underpinned by a good corporate governance. Business law should include clear insolvency processes that allow for business rescue mechanisms when companies that are in high debt distress still have the potential to continue being financially viable.

CORPORATE GOVERNANCE

Poor corporate governance has been an acute problem in the large parastatal sector and has caused an increase in government financial deficits and liabilities, as well as poor public services and possible risks to financial stability.⁴² Even though governance has improved of late, and companies have gained more autonomy, many parastatals continue to have high turnover and low calibre.⁴³

PROTECTION OF MINORITY INVESTORS

In Malawi, the fiduciary duties are based on English common law.⁴⁴ Additionally, the corporate governance framework recommends many of the disclosure of most non-financial items recommended by the OECD Principles.⁴⁵ On the other hand, the laws governing the review and approval of related party transactions is relatively underdeveloped, often creating concentrated ownership structures.⁴⁶ While shareholders have rights to redress under the law, the lack of efficiency in legal system often prevents the investors from exercising these rights.⁴⁷

INSOLVENCY

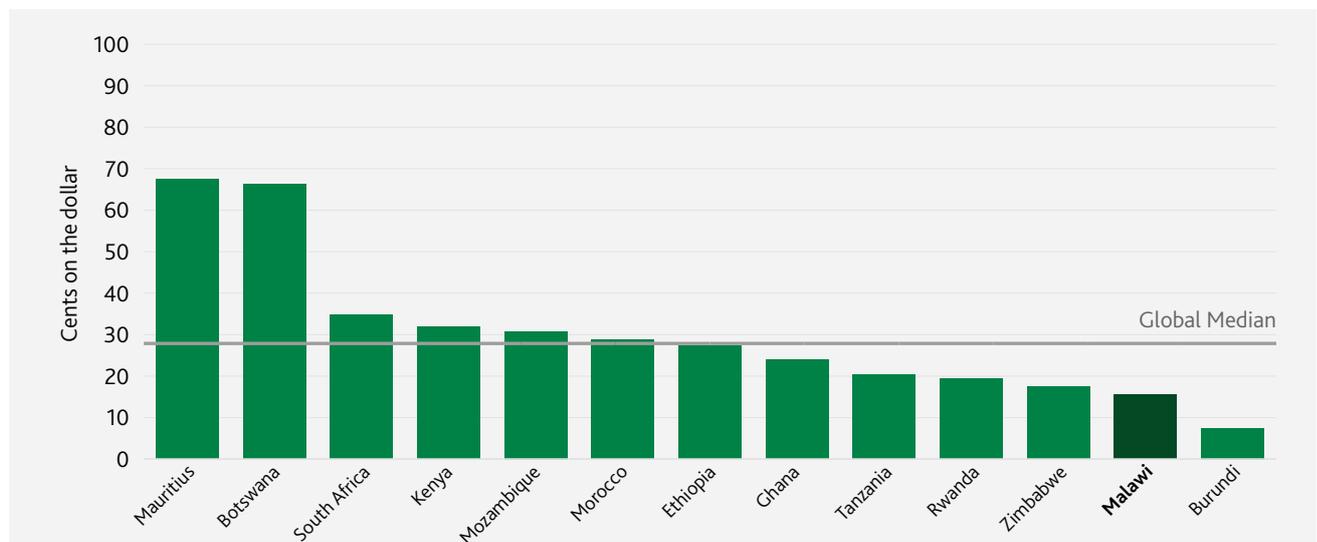
The insolvency recovery rate in Malawi has historically been below 20%, very low by international standards. Despite the central role that investors play for economic development in the country, the country passed the Insolvency Act only in 2016.

The act clearly established the conditions under which companies and entrepreneurs can navigate in financial distressed circumstances.⁴⁸ Moreover, the Act consolidated insolvency laws, aiming to generate a streamlined process for all the insolvency procedures.⁴⁹ Likewise, for the first time in the country, the act establishes the office of the Director of Insolvency, who acts as the main regulator of insolvencies.⁵⁰ Additionally, the policy regulates the practice of receivers and liquidators as it introduces various rules that governs Insolvency Practitioners,⁵¹ as well as defines the cases for compulsory and voluntary liquidation.

Under the 2016 Act a 'business rescue mechanism' based on the United Kingdom's administration process was introduced under the 'company re-organisation' name, available for companies and individual entrepreneurs.⁵² At the same time, the act provides an alternative for bankruptcy in the form of 'Individual voluntary arrangement' (IVA).⁵³ Finally, the act establishes cross border insolvency, the main objective to allow and enhance cooperation between Courts and other competent authorities in Malawi, and with foreign states in the case of multinational insolvencies.⁵⁴

The 2016 Insolvency Act is central to fostering a business environment conducive to growth and employment in which "distressed, yet viable, businesses can be rescued quickly and efficiently... [and if not] insolvency regimes provide procedures for liquidating businesses and returning funds to creditors".⁵⁵ In fact, the Malawi Act of 2016 places a special emphasis on the 'rescue culture' rather than just encouraging liquidation.⁵⁶ Following the implementation of the Act, there has been a modest increase in the insolvency recovery rate.⁵⁷

FIGURE 11: RESOLVING INSOLVENCY: RECOVERY RATE



Source: World Bank.



GOVERNMENT'S VISION AND PLANS

The MW2063 emphasises the importance of maintaining a peaceful and safe Malawi that would attract and retain investors. Both, domestic and international investors are seen important for Malawi’s development, especially via the establishment of PPPs.

Under the MIP-1 the Government intends to provide a conducive fiscal regime and business environment for investors, particularly in the priority sector of tourism. Additionally, the Government plans on reviewing supportive instruments, such as PPP regulation, sovereign guarantees, and introducing special development funds to empower private sector investors and speedily mobilise more private financing towards economic infrastructure. The latter is aimed to be implemented until the end of 2023.⁵⁸

Importantly, the Malawi Investment and Trade Centre has recently developed the Volume 4 of the Malawi Investment Projects—a document that details opportunities for private investment projects as well as PPPs. All projects are analysed, showing both benefits, and risks to attract more investment into Malawi.



PRIORITIES FOR TRANSFORMATION

To ensure economic growth in Malawi, it is imperative for the Government to focus on reducing the concentrated political economy by strengthening the role of the private sector through investor protection and opening the economy to new players. It is needed to enhance a corporate recovery culture to tackle insolvency rate challenges. Additionally, through the limitation of central government interventions in the economy and shifting to a competitive open market, it would be possible to encourage and attract minority investors.

- **Review the governing laws for party transactions** to create a small-investor friendly regulatory framework. To reduce concentrated ownership and protect minority investors, the executive and the legislative powers need to work hand in hand to create more effective laws for party transactions.

Contract Enforcement (96th)

The Government has implemented some measures to facilitate contract enforcement and in 2019 Malawi adopted new civil procedure rules that regulate the standard time for key court events.⁵⁹ The main challenge faced in this area is that Malawi does not have codified commercial or contractual law. Instead, it follows civil law for business procedures that are available for local and foreign investors with any bias or preference.⁶⁰ However, the country has several regulations that govern commercial transactions such as the Sale of Good Act, Companies Act, Employment Act, Hire Purchase Act, Insolvency Act, and Control of Goods Act, among others.⁶¹

Similarly, there are no Commercial Courts as stand-alone institutions established by the Constitution, but rather they are part of the of the High Court in Malawi. Indeed, they are part of the division of the High Court set-up under subsidiary legislation, 'the rule made by the Chief Justice under the Courts Act' that was first established in Blantyre in 2007.⁶² Therefore, any commercial matter in Malawi continues to be disputed in civil courts which affects the time to resolve a dispute or even to go through alternative dispute resolution mechanisms. These commercial divisions oversee any civil matter of commercial significance from or connected with a matter of commercial or business nature – whether contractual or not.⁶³

In 2017 a new rule removed a value of the subject matter threshold for commercial matters, and since then, only "the Commercial Division can hear commercial matters unless they qualify as small claims which magistrate courts can handle".⁶⁴ This change has increased the workload and duration of resolution of contract enforcement and related matters.

The time required to enforce a contract in Malawi has increased significantly over the past few years. During most part of the 2000s and mid 2010s the average time to enforce a contract – from filing the lawsuit to the final determination and payment as appropriate – was 423 calendar days. However, since 2016, 522 calendar days are needed to enforce a single contract in court, representing a significant fall in global rankings.⁶⁵

There are several bottlenecks that make contract enforcement difficult and costly. First, there is a lack of infrastructure and adequate funding in the legal system, followed by a small number and inadequate commercial divisions that prevents users from using the system. Second, there are high costs associated with legal representation and filing fees, a condition that worsened after the 2017 provision left out the rule that provided Legal Aid to an indigent litigant.⁶⁶ Malawi ranks 159th in the world for legal costs in the Legatum Prosperity Index. Therefore, these bottlenecks not only make contract enforcement difficult, but also increase the inequalities between large companies and MSMEs that represent most of the private sector landscape in Malawi. While large companies can cover legal fees and have enough capital to continue operations, for MSMEs it is difficult to support a legal case or maintain operation after a contract problem, increasing their probabilities for financial distress.

Local versus foreign investors are presented with a similar unequal and challenging scenario in Malawi. Despite the system being characterised by its neutrality between local and foreign investors, the financial conditions, and the capabilities that local entrepreneurs have compared to large foreign investors make it more difficult to continue operations and enforce contracts for locals.

In early 2022, the Attorney General acknowledged that Malawi's Arbitration Act, passed in 1956, was outdated and needs review. The attorney General has also said the Government was pushing for a bill in parliament that should soon be tabled and passed to facilitate the establishment of the Institute of Commercial Arbitration practitioners, and that the Government is committed to domesticating the New York Convention on Arbitration which was ratified in June 2021. According to the Malawi Law Society, the establishment of a Commercial Arbitration Institute would support increased multinational business investment in the country as one way of ensuring speedy and efficient commercial businesses dispute resolution.⁶⁷



GOVERNMENT'S VISION AND PLANS

Under the MW2063, Malawi envisions a legal system that is effective for both citizens and businesses.

In the MIP-1, the Government approaches contract enforcement via several avenues. First, it focuses on the public sector with plans to enhance the public sector performance by introducing contract agreements for all senior public servants.⁶⁸ Second, the Government aims at developing and enforcing measures for ensuring efficient public procurement, allowances and contracting mechanisms. Third, the MIP-1 emphasises the need for contractual and licensing guidelines to facilitate and commercialize Intellectual Property rights.⁶⁹ Fourth, the plan calls for a review of legal frameworks for joint ventures (PPPC Act, Companies Act, Investment Act). Finally, it acknowledges the need to increase access to legal representation for poor people, for example, by strengthening the Legal Aid Bureau.



PRIORITIES FOR TRANSFORMATION

To ensure contract enforcement, the judiciary needs to increase the number of commercial court division across Malawi. Additionally, increase the options for MSMEs to access to alternative dispute resolution methods.

- **Increase the number of commercial court divisions. The first wave of new commercial divisions** should be aligned with the development and establishment of the secondary cities, identified in the Secondary Cities Plan. This will help to ensure proper access to courts across the country, especially in rural Malawi.
- **Re-introduce Legal Aid for indigent litigants and introduce Legal Aid for MSMEs through the revision of the legal provisions.** The Executive should expand 2007 regulation to include MSMEs, and revisit alternatives and fees to ensure access for entrepreneurs. A discounted legal fee can be charged once the contract enforcement process had finalized. This should increase support for MSMEs to access alternative dispute resolution mechanisms to generate a more conducive investment environment that would allow local entrepreneurs to invest and grow.

Financial Sector (129th)

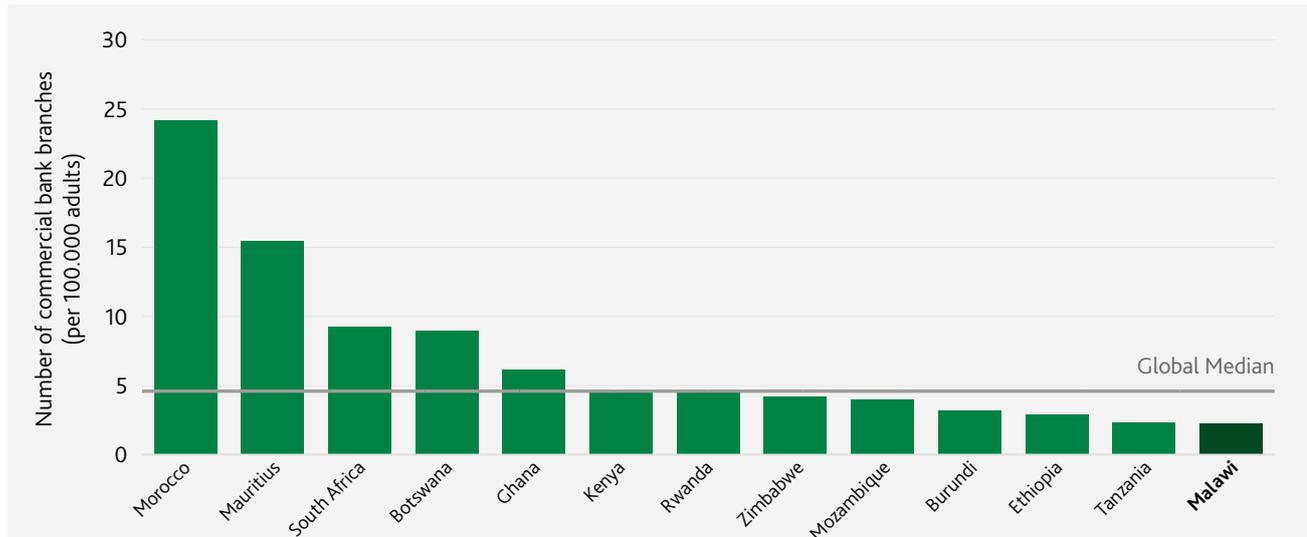
A sound financial system underpins prosperity as it can efficiently flow funds toward their most productive uses, helping generate jobs and improve productivity. It also helps governments raise investment capital, maintain financial safety nets and speed payments securely across borders. It gives people confidence to invest and save money. A thriving financing ecosystem ensures the availability of money for investment from sources like banking services, debt, and other instruments, and offers a wider range of financing options for businesses with different revenues streams and risk profiles.

In the last decade Malawi's financial sector has shown improvement in its performance. Apart from the limited scope of access to the bank branches across Malawi, there are more substantial challenges, especially related to the access and affordability of financing for individuals, particularly females, and businesses, especially SMEs.

FINANCIAL INCLUSION

The country improved from having only 17% percent of the adult population banked in 2011 to 40% by the end of 2018,⁷⁰ where the proportion of formally banked women more than doubled to 38.5% in the same period.⁷¹ Despite improvements, at 23 branches per million people, Malawi has one of most sparse bank branch networks in the world.

FIGURE 12: COMMERCIAL BANK BRANCHES (PER 100,000 ADULTS)



Source: World Bank.

When it comes to regional disparities, improvements to digital finance have made banking more accessible for Malawians living in rural areas, where there are few physical banks or they are far away.⁷² In addition to mobile banks, which can travel to rural areas to provide services to their customers, banks are now able to safely link payment of services with mobile phones, allowing customers and service providers to send and receive mobile payments.⁷³ This is possible due to the current regulation in Malawi that allow both bank and nonbanks financial institutions to offer Digital Financial Services (DFS).

Digital finance was first regulated in 2016.⁷⁴ Even before the pandemic, the adoption of mobile payments was rapidly growing, increasing from over 180 thousand transactions in December 2012 to over 4.5 million transactions in May 2018.⁷⁵ By 2020, with 2.5 million active mobile money accounts, digital payments accounted for around 22% of all transactions.⁷⁶

However, despite improvements in the digital finance market, there are no policies tackling the fintech, as they usually do not fit under a regulatory remit of the Registrar of Financial Institutions nor crowdfunding. Currently, fintech credit and open banking are not clearly regulated, even though it would be beneficial to have these financial instruments available across the country.

BOX 4: MHUB DEVELOPMENT

Malawi has progressively undertaken digital transformation to increase access to finance. With this approach in 2011, the International Development Agency (IDA) supported by Financial Sector Technical Assistance Project (FSTAP) was conceived. The project aimed at improving financial literacy and the regulatory framework in the financial sector.⁷⁷ In the process, the national payments system was modernised, and all commercial banks were connected to a single switch. Additionally, a Microfinance Institution Hub was developed, and a new Automated Trading System was leveraging technology to improve efficiency of transaction processing.⁷⁸ The Reserve Bank of Malawi built on these digital innovations to enhance its capacity, and it is now fielding knowledge-sharing requests from peers in the Global South. Consequently, the percentage of adults using financial institutions rose from 19% at the start of the project to 40% in June 2018.⁷⁹

INDUSTRY STRUCTURE

The financing ecosystem in Malawi is small and dominated by the banking and lending industry.⁸⁰ Commercial banks offer only a narrow range of financial instruments and do not offer long term financing schemes.⁸¹ Non-banking credit is rare in Malawi, with little available access to venture or other risk capital.

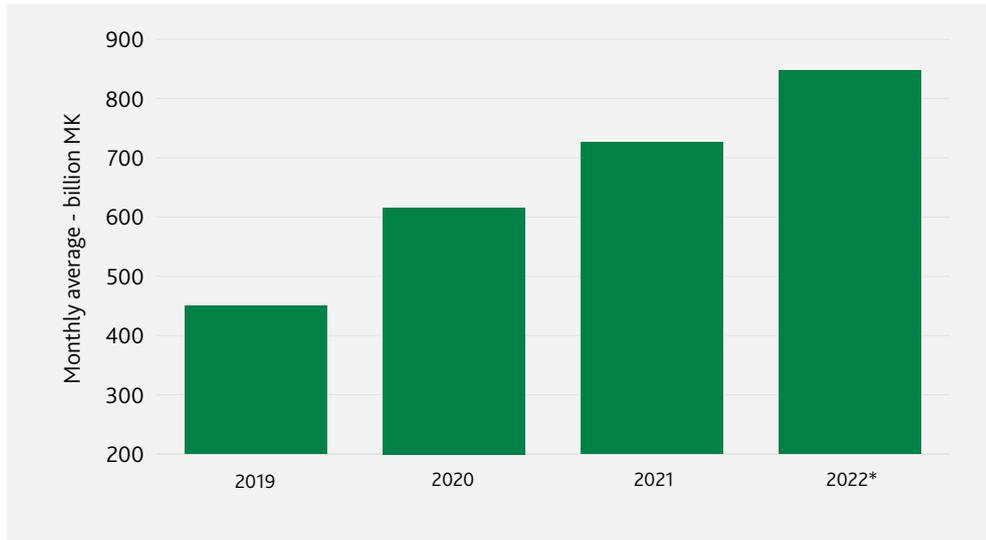
The banking sector consists of four domestic privately-owned banks representing 55% of the total net assets, and four foreign-owned banks representing 45%.⁸² However, almost half of the assets and deposits are concentrated in two banks.

The lending sector comprises microfinance institutions (MFIs) and financial cooperatives (SACCOs). Malawi has 61 registered and licensed microfinance institutions (MFIs); four of them are deposit-taking institutions having served over 200 thousand clients⁸³, of which over 61% were females in 2020. Likewise, eleven of these registered organisations are non-deposit taking and have served over 270,000 clients, of which 40% were females in 2020. The last group are 46 microcredit agencies.⁸⁴

The financial ecosystem in the country also includes financial cooperatives. By the end of 2022 there were 40 licensed financial cooperatives, 35 of them employer-based, while five were community-based. The total assets of these cooperatives tripled from 2016 to 2020.⁸⁵ The total membership grew almost 3% compared to 2019, reaching over 150 000 people, of which over one-third were females.⁸⁶

CREDIT TO THE PRIVATE SECTOR

Government demand for domestic credit has often crowded out access to finance for the private sector. From 2012 to 2017 the banks doubled their holdings to about 30% of their total assets.⁸⁷ As this government borrowing is expected to continue, the availability and incentives to promote private sector domestic borrowing is limited.⁸⁸

FIGURE 13: PRIVATE SECTOR LENDING 2019-2022

*Monthly average 2022: between January and March based on WB reported data.⁸⁹

Source: Reserve Bank of Malawi, 2022

Bank loans to the private sector remains low, representing just 9% of GDP.⁹⁰ Nonetheless, private sector lending almost doubled from MK 450 billion in 2019 to MK 847 billion in 2022. The majority of finance is concentrated in three sectors: wholesale and retail trade, agriculture, and manufacturing services.⁹¹ The composition and concentration of the financial market favour private-sector lending to large companies rather than expanding its reach to finance private sector investments and SMEs.⁹² According to the latest MSME survey conducted in 2019, only 10% of the medium-sized enterprises, 5% of the small enterprises and 3% of microenterprises have credit from one of the eight commercial banks in Malawi.⁹³

Although there are financial institutions willing to provide funds to SMEs for their growth and expansion, most Malawian SMEs fail to meet the lending requirements demanded by these institutions.⁹⁴ Primarily, Malawians are unable to provide collateral or security and audited financial statements from their businesses.⁹⁵ Additionally, the few SMEs that do access finance face high interest rates, making repayment and growth unlikely.⁹⁶

The high interest rates, lending requirements, as well as complicated application procedures present the main reasons for Malawian enterprises not taking a loan.⁹⁷ Surveys indicate that 79% of large firms (with more than 100 employees) had taken on credit in the year before the survey was conducted; yet only 63% of firms with 10-49 employees have done so.⁹⁸ The number decreases further to only 33% for the firms with less than 5 employees.⁹⁹ Hence, smaller firms tend to rely on their working capital from within the business or private capital.¹⁰⁰ This further limits the possibility of entrepreneurship expansion in rural areas that tend to be poor.¹⁰¹ It is particularly difficult to obtain agricultural credit on affordable terms, which limits the farmers' ability to invest in inputs and to sell their produce.¹⁰² The few financial institutions that do make loans to the agricultural sector offer high interest rates that would call for unrealistic returns on production.¹⁰³

BOX 5: INCLUSION AND ENTREPRENEURSHIP SCALING (FINES)

MSMEs face high risks of bankruptcy, insolvency, repayment problems and small room for adaptation. To address these challenges and support the sector, the Government started the Financial Inclusion and Entrepreneurship Scaling (FINES) project. An \$86 million credit from the International Development Association allows the RBM to partner with commercial banks, microfinancing institutions and Development Financial Institutions (DFI) to provide affordable loans. The main targets are innovative enterprises – including the ones affected by the pandemic – and start-ups to increase and/or establish supervised investments while they enable the enterprises to adopt digital financial services.¹⁰⁴ A year into implementation, multiple success stories have emerged where MSMEs have been able to open credit lines, increasing their production and revenue. For example, one agro-business enterprise from the Ntchisi district doubled its “maize and soya production... [and loans also helped] a Salima-based confectionery business and a sugar cooperative in Chikwawa, both of which saw revenue doubling.”¹⁰⁵

SOUNDNESS OF BANKING SYSTEM

Over the past 15 years the Government has sought to regulate all relevant sectors that form the financial ecosystem, including the banking sector, insurance, securities, microfinance, financial services, financial cooperatives, and they have better defining the role of the institutions that regulate and oversee the sectors. Particular attention has been placed on the roles of the Reserve Bank of Malawi, the Malawi Union of Savings and Credit Cooperatives (MUSCCO), and the Malawi Microfinance Network (MAMN) as relevant institutions in the ecosystem, along with the implementation of crucial trading systems.

However, scholars point to asymmetric conduct, marked by collusive price leadership in lending rates and competitiveness in deposit rates, which makes banks highly profitable and weakens competitiveness.¹⁰⁶ The Reserve Bank of Malawi’s interventions have been directly in banks’ favour in core and non-core areas.¹⁰⁷ This in turn increases consumer prices.

Despite the effects of COVID-19 to the financial sector, the banking sector has remained sound. According to a Reserve Bank of Malawi’s stress test conducted at the end of 2021, while the banking industry is resilient to interest rate and income risk shocks, its performance in credit risks is more problematic due to the concentration of capital and loans in two banks and single name credit concentration (GOM).¹⁰⁸ Likewise, the study found that the industry is vulnerable to default by large borrowers, which could result in undercapitalisation.¹⁰⁹ Comparing the soundness of the Banks in Malawi with other countries, one can observe weak performance below the global median.



GOVERNMENT’S VISION AND PLANS

Under the MW2063, the Government acknowledges the importance of industrialisation that can only be achieved if there is a sufficient access to finance. Therefore, the Government is committed to lifting the barriers to access financing, and enabling banks and financial institutions to promote the expansion and productivity of large commercial farms and cooperatives, as well as attract young people to the agriculture sector through the provision of capital.¹¹⁰ For the agriculture sector, the government is determined to target the agriculture insurance revitalise the Agricultural Credit Facility (ACF).¹¹¹ As regards the SMEs sector, the Government envisions taking advantage of the national registration process by linking it to all digital platforms.¹¹² Furthermore, the Government aims to provide affordable long-term capital for long-term productive investments to businesses through the establishment of development finance institutions (DFIs) and the capital market.¹¹³ Simultaneously, the MIP-1 is to restructure and recapitalise financing instruments for business finance for the youth, women and people with disabilities. They also plan to introduce

functional financial literacy among small scale farmers. MIP-1 also includes constructing Community Banks to introduce blended finance.

Recently, the Government launched two key strategies that address the vision for the financial sector: The Malawi Digital Economy Strategy (2021 – 2026) and the Third National Strategy for Financial Inclusion (2022-2026). The former would augment internet access to 80% by 2026 and increase the number of digital money accounts by 30%. The Strategy offers subsidies for mobile devices.¹¹⁴ The latter will see the development of the Financial Digitalisation Initiative meant to be implemented through support from the African Development Fund and will amount to \$14.2 million. The Initiative will widen financial inclusion for women, youth, and rural communities. Additionally, it will enhance efficient business transactions, offering small businesses the opportunity to gain access to new national and international markets. The project is expected to boost Malawi's domestic financial inclusion rate from 58% in 2019 to at least 65% in 2025.¹¹⁵



PRIORITIES FOR TRANSFORMATION

Financial inclusion is critical for business development in Malawi. Enhancing the uptake of financial services will support the transition from subsistence agriculture to commercial agriculture and production. The Government should generate a conducive environment for the financial – national and international – sector and for impact investors and providers of patient capital to allow access to credit for agricultural smallholders, cooperatives and MSMEs, with preferential terms where possible. Central and local government, along with the financial sector, should also promote financial literacy and the adoption of technologies by MSMEs and marginalized groups.

- **Invest in de-risking solutions to provide affordable loans, focusing on micro and small enterprises, cooperatives and associations.** The credit lines can be specifically designed to match their operational cycles with repayment deadlines during the harvest period.
- **Work with development financial institutions to promote specific funding streams aligned with the relevant industries for the country.** Access to affordable loans and funding schemes is highly relevant to promote private sector development, especially for 1.6 million micro and small enterprises active in Malawi. These funding streams can be aligned with the key industries that the GoM wants to develop under MW2063, MIP-1, the Secondary Cities Plan, and the Tourism Investment Plan.
- **Attract angel and impact investors that can provide small ticket size financing for small and medium enterprises.**
- **Enhance the access and affordability of mobile money.** Introduce fintech solutions by developing schemes to attract new players and liberalise the ICT sector. Empower national development finance institutions, such as the Malawi Agricultural and Industry Investment Corporation, to invest in financial technology solutions that can help mitigate risk in lending and launch a wider set of affordable financial services for micro, small, and medium enterprises, including agribusinesses. International financial institutions and impact investors would be good partners for such programmes.
- **As emphasized within MIP-1, increase financial literacy.** Strengthen financial education and technological literacy in the national curriculum. It is imperative for the Ministry of Education to enhance the Malawians' knowledge in these subjects. Introduce tailor-made financial literacy programs for micro and small enterprises, as well as for the groups with lower economic participation such as women and youth. Financial institutions – as part of their mandate and role in the country – can provide small-scale training and clearer financial education to their clients. Build awareness of the advantages of mobile money and e-payment systems.

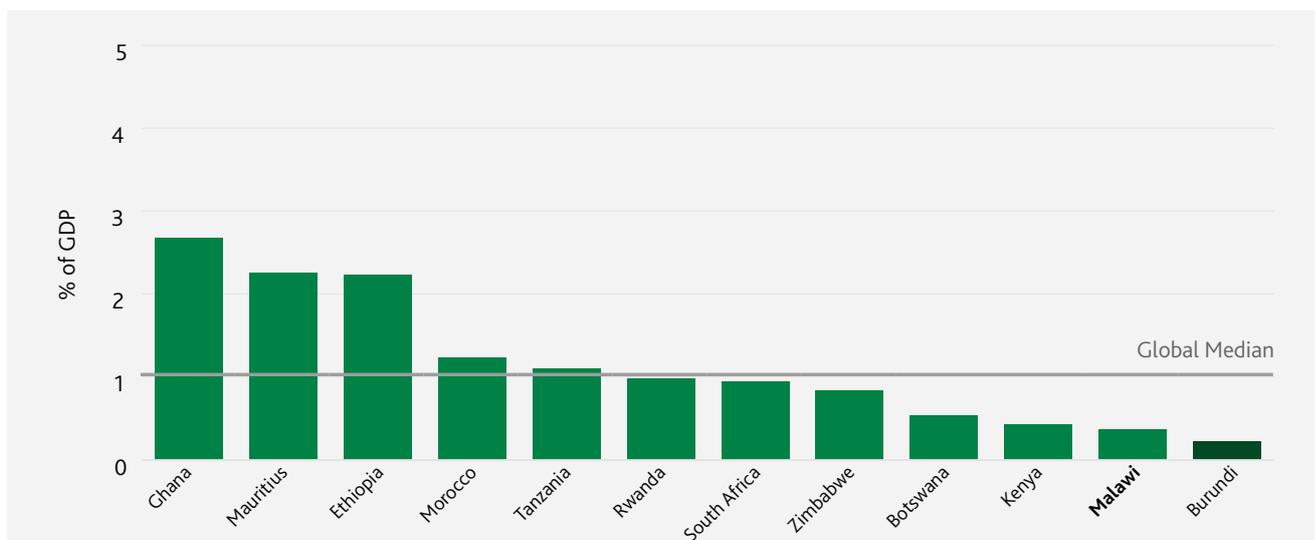
Restrictions on International Investment (101st)

The Government has made several efforts to create a conducive investment environment in the country. However, many challenges remain, and it has been difficult for the government to attract foreign investment. Malawi's landlocked geography, cumbersome trade facilitation, and the inadequate infrastructure are critical obstacles to foreign direct investment. As such, FDI over the past decade has been very limited, with only a few greenfield projects announced in sectors including communications, financial services, real estate, food and tobacco, metals, and coal, oil, and natural gas.

Furthermore, the global foreign investment outlook does not seem promising for developed and developing nations as global Foreign Direct Investment (FDI) flows in 2020 fell by 35%, reaching US\$1 trillion in comparison to the US\$1.5 trillion in 2019¹¹⁶ mainly due to the COVID-19 pandemic. In 2020, FDI remained low in Malawi, at 0.4% of GDP, compared to 1.7% average in Sub-Saharan Africa.¹¹⁷

Malawi offers an environment that is open to FDI. The legal system supports local and foreign investment without any preference towards either group of investors. Potential areas for foreign investment include agriculture – particularly agribusiness and processing – and energy, followed by opportunities in mining, transport, and ICT.¹¹⁸

FIGURE 14: FDI INFLOWS



Source: World Bank.

CONSTRAINTS ON FOREIGN INVESTMENT

There is no government policy to screen FDIs, but the minimum investment capital for foreign investors is US\$50,000.¹¹⁹ However, in the agro-processing industry the minimum investment requirements for foreign investors are reported to be 10 times higher than the requirements for local investors.¹²⁰ All new land acquisitions are under leases, with foreigners limited to a 50-year renewable lease, compared to 99 years for Malawians. It exemplifies that the Government intervenes to protect the local agricultural investors and the SOEs.¹²¹

According to the MITC, while not discriminatory to foreign investors, investments in Malawi require multiple time-consuming bureaucratic processes, which may include obtaining a business license, a tax registration number and a land-use permit.

Other restrictions include the requirement to appoint at least two Malawian residents as directors in a company. In Malawi, all investors have the right to establish, acquire, and dispose of interests in business enterprises. However, there is also a restriction on the level foreign shareholding of companies listed on the Malawi Stock Exchange.¹²²

There are no legal restrictions on remittance of foreign investment funds, so long as the capital and loans initially came from foreign sources and were registered with the Reserve Bank of Malawi.¹²³ However, it is possible to find restrictions on foreign currency denominated accounts, situation that limits the possibilities for agricultural growers and exporters to sell the product and convert the foreign currency at a convenient time – when exchange rates are more favourable or when they need to utilise that capital. Hence, their bargaining power in the exchange rate they can access to is being limited.¹²⁴

SUPPORT FOR FDI

Malawi offers numerous fiscal and non-fiscal incentives to several economic sectors including manufacturing, agriculture, and mining.¹²⁵ In recent years, the Government has also passed a number of regulations with the goal of attracting Foreign Direct Investments (FDI). These include The Trademarks Act of 2018, Control of Goods Act of 2018, The Corrupt Practice (Amendment) Act of 2019, The Reserve Bank Act of 2018, The Tobacco Industry Act of 2018, The Mines and Minerals Act of 2018 and the Cannabis Regulation Bill of 2020.¹²⁶

Multiple institutions provide help to foreign investors, including the Malawi Investment and Trade Centre and its One Stop Centre which help navigate relevant regulations and procedures, a process that can be challenging without local knowledge.¹²⁷ The Government often hosts Investment Forums to attract investors to the country, though the forums did not take place during COVID-19 pandemic.¹²⁸ At the same time, the Government offers a series of fiscal and non-fiscal incentives that apply equally to local and foreign investors.

Other impediments to investment include lack of labour force in skilled occupations, such as engineering, law, IT, and medicine, as well as lack of infrastructure (including challenges in terms of energy access and reliability).¹²⁹ Generally, both local and foreign investors are required to hire locals, unless the skills needed are not locally available. Corruption remains a significant factor with disruptive effects in the economy and in the attractiveness of Malawi as an investment destination.¹³⁰ Likewise, the government interventions highlighted at the beginning of the section in the financial services can generate additional concerns or hinder the likelihood of attracting FDI to Malawi.



GOVERNMENT'S VISION AND PLANS

The MW2063 understands the importance of a globally competitive economic infrastructure that can spur foreign direct investment for wealth creation.

Likewise, under MIP-1, the Government aims to increase Foreign Direct Investment net inflows from US\$112.30 million in 2019 to at least US\$500 million by 2030. To do so, MIP-1 outlines the importance of proving tax incentives for firms local and international that invest in priority sectors of the economy as guided by MW2063. Additionally, the Government intentions to create Special Economic Zones, including industrial parks provide a comparative advantage for promotion of manufacturing and attracting FDI. On the other end, MIP-1 emphasises some restrictions, namely the need to enforce legislation that makes it compulsory for foreign investors to partner with locals in every venture with a set minimum.

Current projects include the establishment of SEZs, the one in Chinakanaka is close to completion at 98%.¹³¹



PRIORITIES FOR TRANSFORMATION

The goal should be to attract increased numbers of long-term high-quality foreign investors and encourage their cooperation with local companies. Limit market interventionist policies and show foreign investors that Malawi is moving away from a rent-focused economy and moving towards an enhanced market competition. This should include relaxing the barriers to accessing foreign currency.

- **Empower the Malawi Investment and Trade Centre** and other institutions to facilitate investment.
- **Make the regulatory frameworks more local-international partnerships friendly, as well the design of the PPP schemes.** MITC and the respective authorities need to revisit PPP acts (as indicated in MIP-1), along with the regulations to strengthen the legal contractual framework to avoid extraction and market distortions.
- **Develop a targeted strategy 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 several policy actions with greater emphasis on full implementation of a more limited but coherent set of reforms, rather than partial implementation in many areas.
- **Relax foreign currency controls, particularly remove the financial barriers for foreign currency denominated accounts.** Such action by the Government and RMB will give enterprises the decision power about their incomes and revenues in foreign currency, enhancing incentives for exports. Industry Structure

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A man selling fresh produce at a rural food market.
Credit: Andrea Willmore

Enterprise Conditions

This section analyses the enterprise conditions in Malawi and the extent to which the country's business environment ensures market contestability, so entrepreneurs are free from burdensome regulations. We also assess how easy it is for local and international businesses to start, compete and expand. These conditions are fundamental for creating an enabling environment for entrepreneurship and innovation.

In Malawi, the business climate has a modern legal framework, yet it does not translate into practice, with the business environment lacking transparency and certainty. Enterprise conditions are marked by macroeconomic instability, corruption (including on land acquisition), inconsistent policies, and a lack of access to good markets.¹ This creates an environment in which growth opportunities are scarce for small-sized companies, and those with long-established networks as well as larger firms are favoured.² The climate is worsened by the regulatory deficiencies in the private sector that favour larger firms since they can mitigate risks more easily. In effect, middle-sized companies represent a very small portion of the enterprises landscape, what makes them mainly absent in Malawi. Such an environment developed partly due to the enduring legacy of heavy state intervention following a deals and rentiers closed circle, which further constrains market entry, leading to the lack of economic diversification.³

Due to the lack of urbanisation and limited access to markets for subsistence and smallholder farmers, economic activity almost exclusively takes place in two commercial hubs, Lilongwe and Blantyre. That in turn prevents the agglomeration effects and deters private investment in the way that is needed to ensure Malawi's prosperity and economic growth. It is essential to unlock private sector development and growth in rural areas and enhance the capacity of MSMEs to compete and add-value to their products and services.

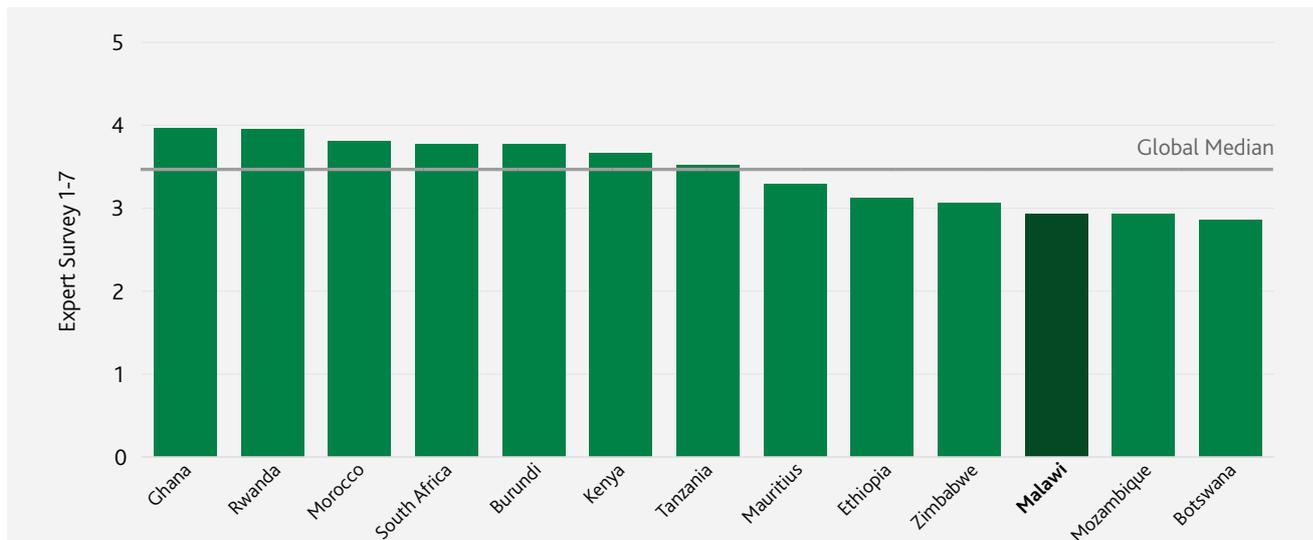
Domestic Market Contestability (125th)

Competitive markets promote economic development and are typically characterised by lower prices, diverse choice for consumers and the innovation that creates improved services or products. Contestable markets serve to discipline incumbent suppliers. However, they can exist only where low barriers to entry and exit encourage new entrants to offer better or cheaper goods or services than incumbents are providing. Encouraging competition within the economy contributes to a thriving private sector.

In Malawi – in principle – there is space for free market competition, particularly because laws have been adopted towards a market-based competition and privatisation approach.⁴ However, in practice, the alignment of political rents and incumbent business interests has meant that the business environment is not conducive to allow competitive private sector growth.⁵ Malawian entrepreneurs have been constrained by the closed and concentrated political settlement and a closed extractive deals and rents space.⁶

These challenges have translated into a small formal private sector, dominated by large corporations, while the majority of the MSMEs conform to the informal sector of the economy. As a result, most of Malawi's private sector is informal and just a few large-scale companies are capturing most of the economic opportunities on the formal side.⁷

FIGURE 15: EXTENT OF MARKET DOMINANCE



Source: World Economic Forum.

STATE-OWNED ENTERPRISES

Malawi has 67 State-Owned Enterprises (SOEs) “playing significant roles in agriculture and agribusiness, education, construction, energy, finance, health, information and communication, media, public utilities, aviation, and services”.⁸

Often the management and the performance of the SOEs have been poor, deploying limited OPEX and – in most cases – non-existent CAPEX to invest in improving infrastructure to deliver better services. Furthermore, their finances and operations lack transparency and accountability.⁹ Their weak performance has meant the Government has often had to bailout, subsidise, or inject additional capital into them, thereby increasing the fiscal burden of SOEs.¹⁰

They compete with, and crowd out, the private sector, while also receiving regulatory and financial advantages, including soft budget constraints, preferential access to land, tax concessions on acquisitions or even government bailouts.¹¹

INDUSTRIAL PATRONAGE

Political patronage has been the modus operandi for business in Malawi, undercutting the development of state capacity and efforts to address market failures.¹² The government has often intervened in the market, for example by favouring businesses close to the incumbent government in procurement procedures.¹³ The focus has been on privileging domestically oriented sectors that generate high rents, such as government services, farm inputs, construction, and transport services. This has diverted attention away from enabling more complex industries more conducive to long term growth, such as manufacturing and other export-oriented sectors.

An example of intervention by ADMARC is the award of a contract to a new fertiliser company for the supply of urea without going through a competitive process.¹⁴ Showcasing that there is still a great amount of market interference and vested interest that hinder the development and competitiveness of the private sector, along with economic development in Malawi.

COMPETITION POLICY

The country has been trying to encourage market competition, yet, with limited success. The underlying conditions to support market-based competition are not in place, particularly in the agriculture, energy, transport, ICT sectors, as well as in financial services.¹⁵ The combination of gov-

ernment interference and weak competition enforcement has meant favoured businesses have secured privileged positions in the economy.

The Competition and Fair-Trading Commission (CFTC) is responsible for encouraging competition in the economy, regulating and monitoring monopolies and concentrations of economic power, protecting consumer welfare, and ensuring the best possible fair market conditions. Since 2013, the CFTC has overseen 26 applications for merger and acquisition and dismantled five cartels. However, the CFTC has not disallowed any mergers and acquisitions, raising questions of its capacity.¹⁶ The Commission has reported multiple hurdles in its operations, including limited awareness of the CFTC among the business community and general public; acute regulatory gaps in competition and consumer protection enforcement; limited institutional capacity; and informational gaps in market research.¹⁷

However, more recently there has been an effort to increase market competition and consumer protection. For example, in October 2020, the Government, through the Ministry of Trade, initiated a project called the Enhancement of Competition and Consumer Protection Regulation that is expected to bring about major institutional and legislative reform of the competition and consumer protection laws in Malawi.¹⁸



GOVERNMENT'S VISION AND PLANS

Under the MW2063, the Government focuses on two areas: private sector and the SOEs. Regarding the former, the Vision aims to remove barriers that suppress economic activity by reducing entry and exit obstacles in particular sectors and markets. For the former, the Government envisions a close alliance between the private sector and the SOEs, that should also be free of any political interference.

The MIP-1 expands the vision further, by naming the ICT sector as the one in which a review should be carried out on levies on digital devices and services and all tariff/non-tariff barriers. With regards to the second goal, MIP-1 proposes an establishment of a Development Catalysing Corporation as a trailblazer SOE to set up anchor firms in alliance with the private sector—the efforts of which have already begun. In line with the latest government efforts to enhance market competition and with the aims of the Malawi Vision 2063, the CFTC launched its new Strategic Plan for 2021-2026 that covers 5 pillars: Competition regulation, Consumer protection, advocacy and awareness, financial management and sustainability, and corporate governance and management.¹⁹



PRIORITIES FOR TRANSFORMATION

There is a need for professionalising the SOEs and showcasing reforms that highlight to foreign investors that the GoM is moving away from a rents and interventionist approach towards an enhanced market competition. This would require strong political will and clear signals that show the removal of vested interests and adequate levels of privatisation – when required. Eliminate political rents and business vested interest focused system to promote competitiveness, transparency, and a thriving environment for economic growth. Through unlocking the economic opportunities that are currently captured by larger players, the GoM needs to focus on creating the conditions for locals and MSMEs to operate easily. The government needs to show a public commitment to empower the CFTC to move away from vested interests and the political economic control in Malawi to send a positive signal to investors who are looking to invest in nations that are not just peaceful, but also have transparent, competitive markets that penalise and monitor monopolies and artificial market distortions. Democratisation needs to finally reach the economy and embrace its transformation away from rentier deals and vested interests to an inclusive economy that open the space for MSMEs to growth, compete and function in a conducive business and investment environment in Malawi.

Specific priorities:

- **Professionalise the management of SOEs.** Separate the management of SOEs from political decisions and/or political appointments of the board of directors, aiming to appoint individuals with technical expertise that can guarantee better operations and spending.
- **Tighten the financial support for SOEs.** Review the rules on public spending from SOEs and the limit the government financial transfer to cover SOEs' debts to increase their efficiency.
- **Reduce the role of SOEs in the economy.** In market sectors where enterprises do not need to be state owned, privatise SOEs, or reduce their activities to enable private sector alternatives.
- **Increase competitiveness in public contracting.** With a clear and comprehensive public contracting framework, the government can guarantee that the procedures for public contracting are focused on guaranteeing competition and limit the space for discretionary adjudications and decisions of any SOE.
- **Reduce barriers to market entry.** Progressively eliminate rules and regulations that create bureaucratic obstacles for new players to enter the key sectors of the economy, including the utility sectors, ICT, transportation, and other critical ones such as agro-processing, eco-tourism, and mining & jewellery.
- **Enhance the CFTC mandate.** Increase CFTC's overriding legal mandate on competition issues and ensure that the Commission focuses on sectors which have the greatest impact in jumpstarting the economy, particularly where the changes can improve the life in rural areas. Advance consumer protection and competition regulation with a set of regulations that are oriented to promote local enterprises and fair competition.
- **Strengthen enforcement of anti-monopoly policy.** Provide the CFTC with adequate resources and enforce CFTC decisions by independent judiciary. Enforce the anti-monopoly regulations.
- **Enhance public awareness around CFTC's role.** Start a communications campaign to increase the awareness of the CFTC. Given that communications infrastructure is underdeveloped in Malawi, focus on communication materials in local councils, as well as radio and mobile communications.

Price Distortions (105th)

Due to government interventions and the number of SOEs, there are several price distortions in the country, but the most relevant are related with the AIP in agriculture and some subsidies in the energy sector, such as the lifeline tariffs. SOEs involvement in buying and selling commodities and inputs also generates price distortions in Malawi.²⁰ Untargeted subsidies implicit in price controls are detrimental and inefficient. A similar situation that happens with government interventions that hinder competition and limits the access of small and new players in the ICT and transport sectors.

AGRICULTURE INPUT SUBSIDIES

Since at least 1952, the Government's heavy subsidies for fertilisers for maize have been justified as a way to achieve food security via agricultural self-sufficiency. In order to increase maize production, promote food security, and enhance rural income, Malawi started the Farm Input Subsidy Programme in 2005. The program includes procuring and distributing inorganic fertiliser and seed input at the farming household level and agriculture extension services that initially accounted for about 10% of the national budget.²¹ Likewise, it consistently accounted for more than 50% of total agricultural expenditure, and yet failed to deliver significant impacts. It was often not well-targeted, and inputs were delivered late. Therefore, the share of the population living below the food poverty line did not decrease during the existence of FISP.²²

In 2020, the program was renamed to Affordable Input Program and its current budget stands at 5% of the national budget for 2022-2023.²³ AIP targets all smallholder farmers that are registered under the farming household database, estimated at 4,279,100.²⁴ However, due to the very high costs associated with the import of fertilisers as well as implementation gaps, the programme has not been as effective as intended and left communities vulnerable to continued food insecurity.²⁵

The Anti-Corruption Bureau of Malawi (ACB) highlights multiple challenges associated with the programme, including: intermittent network connectivity, that often made farmers wait for the inputs at the selling points for days or even weeks; late delivery of inputs; corrupt selling clerks; and congestions in the selling points, preventing many farmers from benefiting from the program.²⁶ Meanwhile, the positive achievements include the effective collaboration between the AIP task force members (the Ministry of Agriculture, ACB and Malawi Police Service), as well as market set up with numerous selling points for inputs, even though they lack effective operations.

Furthermore, the disproportionately high expenditure on subsidies has prevented complementary public investments that could have introduced new technologies, developed irrigation, and strengthened markets.²⁷

AGRICULTURE OUTPUT

The Agricultural Development and Marketing Corporation is the biggest buyer and seller in the market. It purchases maize from smallholder farmers, especially those in more remote areas often at above-market prices and then sells at subsidized prices.²⁸ However, with no regulatory framework on ADMARC's purchases, they tend to be inconsistent from one year to another, making it unpredictable for the farmers.²⁹ Such interventions by ADMARC and the National Food Reserve Agency have often distorted markets by increasing price volatility and hurting, rather than helping the smallholder farmers, often necessitating government bailouts.³⁰



GOVERNMENT'S VISION AND PLANS

The MW2063 proposes that the Government reduces its bias for subsidies for maize inputs. Additionally, the Vision calls for a distinction between programmes and subsidies that enhance agricultural productivity versus the provision of those as safety nets to vulnerable households. The subsidies should be targeted and time-limited, with a clear exit mechanism with the aim of achieving national food-security and agricultural commercialization.

Simultaneously, the MIP-1 targets both, the AIP and ADMARC. First, the MIP-1 proposes reviewing the farm input subsidy strategy to generate a proper cost sharing and diversify to other agricultural products and commercial farmers. Additionally, MIP-1 proposes to develop a fertiliser production plant, which is already in the Government's pipeline. Second, the plan aims to reform ADMARC into a fully functional agriculture produce commercial entity with international market linkages.



PRIORITIES FOR TRANSFORMATION

Price distortions across the economy need to be reduced significantly – especially in infrastructure utilities and agriculture. Reform public spending to move away from fiscally unsustainable maize input subsidies and other government interventions that hinder the promotion of diversification and growth. The allocation of subsidies needs to be targeted, justified, cost-efficient, with low fiscal risks and avoiding the massive generation of price distortions.

- **Review public spending and interventions to promote commercialization and productive diversification in the agriculture sector.** Continue reforming AIP to free up resources for productive investment. Target productive farmers, keeping a low, fixed government subsidy, and increase private sector participation in the program.³¹
- **Reduce government interventions – including those from SOEs such as ADMARC -- that generate market distortions.** Limit the role of the Government to achieve effective execution of the structural transformations needed to open the space for smallholders and move away from the political-economic capture of the sector.
- **Reform tariff structures in utilities to be more cost-reflective and less burdened by taxation.**

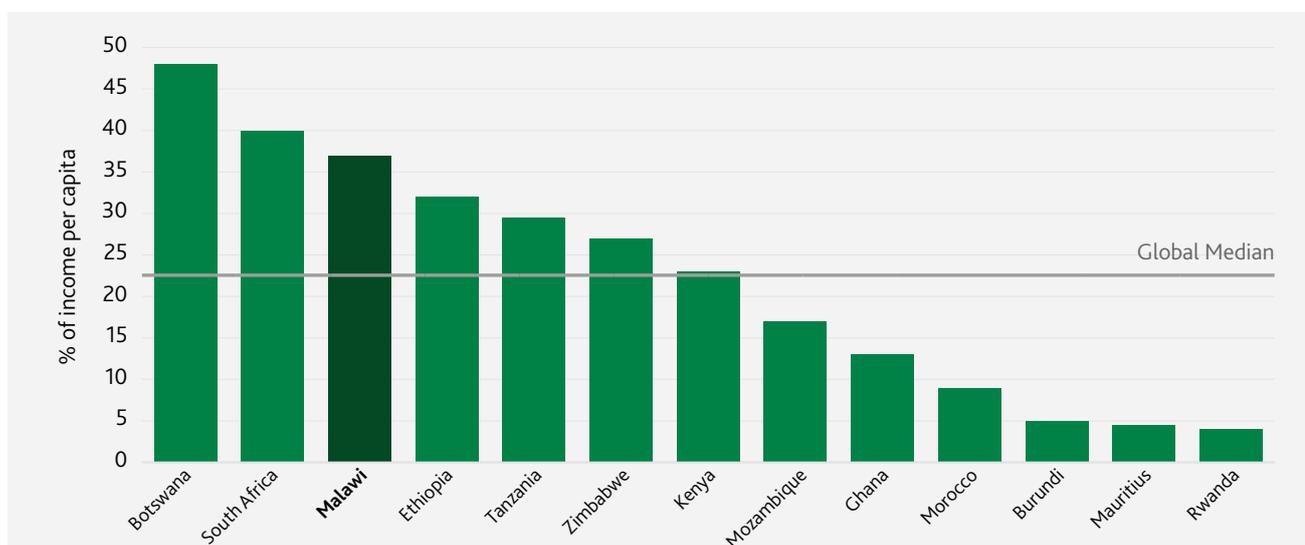
Environment for Business Creation (100th)

Entrepreneurial activity is one of the key drivers of long-term prosperity. In Malawi, the environment for business creation has been designed to primarily cater to foreign investors rather than local entrepreneurs – to an extent driven by the need for an inflow of capital. Malawians often face additional barriers, especially due to the literacy level, knowledge gaps, access to finance and affordability, as well as the lack of safety nets that allow people to move away from subsistence and more towards an entrepreneurial mindset. The rapidly growing population provides potential for a labour force, but most of the Malawian workers are medium-skilled, however, and high-skilled employees are scarce.³²

According to the latest MSMEs survey there are over 1.6 million micro, small and medium enterprises in Malawi. The vast majority – close to 90%–are informal, and almost two-thirds of the businesses in the country can be categorised as microenterprises (60%), employing less than 5 people³³. Nearly 70% of all Malawi's MSMEs operate in the wholesale and retail sector, while closer to 20% in agriculture, and most of the remaining entrepreneurs are in tourism.³⁴ Moreover, "nearly 9 out of 10 jobs are informal, and three-quarters of Malawi's firms consist of only the proprietor, with only 3.6% of nonfarm enterprises having four employees or more".³⁵

While foreigners can enjoy favourable support to start a business, locals are faced with a much more complicated reality. There is no equivalent for a One Stop Centre for local entrepreneurs, and often starting a business requires traveling to numerous locations to obtain all the necessary documents—situation that generates more informality in the private sector. Starting a business in the country is a lengthy, complicated, and costly procedure. It typically takes seven procedures and 37 days to start a formal business, as opposed to an average of 21.5 days across Sub-Saharan Africa.³⁶ Although there is no minimal capital required for starting a business in Malawi, the administrative costs of starting a business stands at 33% of income per capita—slightly below the 36% Sub-Saharan African average.³⁷ However, the costs are still extremely high compared to the OECD high income countries, where the income per capita needed is 3%.³⁸

FIGURE 16: STARTING A BUSINESS COST



Source: World Bank.

The country offers incentives in all the key sectors of the economy to attract and stimulate investment.³⁹ These include: Hotels and Lodges; Dairy Farming Industry; Fishing Industry; Telecommunication Sector; Mining Industry; Water Supply Sector; Export Incentives – Export Processing Zones; Manufacturing Under Bond, mainly for non-traditional exports.⁴⁰ Companies that work in agro-processing, electricity generation, distribution and transmission are taxed at 0% for up to a period of 10 years.⁴¹

However, most of the incentives are designed for large investors, and thus cater more towards foreign than domestic ones. For example, to qualify for a tax incentive, a hotel, lodge, or inn must have 50 rooms or above⁴²—often unattainable for local entrepreneurs. That is extremely problematic, given that the majority of Malawi's private sector is comprised of informal MSMEs. Therefore, by design, incentives targeting large companies are not benefitting most of Malawi's entrepreneurs.



GOVERNMENT'S VISION AND PLANS

The MW2063 envisions Malawi that has a business environment that is rated amongst the top three in Africa by 2063, regarding the enabling of private investment, both domestic and foreign. The conducive business environment will be created by streamlining bureaucratic processes for investment and developing economic infrastructure. Growth of MSMEs sector is also named as an important driver to achieve the Vision.

Meanwhile, the MIP-1 names both, creation of enabling business environment and MSME development as Malawi's goals. To that end, MIP-1 will enact the Special Economic Zones bill as well as the MSME bill. It anticipates developing the Business Incubation Strategy together with a legislative framework for the establishment of SMEs and Community Banks. Furthermore, the MIP-1 proposes establishing a one-stop business information and services provision centres in district councils across the country to cater for SMEs, cooperatives, and industries. Finally, focussing on a local level, the MIP-1 aims to establish industry directorates at all local councils to undertake industrial functions, including SMEs and Cooperatives promotion and development.

The Government started acting upon its MIP-1 commitments. In August 2021 the Government made a statement 'ordering' its ministries, departments, and agencies to prioritize MSMEs and marginalized groups in public procurement of goods, works and services in Malawi.⁴³ The Government also committed to provide technical support to local suppliers via the Ministry of Trade, and encouraged MSMEs to register with the MRA, Ministry of Trade, the PPDA, and the MITC. Finally, the Government promised to ensure skill development by the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVET), Small and Medium Enterprises Development Institute (SMEDI) and the National Construction Industry Council (NCIC).



PRIORITIES FOR TRANSFORMATION

The transition to a more business-friendly environment for local business creation is an essential part of the economic reforms the country needs. It is critical to provide the essential conditions for dynamism, entrepreneurial activities, and local employment. Rather than focusing on developing first-best institutional solutions, focus on observable improvements for businesses.⁴⁴

- **Prioritize and expand the MIP-1 intervention of creating One-Stop Centres for business creation and information for local entrepreneurs.** Ensure One-Stop Centres are distributed across the country, especially in the more unserved areas that have a large of presence of MSMEs. These centres can become the hub for local businesses to fill-in forms, consult about financial and non-financial incentives for MSMEs, information about new policies and programs in place to promote entrepreneurial skills and businesses-focused mindset in the country. This can reduce time, costs and the number of procedures needed to start a business.
- **Reform business regulations,** including taxes and licensing requirements, to make them simpler, more accessible, and easier to implement – to be undertaken by MRA and the MBS.
- **Create business accelerator programs that include guiding, coaching, business, and career support while providing appropriate funding schemes.** The funding can be provided in stages, to ensure that the funds were properly allocated.
- **Continue to focus on and prioritize the development of Special Economic Zones.**
- **Invest in skill development programmes for low, medium, and high skilled positions, as planned under MIP-1.** Invest in education and skill-development programs for youth, women, and people with different levels of skills to become more competitive, be more prepared to work in the service industry and other positions. Additionally, with programmes for medium and high-skilled workers, several position can be filled locally, rather than by foreigners.

Burden of Regulation (89th)

In a dynamic economy regulation supports business, allowing and encouraging it to respond to the changing priorities of society. A country's regulatory structure underpins its enterprise conditions and determines how people interact with businesses in any country. Where these elements are not in good working order, it is difficult to encourage business activity. Taxation, for example, is a critical factor in deciding where and how businesses are structured. If it is not made both simple and proportionate, it will be avoided.

Despite some progress in attracting investment and promoting entrepreneurship across the country, the burden of regulation still high in Malawi. Large companies are more able to comply with the requirements, while the MSMEs are in a disadvantaged position.

The difficulty and costs associated with an increasing number of procedures and documents needed to comply with regulations impose a significant burden on business. Given that Malawi does not have a one stop centre for locals, it is often lengthy and complicated to obtain business licences and permits. Generally, it is needed to travel to different locations to gather all the necessary documents and submit to specific entities with limited presence at local level.⁴⁵ Indeed, while the country had made progress to expedite the business registration – now available locally – the burden on obtaining permits, licenses and certificates is high in multiple sectors. For example, it takes 13 procedures and 172 days on average to obtain a construction permit, ranking Malawi 128th in the world.⁴⁶

There is also a lack of administrative order and awareness, transparency, and clarity about the functions of MDAs, ministries, and divisions, along with their responsibility to oversee the fulfilment of the regulatory requirements. These issues often translate into non-fulfilment of the government requirements, open the door for corruption and for the interpretation of the legal requirements.⁴⁷ For example, the Bureau of Standards has been cited by business as a judge, jury and executor using subjective and qualitative approaches to carry out their assessments. The number of tax payments required is one of the highest in the world. There are also inefficiencies in the current tax dispute resolution, including administrative delays by the Malawi Revenue Authority and delays by the courts in resolving appeals.⁴⁸

Businesses and entrepreneurs who do not have an easy access to the main cities face further barriers in fulfilling regulatory requirements. Many of the functions need in-person applications, which is problematic given that most offices operate in limited locations.



GOVERNMENT'S VISION AND PLANS

The MW2063 acknowledges that Malawi should facilitate the ease of doing business throughout the cycle of businesses. To that end, businesses should be free from unnecessary regulation and bureaucracy. The Vision believes that a conducive business environment will encourage commercial investment in agriculture.

The MIP-1 further emphasises the need to develop conducive regulations for the MSMEs.



PRIORITIES FOR TRANSFORMATION

Promote conducive regulations that can enable local businesses to thrive, and at the same time, offer attractive incentives for MSMEs to formalise and comply with the regulations. Reducing operational and regulatory challenges for micro and small local enterprises will help to further expand the tax-payer bases and support a sustainable path for economic growth.

- **Simplify tax and licensing.** Make the existing regulations—including tax and licensing requirements—simpler, more accessible, and easier to implement. Decrease the number of procedures and time needed to obtain permits, certificates, and licenses.
- **Decrease the burden of regulation for MSMEs.** Tax the micro enterprises only when they reach a certain profit level and offer attractive incentives for being a formal business.
- **Process, monitor and facilitate compliance at a district level** to increase access and ensure that businesses can easily comply with regulatory requirements.
- **Consolidate regulatory functions for businesses and investors under one single competent authority**, rather than numerous MDAs. Additionally, the MRA should adopt a more business-oriented approach, instead of conducting targeted tax audits. This will improve administrative oversight of regulatory requirements and reduce corruption.

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Blantyre City Centre, Malawi.
Credit: Willpant

Political Structure

Political factors often explain the level of state capacity. These factors include the degree of political polarisation, the effectiveness of executive constraints and political accountability, and the extent to which rulers are willing to govern for the whole nation. Governments often pursue the benefit of special groups; religious, ethnic, party political; resulting in clientelism, patronage, corruption, where public office is used to divert funds or influence policy formation or allocate government positions for party or private gain. Such state capture generally results in great economic losses and erodes the capacity of the state to deliver public goods and services. When corrupt behaviour is not sanctioned, corruption can extend to every area of society and can paralyse the government.

Malawi has witnessed consistent peace and relative stability of multi-party electoral politics since its democratic transition in 1994.¹ The main reason why this favourable context has not enabled Malawi to progress further in its political or economic development is that its political dynamics have been in large part characterised by a stable but low-level equilibrium, in which a small group of elites have competed for power and political survival through rent seeking. Malawi's elite political class is small and well known to one another, with their political power rooted in commerce, construction, and rents.²

This entrenched political cronyism creates strong incentives for policies that can be seen to address short-term particularistic needs and donor expectations, rather than the necessary political and economic transformation that the country needs. The result is fragmentation along identity lines; high donor dependence (20% of GDP); and a limited social contract based on food security and maize in particular.³

The fragmented politics, in which the public sector has been the key source of rents, has led to a logic of 'policy following patronage'.⁴ Corruption has been tolerated as a means of rewarding loyalists, and rents captured to promote political aims rather than to reinvest in prosperity.⁵

Executive Constraints (60th)

A modern state gains legitimacy by constraining executive power by institutional checks and balances based on the separation of powers (executive, legislative and judiciary) and the peaceful transfer of power. These checks and balances are effective only if enforceable by other political actors with sufficient independence from government and sufficient leverage to intervene. These constraints prevent any branch of government from acting with impunity or becoming unaccountable to citizens. Hence, they can improve governmental outcomes and increase the impartiality of policymaking and implementation.

When Malawi made the transition from a one-party state to a multiparty democracy in 1994, the Constitution enshrined a formal separation of powers between the executive, legislature and judiciary, a clear and positive step forward. However, in practice, a balance of power lies very much with the president. This insufficiency in executive constraints impedes the nation's progress towards becoming a middle-income country, as it reduces the opportunity for democratic contribution to the nation's government, whether at a national or local level. Therefore, it is more difficult for policies to be well-targeted towards local needs, and all financial and organisational onus is placed on the capital, limiting efficiency.

STRONG PRESIDENTIAL POWER

The political system in Malawi confers wide discretionary powers and control of financial resources, upon the directly elected executive president.⁶ The executive has often overstepped its constitutional restraints and encroached on the domain of other branches of government.⁷

For example, the financial resources dedicated to the meeting of the National Assembly are held by the executive, essentially meaning they have ultimate power over whether the house is to sit or the session is to be postponed. Recent examples of the executive's dominance relate to its reluctance to set a commencement date for several bills, years after they were passed by the National Assembly.⁸

This concentration of power generates incentives to seek proximity to government power and resources, giving governance an edge of self-advancement rather than emphasising public service. It has been suggested that informal forces sometimes sway government decisions in areas such as appointments to key government positions or removal from key government offices.⁹

His Excellency President Dr Lazarus Chakwera promised to roll back some of the powers of the presidency. However, there has been no concrete movement toward actualizing this promise.¹⁰

WEAK LEGISLATIVE CONSTRAINTS ON THE EXECUTIVE

In practical terms, it is very challenging for the legislature to exert its power independently of the executive. The National Assembly cannot remove the president through a vote of no confidence, as in a typical parliamentary system of governance. It is only possible through an elaborate procedure of impeachment. The National Assembly is prone to partisan manoeuvring, and its ability to hold the executive to account is hampered by a weak party system.



GOVERNMENT'S VISION AND PLANS

The MW2063 seeks to ensure that public officials at all levels, including those at decision-making levels, are taking responsibility for their actions. The Vision highlights the need for decision-making to be transparent. Finally, if maladministration is detected, sanctions need to be implemented on the public officials in question.

Adding detail to the Vision, the MIP-1 aims to protect budgetary allocation of governance and accountability institutions to enhance operational independence that could in turn help to enhance executive constraints.



PRIORITIES FOR TRANSFORMATION

Important reforms need to happen to ensure effective executive constraints, including legal mechanisms to constrain executive power in the case of misconduct. Additionally, there is a need to effectively guarantee budgetary and administrative autonomy of the National Assembly and the Anti-Corruption Bureau to ensure accountability, transparency, impartiality, and a checks-and-balances system in Malawi.

- **Increase the National Assembly's legislative and executive oversight capacity.**
- **Establish systems and an independent body that allows the National Assembly to function without budgetary and administrative control from the executive.** Ensure that the body is not influenced by the executive, allowing fair budget allocation. That will ensure impartiality between the two bodies and allow the National Assembly to be more representative of the population. This corresponds to the MIP-1 priorities of protecting budgetary allocation of governance and accountability institutions to enhance operational independence, as well as ensuring independence of institutions to inhibit political influence.
- **Enhance the capacity and independence of the judiciary** to investigate and prosecute public servants and government representatives from the three branches of power.
- **Strengthen legal mechanisms to constrain executive power in the case of misconduct,** including mechanisms to hold the President and Vice President accountable for any wrongdoings when found guilty by the High Court or the Anti-Corruption Bureau.

Political Accountability (79th)

The authority to govern is derived from the people as a collective. Accountability ensures that the state acts on behalf of the people. Consent and consensus support peace, stability, social and economic development. Governments should be responsive to the needs and priorities of their citizens and held accountable for the decisions they make. This accountability to citizen demands can help the state to focus on the public interest. Economic and social development often creates new groups that need representation in political parties. An accountable political system will reflect this through both formal and informal means.

In Malawi there is a strong consensus in support of democracy, but a much weaker level of democracy itself. This is tied to the fact that the party-political structure has been unstable and party-citizen linkages tend to be clientelist and particularistic, not programmatic.

ELECTORAL SYSTEM

General elections – including Presidential and National Assembly – have been held at regular five-year intervals since 1994, although local elections have been less consistent. However, the Malawi Electoral Commission has been subject to harsh criticism over the years and was deemed to have performed unacceptably in the management of the 2019 elections.¹¹ Despite the Electoral Commission being appointment by the President based on nominations by parties in the National Assembly, it is composed in a partisan manner and the political leanings of the commissioners have tended to undermine their impartiality. Electoral success depends heavily on networks of clientelism and patrimonialism, not on specific and comprehensive election manifestoes, resulting in an electorate that is volatile and uncommitted.

The competitive-clientelist political system is characterized by unstable coalitions, the appeal to regional and ethnic identity, and the use of rents and public resources to buy loyalty and remain in power.¹² Tribal cultural associations have been used as political machines to bring out the vote and reward loyalists, leading to widely reported accusations of nepotism and ethnic-based appointments.¹³

The re-organized 2020 presidential election served to bring the country together and delivered what is largely considered a more legitimate government compared to the administration that was ushered in during the contested, and subsequently annulled, 2019 presidential election.¹⁴

POLITICAL PARTIES

In 1994, there had been little basis for establishing political parties, as the country transitioned from being a one-party state to a multiparty democracy. Since then, parties have often proved fluid and transient, and they do not provide a framework for political and programmatic continuity between election cycles. For example, the number of registered political parties grew from 37 to 47 between the 2009 and 2014 elections alone.¹⁵ Furthermore, by 2014 only one of the three parties with the largest share of the vote in the 1999 elections had remained a significant political force.¹⁶

Political parties are mostly led by members of a small elite cadre and revolve around strong individuals rather than substantive programs and long-term views for the country's development.¹⁷ The underlying absence of commitment to manifestos inhibits political accountability, both between individual MPs and their constituents, but also within each party's infrastructure itself. This is shown through the lack of enforcement of the ban on MPs 'crossing the floor' mid-term to align with the party in government,¹⁸ with party ties often weakening at the ascendancy of a new party. This is perhaps most clearly demonstrated by the fact that two consecutive former presidents – President Prof. Bingu wa Mutharika and President Dr. Joyce Banda – were able to create new parties whilst in office and attract a significant number of defections (60 in the case of President Mutharika) as MPs sought to gain personal proximity to power.¹⁹

However, most recently, a Political Parties (Registration and Regulation) Act 2022 was passed in an attempt to limit the number of newly emerging parties and ensuring that the parties have a program that benefits the country. Under the new policy, to register, a political party needs to submit its manifesto to the National Planning Commission for certification as aligned to the national development agenda.²⁰ The existing parties will also need to submit their manifesto to the NPC and ensure their alignment to the national development needs.

PARTY FINANCING

The use of political parties to access financial resources is also facilitated by party financing arrangements. Political parties are not mandated by law to publish the sources of their funds,²¹ with many allegations of corrupt practices underlying party funding. High costs of campaigns are often cited as the cause behind this; however, there is also evidence of incumbent parties raising campaign running costs intentionally to benefit themselves, given their greater access to public resources. Furthermore, many parties intentionally run high-cost primaries to attract candidates with high clientelist potential, securing further finance for the party in the future.²²

CIVIC ACCOUNTABILITY

Civil society, the church, the judiciary, and media have all played critical roles at key points to prevent or demand a response to the abuse of political power. For example, the Church was a principal force in the fight for multi-party democracy.²³ Independent, private media – including digital – have contributed to a pluralistic political discourse. However, state-owned media have persistently favoured the incumbent government during election campaigns – even though they have a legal

duty to provide balanced coverage.²⁴ Increased access to internet and widespread urbanization are contributing to greater civic awareness among the public, with positive prospects for increasing the demand for responsiveness. However, for the predominantly poor and under-educated rural population, the capacity for collective action has remained weak.²⁵



GOVERNMENT'S VISION AND PLANS

The MW2063 prioritises political accountability at all levels. It stresses the need for consultations with all key stakeholders, including civil society and interest groups. It further seeks to engage marginalized groups in decision-making, including the youth, women, and people with disabilities. Finally, MW2063 aims to see a Malawi where all public officials are made accountable for their actions and sanctioned for any misconduct. Meanwhile, the MIP-1 addresses political accountability from both administrative and financial perspectives. At the administrative level, MIP-1 suggests reinforcing decentralised mechanisms for inclusive citizen engagement, particularly for women, youth, and persons with disabilities. From the financial side, the MIP-1 seeks to improve accountability in public procurement, as well as to promote transparency and accountability in the management of public resources.



PRIORITIES FOR TRANSFORMATION

Delivering MW2063 will require a greater level of political accountability from the parties, key public servants, and high-ranking officers, along with appropriate electoral and party reforms. To regain institutional trust, regenerate social trust, and legitimize the political system, the country needs to move away from the personalistic party system towards a more programme-based party structure with greater political participation from rural communities.

- **Undertake political party reform, led by the executive.** Enact regulations and laws that support the role of political parties to channel the voice of citizens and ensure accountability to them.
- **Strengthen political infrastructure to advance a more programme-based party system,** and greater political participation from rural interests, rather than continuing the current personalistic party approach.
- **Introduce campaign financing declarations reform.** Transparency around party and campaign financing is crucial to regain public trust and to ensure that there are not vested interests in decision making related to campaign funds.
- **Strengthen the independence and capacity of the Electoral Commission to act and oversee the political ecosystem without vested interests.** Strengthen the independence and capacity of the Electoral Commission – to support the electoral processes along with overseeing the party system.

Rule of Law (52nd)

The rule of law serves to constrain the powers of the state, preventing it from catering to officials' interests and protecting civil liberties. The rule of law must apply equally to all, including the state and the most powerful people. The judicial system should have integrity, be independent, and be free from corruption or undue influence. The consistent application of the rule of law removes a substantial barrier to foreign investment, as it guarantees that foreign assets and capital will not be subject to expropriation by government. It also ensures that business contracts are enforced in an unbiased, transparent, and predictable manner and establishes a level playing field between the private and the state sectors.

The rule of law is comparatively strong in Malawi, with a particularly high-performing judiciary, as exemplified by their ruling on the 2019 presidential election.²⁶ However, the administration of justice is inconsistent, with incomplete access and overlapping and potentially conflicting jurisdictions.

JUDICIAL INDEPENDENCE

The judiciary is constitutionally independent, with both the President and the government subject to the law. Generally, the judiciary has been willing to review executive decisions for compliance with the constitution and other laws, and, in appropriate instances, overturn government actions.²⁷

Malawi's rule of law has made substantial progress at a national level, especially in terms of judicial independence following the High Court's annulment of the 2019 'Tipp-ex' election as well as the Supreme Court's upholding of the ruling.²⁸ The recent investigations into corruption of officials at very high levels present another example.

However, the judiciary has struggled to consistently maintain its independence. For example, politicians have shopped around for sympathetic judges willing to issue particular injunctions and stay orders. At the lower magistrate court level, corruption is somewhat more prevalent than it is at higher levels.²⁹

ACCESS TO JUSTICE

Judicial presence is a further demonstration of the urban-rural divide in Malawi – with patchy rural access to Magistrate Courts for geographical and financial reasons. As with the political system, judicial structures become more fractured and unclear at a local level. Below the Supreme Court and various divisions of the High Court, which operate in Malawi's urban centres, there are Magistrate Courts and Traditional Courts designed to function in rural Districts.³⁰ However, lacking access to Magistrate Courts through expense of legal fees or geographical distance means that once again this system often fails to reach citizens.

EFFICIENCY OF COURTS

The efficiency of Malawi's system of dispute settlement is weak. This is not only a manifestation of the geographical challenges, but also of the issues with financing of public services such as criminal investigation and policing.

The judicial landscape is further complicated by conflict between Magistrate Courts and Traditional Courts, where boundaries of their respective jurisdiction are disputed and both claim their constitutional right to the provision of justice, especially with respect to land law.³¹ The designation of 'customary spaces' under solely 'customary law' and Traditional Authorities' jurisdiction could have significant ramifications for whether a universal or fragmented rule of law system prevails in rural districts, which, as mentioned above, houses most of the Malawian population.

The presence of multiple levels of conflicting legal structures presents a threat to economic development, as different forms of legal authority and legal codes prevailing in 'public' or 'customary' locations provides an unclear framework of protections and law enforcement for entrepreneurs, especially if land status is changed after an enterprise has committed resources in a location.



GOVERNMENT'S VISION AND PLANS

The MW2063 recognizes the need to strictly adhere to the rule of law to ensure effectiveness and accountability of the Government. Under the Vision, the rule of law shall see all people equally, regardless of their class, tribe, political affiliation or any other status. The rule of law shall be respected without impunity, be independent and be delivered to the citizens quickly.³²

The MIP-1 lists multiple initiatives aimed at strengthening the rule of law that address both central and local levels. At the central level, the Plan suggests constructing offices for governance institutions, including the construction of Judicial Complex in Lilongwe. It outlines the goal to reinforce the independence of courts by first protecting budgetary allocation of governance and accountability institutions, and second by enforcing laws that prohibit political influence.

Meanwhile, at the local level, the MIP-1 promises to decentralise district levels of all public offices of governance oversight institutions (such as ACB, Ombudsman, Office of the Director of Public Officers' Declarations).



PRIORITIES FOR TRANSFORMATION

For the rule of law to be preminent, judicial independence needs to be enhanced and justice needs to be accessible to all – especially the disadvantaged groups in which case for traditional and magistrate courts can reduce fees. Market competition for legal representation can increased with investment in and legal education. In addition to accessibility, it is critical to ensure the impartiality of the legal system by cultivating the independence of the judiciary, beginning with transparent and merit-based mechanisms to appoint judges.

- **Enhance the independence of the judiciary.** Develop transparent mechanism to ensure the independent appointment of impartial judges, based on professional qualification and integrity. Ensure security of tenure, remuneration, and pension.
- **Ensure the integrity of the judiciary** with clear processes for disqualification and removal from office and broader institutional conditions.
- **Unify differing forms of legal codes and geographical jurisdictions.** Ensure that legal codes are unified in both urban and rural areas, as well as in between different regions and districts. This will ensure fair access to the legal system, without any discrimination
- **Reduce fees for Magistrate Courts and Traditional Courts.**
- **Invest in legal education to increase market competition** and thus reduce legal costs to make the legal system more accessible to Malawians, especially those in rural areas, youth, women, and other marginalized groups.

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Credit: MtCurado

State Capacity

A government's ability to deliver for its people is integral to persuading them of its utility, and thus to upholding the social contract. Successful development outcomes are reliant on the willingness and ability of rulers to govern competently in service of the public interest. Effective administration requires having the necessary competence to identify what is needed as well as creating and maintaining an effective mechanism of delivery to ensure that key public services reach the public as intended. Governing competently requires prioritising national development above all other concerns and the need to build an adequate administration.

In recent years, Malawi has experienced a deteriorating public service focussed on short term and populist policies instead of long-term investments. It has experienced large-scale public corruption scandals. Reforms tend to gain traction primarily in the wake of crises when the restoration of donor support is paramount, or when political consolidation requires performance legitimacy. The ability to reform needs to be more consistent and internally driven.

Government Integrity (106th)

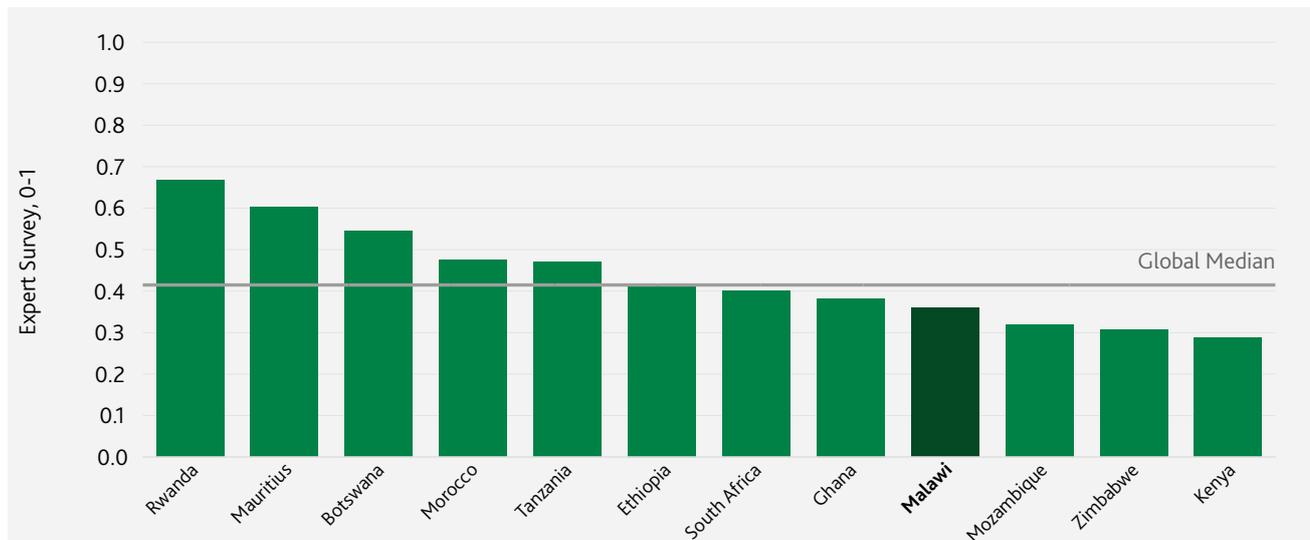
Malawi has had longstanding issues with corruption at all levels of government, the public sector and political life. Frequent corruption through diversion of resources for personal gain, or to kinship networks or asking for bribes or informal payments takes place at central and local levels of government, in all public institutions, and across all traditional authorities.¹

Corruption has been cited in surveys of enterprises as a major obstacle to doing business. One in five interactions with the public sector are reported to involve bribes, with the highest incidents of bribery from obtaining construction permits, import licenses and electricity connections—three areas that are key for successful business entry.² The availability of basic public services is compromised by general government inefficiency and corruption at all levels.³

High-level examples of corruption include the 2013 'Cashgate' scandal (US\$32 million in government funds were misappropriated between April and September 2013),⁴ the K1 billion police scandal, and the current investigation into the conduct of the Vice President.⁵ These scandals have attracted intense media attention but are often indicators of a deeper systemic issue. The use of public procurement as a vehicle for rent seeking and corruption is what underlay the 2013 'Cashgate' and the 2016 'Maizagate' scandals.⁶

At times government responses have compounded these issues, albeit indirectly. For example, following the 'Cashgate' scandal in 2013, many donors withdrew funding to the Malawian Government due to the allegations and actions.⁷ This led to a tightening and reduction of publication and transparency of the government policy and budgetary documentation, in an attempt to avoid scrutiny.⁸ Subsequently, the government committed to rebuilding trust which included strengthening budget control. A new Public Procurement and Disposal of Assets law was enacted in August 2017, establishing a new independent authority responsible for the regulation, monitoring and oversight of public procurement and disposal of assets.⁹

FIGURE 17: GOVERNMENT OFFICIALS IN THE EXECUTIVE BRANCH DO NOT USE PUBLIC OFFICE FOR PRIVATE GAIN



Source: World Justice Project.

ANTI-CORRUPTION BODIES

Even though the National Audit Office, the Anti-Corruption Bureau (ACB) and the Judiciary have made progress in uncovering and prosecuting corruption cases arising from these and other instances, these institutions suffer from lack of resources, under-funding and reportedly political interference.¹⁰ The ACB is a body which holds great promise but faces challenges in eradicating public sector corruption. The ACB is sometimes limited by low funding and vulnerability to attack by powerful political and government personnel wishing to protect their personal interests.¹¹ For example, the director of the ACB is widely perceived to be a political appointee. Nonetheless, recently the ACB director has asserted himself after being given greater leeway by the executive.¹²

The Director of Public Prosecutions is also constrained when trying to prosecute office holders, especially those in senior positions, due to potential political repercussion. Cases can be prosecuted slowly or without vigour. Examples include the indictment of former President Muluzi, whose case is still pending, or that of a former minister of agriculture who was accused of influencing the award of a tender to purchase maize from abroad. The independence of the Director is compromised by the risk of being removed from office by the President.¹³

ASSETS DECLARATION

On the other hand, Malawi has an Asset Declaration Law that is overseen by the Office of the Director of Public Officers' Declaration (ODPOD), an independent governance public institution established to promote public confidence in the public service.¹⁴ It works together with the ACB and the National Assembly to ensure effective implementation of the law. During the last financial year, 16,000 public officers declared their assets, and the number is expected to increase as ODPOD is planning to introduce online service for the declarations.¹⁵

REFORM AGENDA

Malawi stands at a key moment of opportunity to address corruption. Following the change of government in June 2020, there was a renewed drive to empower the ACB to investigate and prosecute more high-profile cases of corruption involving senior officials from the former DPP government. In the revised 2020/2021 national budget, the ACB was allocated the full amount of its budget request. The ACB has convicted some key former officials¹⁶ and is currently overseeing many high-level investigations. The reinstatement of its toll-free corruption reporting hotline is also a positive step in trying to engage citizens in reporting corruption cases across the country.¹⁷

The current President is showing real commitment and tangible political will to address these issues, having dismissed several cabinet members in January 2022, and now endorsing the investigation of the Vice President. Whilst his ability to fully eradicate corruption is inhibited by the institutional precedents outlined above, his commitment to investigating and reprimanding corruption even when at cost to his own government seems to demonstrate a watershed in Malawian politics. Hence, there is tangible progress, but Malawi has many further steps to take to establish full government integrity.



GOVERNMENT'S VISION AND PLANS

The MW2063 asserts the importance of honesty and integrity as fundamental values. It underlines the need to tackle corruption, including that of unjust wealth concentration which harms Malawi's development efforts. The Vision further highlights the need to tackle the cadres and syndicates that influence the Government, simultaneously ensuring protection for whistle-blowers. Finally, it discusses the need for effective oversight institutions.

Additionally, the MIP-1 focusses on incorporating public input for political accountability. The plan proposes instituting a citizen-Government forum that will have both the conventional and digital platforms, as well as regulating user satisfactory surveys. Moreover, the plan aspires to increase publicly available information with a public expenditure tracking system, and to publicise annual Key Performance Indicators (KPI) for Cabinet Ministers, heads of MDAs and statutory bodies. Lastly, the plan suggests introducing public hearings on the performance of public servants.



PRIORITIES FOR TRANSFORMATION

To ensure the integrity of the Government, there needs to be a focus on mindset shift towards a zero-tolerance policy for corruption within all government bodies, whereby the Government works for the benefit of all Malawians, instead of party or private gains. Additionally, the Government needs to ensure ACB's independence, and stronger mandate, including increased funding. The people should engage with ACB by using the anti-corruption hotline, but to do that, the Government will also need to ensure whistle-blower protection.

- **Ensure ACB's independence.** It is essential for the Government to ensure ACB's independence from all the government branches and strengthen its mandate. This can be done by increasing ACB's funding.
- **Increase public awareness about the ACB.** The Government needs to further increase public awareness about ACB by publicising the ACB corruption hotline to reduce normalisation of corrupt practices and to encourage citizen participation in countering corruption.
- **As planned under MIP-1, introduce a whistle-blower protection law** to encourage citizen participation without any backlash.
- **Engineer corruption out of the system.** The Government needs to eliminate discretionary decision-making and burdensome administrative procedures that support bribery, make most services automated and delivered by e-government services (e.g., natural resources, large procurement processes, revenue collection, licensing, and administrative procedures).
- **Strengthen anti-corruption measures.** All government branches need to implement a zero-tolerance policy for corruption, whereby government works for the benefit of all Malawians instead of party or private gains. Ensure that all government departments have a clear strategy to be corruption-free within a short timeline, including the establishment of a cap for gifts and entertainment from corporate firms and other interested parties. Formalise clear procedural guidance on government anticorruption policies.
- **Empower independent courts to fully investigate corruption in government,** removing immunities when justified. Investigations should be accompanied by swift internal audits by the auditor general and anti-corruption commission.

Government Effectiveness (91st)

For a government to be able to fulfil its functions for the benefit of society, it requires considerable capacity. A functioning and meritocratic civil service is one of the key institutional foundations of successful nations. It requires personnel capable of discharging complex administrative and managerial functions, managers able to oversee their training and development and a remuneration structure to disincentive corruption.

Malawi's policymaking environment produces many plans and ideas which envision the country's development and economic growth. However, these are often motivated by donor expectations rather than from within the Government. Without commitment mechanisms and incentives, they are not effective in shaping behaviour.¹⁸ Hence, these policies most often do not reach full implementation, meaning services and reforms often fail to sustainably impact the lives of citizens. Behind this are many issues such as corruption and donor interference.

Malawi's development vision and implementation plans outline goals and sectoral focuses for the nation's future, but often lack specificity and crucial data in translating these visions into reality. For example, whilst many sectors in the MIP-1 document have extensive plans for expansion, detailed baselines of their status – and therefore the ability to tangibly track progress – are still absent, preventing meaningful, tangible policy implementation and monitoring in these areas.

However, the principal cause seems to lie within the public sector structure itself, and its corresponding dysfunctionalities. Informal rules of the game responding to political economy imperatives continue to shape behaviour and function.¹⁹ The 2013 'Cashgate' scandal revealed that significant investment in public financial management (PFM) reforms had little impact on actual behaviour.²⁰

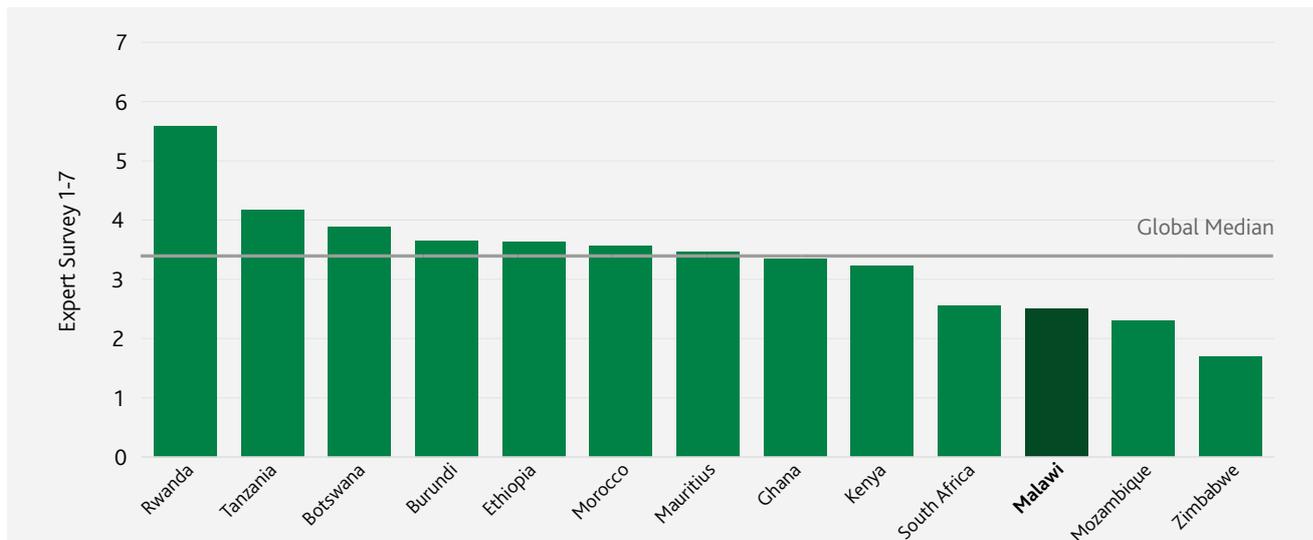
Three main challenges are hindering the effectiveness of government policies and its strategic plans. First, there is a lack of theory of change and robust identification of the underlying causes of the problems being addressed. Secondly, policies and programs do not follow a purposeful incremental approach. Either this is completely absent, or if it is present, it tends not to be proportional to the magnitude of the underlying problems. Third, there is a lack of public sector integration and coordination, along with clear lines of responsibility and reporting, between central and local levels of government.

PUBLIC SECTOR CAPABILITY

Since the democratic transition, civil service appointments have often been based on clientelist or kinship ties, or political proximity rather than merit.²¹ The problem has been apparent for many years, and the 2015 public sector reform strategy Making Malawi Work acknowledged the sharp deterioration of the public service which had once been considered among the best performing in the region.²² The strategy cited several issues that led to its deterioration: politicisation of the recruitment process, favouritism and nepotism, unfair allocation of training and benefits, inability to advance in one's career due to absent connections, and an atmosphere of impunity for wrongdoing followed by a demoralised and underperforming service.²³ Instead of developing professional bureaucrats, the system rewarded external 'patronage' appointments. Consequently, many civil servants felt that their career was dependent on their loyalty, which could be assured by 'keeping their head down' rather than striving for high performance.²⁴

Basic administrative structures exist throughout the country although their effectiveness is limited, largely due to poor funding and inadequate staffing.²⁵ The provision of water, electricity, health and educational facilities is very uneven and erratic, and in some areas nearly non-existent. The public sector's inability to provide adequate services and effectively implement policies and projects have hindered the creation of a conducive environment for other sectors that in turn cannot contribute to the growth and socio-economic development in Malawi.²⁶ The multiple major planned reforms have had little success. Although the current the state of Malawi's public sector institutions has evolved, the underlying function of the state has not changed significantly.²⁷

FIGURE 18: EFFICIENCY OF GOVERNMENT SPENDING



Source: World Economic Forum.

FISCAL MANAGEMENT

Malawi has produced multiple development plans, but there is little connection between planning and budgeting; the plans do not account for budget limitations.²⁸ The issues with plan implementation were furthered by high dependency on donor funding for operational costs and the need to revise the plan due to periodic donor withdrawal.²⁹ Revenue estimations have also often been based on unrealistic growth assumptions.³⁰

The Malawi Revenue Authority is present throughout the country but its efficiency in tax collection is questionable.³¹ The RBM has often financed excess government deficits when needed, which basically took the pressure off the executive to stay within prudent budgetary limits.³²

Malawi employs a Medium-Term Expenditure Framework, but not efficiently.³³ Budgets have been impaired by overruns in the run-up to elections, unproductive recurrent expenditures such as travel, unbudgeted recruitment exercises, and payroll irregularities.³⁴ Moreover, regular public wage increases are often postponed, and then done impromptu, so fiscal plans are disrupted.³⁵ In addition, the increased size of the public service sector has crowded-out spending on non-wage items that are necessary for service delivery.³⁶ Finally, the public bill capping wages has led to recruitment freezes, causing high vacancy rates and impeding service delivery.³⁷

COVID-19 has also significantly affected revenue generation by the government and has put pressure on resource allocation. Additionally, the government has had to allocate more resources to the fight against the pandemic, reducing expenditure on other key services.³⁸



GOVERNMENT'S VISION AND PLANS

The MW2063 envisions efficient governance systems, staffed with professional and disciplined public servants. That will be facilitated by meritocratic recruitment processes free from political interference. Additionally, the Vision sees the need to increase the tax base and ensure that all governance institutions, including those at a local level, are well-financed. Furthermore, the Vision calls for audit as well as citizen oversight. Finally, the Vision is determined to invest in public sector personnel's career development and prioritizes various training and skill development initiatives.

The MIP-1 broadens the Vision by highlighting the need to establish a reward system for good performance and a penalty system for under-performance among public servants. Additionally, it emphasises the need to realign public service functions based on the skills of the staff. Finally, MIP-1 would ensure the trustworthiness of public servants by enforcing review systems.



PRIORITIES FOR TRANSFORMATION

The Government needs to professionalise the administrative leadership of its bodies to ensure integrity and skill-based training that would lead to improved provision of public goods and services. Furthermore, the Government needs to focus on a citizen-driven service delivery that would reach all Malawians. This transformation of state capacity should start by developing islands of strength that can act as exemplars for the rest of government.

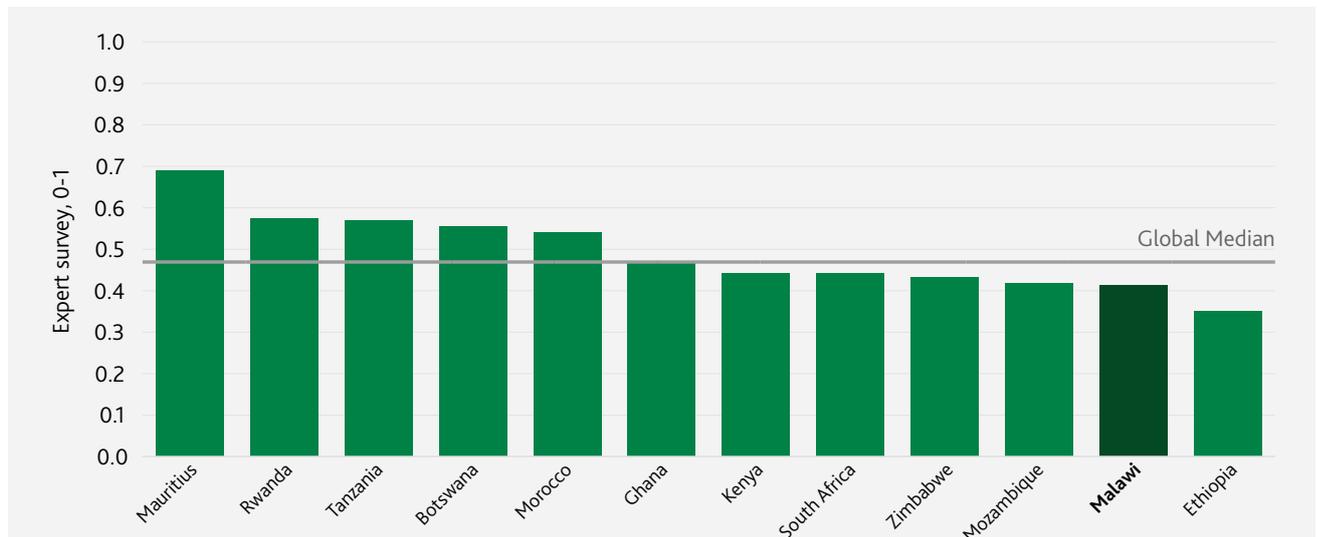
- **Professionalise administrative leadership.** The Government needs to establish a merit-based process for appointing leaders of departments and agencies. Appointments should be based on proven integrity, focus on the public good and public service and professional experience and competence instead of political affiliations. Additionally, all high-level appointments should be carefully vetted. Finally, limitations need to be placed on the ability for government to dismiss civil service staff upon entering office.
- **Improve meritocratic HR hiring systems** (such as aptitude tests) for public sector and civil service recruitment, in that way enforcing anti-nepotist and anti-clientelist approach.
- **Invigorate civil service.** The Government needs to inject greater entrepreneurial drive into the civil service and public sector by conducting workshops, for example, between leading entrepreneurs and government departments working in the same or similar field.
- **Build state capacity by focussing on one important function at the time.** Instead of trying to reform everything at once, build islands of strength at each institution.



Regulatory Quality (136th)

Regulatory Quality in Malawi is weak and reflects the many areas with fundamental problems, such as low transparency and structural inefficiency.

FIGURE 19: ENFORCEMENT OF REGULATIONS



Source: World Justice Project

TRANSPARENCY

Malawi exhibits one of the weakest performances in the world for publicising laws and government data, as well as budget transparency. There is no central platform where government data, policies and plans are publicly available, which is indicative of a structural transparency challenge. Many Ministerial and Department websites are undeveloped or do not yet exist.³⁹ Much basic information and guidance to citizens is incredibly difficult to locate. In the absence of such structures, improving citizen access to information and government transparency proves very challenging. Beyond the structural challenges, further deterioration in the levels of data publication have often followed the emergence of large scandals so as to mediate loss from donor withdrawals.

ADMINISTRATIVE PERFORMANCE

The administrative structures of the state are currently underdeveloped, resulting in inconsistent enforcement of regulations and many delays in administrative proceedings. For example, many citizens lack formal registration or identification documents, and as a result have been unable to access finance, trade or travel abroad. Recently, the government launched an ID card programme with the assistance of the UNDP.⁴⁰ Whilst this was a concrete positive step with great potential, the aforementioned structural inefficiencies have manifested in several challenges with the system, including a backlog in renewals due to machinery malfunctioning, the brittle nature of the cards themselves, and IT systems struggling to cope with demand.⁴¹ Another relevant challenge was the expiration date of the ID cards; instead of a 10-year validity period, the cards expired several years earlier, creating more problems than gains from the program.

These inefficiencies and the lack of clear access points for information impede the nation's development. Without an understanding of government policies, procedures and services, it is very challenging for citizens to embark on entrepreneurial paths or trade externally. Furthermore, the complications in finding different documentation for licenses from various institutions, as well as long delays and expensive renewals (as is the case with national ID cards), constrain the ability of citizens to pursue broad-based wealth creation.



GOVERNMENT'S VISION AND PLANS

The MW2063 promotes openness and transparency in government processes. It aims at ensuring that the people have access to information regarding the Government's decisions and status of public policy implementation. It envisions the use of new technologies such as digital platforms.

The MIP-1 intends to build the institutional, technical, and human resource capacity in the institutions that will be coordinating public sector performance enhancement. Additionally, it aims to review the Malawi Public Service Regulations act, as well as the Public Service Act. Furthermore, the Plan highlights the need to publicize annual KPIs for Cabinet Ministers and heads of MDAs as well as track public expenditures. Finally, the MIP-1 aims to digitize the documentation, procurement, and operations of all relevant Government services to give access to the information to the public.



PRIORITIES FOR TRANSFORMATION

To create a greater connection to – and trust from – Malawians, the Government needs to increase accessibility to the government policies and decisions. This should be done through means that make government information, roles, and accountabilities visible for Malawians. Therefore, the Government should start by making budget, expenditures and audits public, including clear mandates of each institution. This can be accompanied by the creation of central platforms, websites and repositories where each Ministry publishes all policies and bills, as well as mobile phone and radio campaigns that would engage the part of the population without access to internet.

- **Create a central online public information platform** where all government policies, documentation, bills and draft bills, as well budgetary documentation are published and permanently retained with free public access. A website should be developed for each ministry and government department. Such a platform should increase transparency, accountability and accessibility.
- **Develop broadcast campaigns via radio** with reminders of key elections, public and civic education campaigns, along with main announcements about reforms and other relevant policies and bills.

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Decentralisation

Decentralisation has the potential to improve service delivery in Malawi, which in turn could further Malawi's economic development. However, in its current form, decentralisation exacerbates existing power struggles, contributes to the inefficient use of Malawi's limited resources, creates disparities between urban and rural growth, and alienates Malawian citizens from civic engagement.

A process of decentralization was launched in 1998 through the Local Government Act with the aim of diffusing overly centralised power and bringing services closer to citizens. These reforms were designed to empower districts to become the centres for local service delivery and governance, providing a vehicle to connect policy with most of the population and allow local knowledge to inform policymaking.

There are 28 rural councils and seven city/municipal/town councils, with responsibility for 17 functions, including primary schools, health facilities, agriculture extension services, provision and maintenance of basic water supplies and local roads. This system has been only partially rolled out. The devolution of functions and decision-making powers from the central level to subnational entities, whether elected or appointed, has been asymmetric, slow, fragmented, incoherent and even, at times, reversed.¹ There is also a wide discrepancy between the scope of devolved tasks and commensurate funding for delivery and conflicting channels of information and accountability. Finally, there is an absence of fiscal decentralisation and minimum administrative decentralisation. This leaves a government structure in which the onus of service delivery lies with local authorities, but decision-making power, fiscal resources, public servants' selection, and policy remain in the hands of the central government. This situation tends to breed inefficiency, corruption and abuse of office.²

LOCAL ACCOUNTABILITY

Power remains concentrated at the central level, incapacitating the effectiveness of decentralisation. The lack of constraints on the central executive can be seen in delays of local elections, central government appointments of District Executive Committees, and poor or non-existent administrative and fiscal decentralisation.

These complexities are compounded at the local level by the nature of Malawi's tripartite elections, meaning councillors and MPs are elected simultaneously.³ The campaign period for councillors can be overshadowed by campaigns of local MPs. The voting power of MPs on Councils further undercuts councillors' ability to act independently. Notwithstanding the constitutional mandate to hold local elections every five years, the inconsistency in local elections undermines bottom-up political accountability.⁴ Many citizens are unaware of the role of councillors or the significance of having elected local government.

With councillors marginalised, the bodies operating beneath them are often left with little voice, meaning that Area and Village Development Committees (ADCs and VDCs) are unable to fulfil their intended role of providing bottom-up accountability and policy direction. Given that rural districts are home to 83% of Malawi's population, this estranges a huge number of citizens from the political system. Furthermore, traditional authorities are led by chiefs who are not elected but appointed and receive a stipend from the government, in effect creating a rival source of authority to councils.⁵

ASSIGNMENT OF FUNCTIONS

For decentralisation to work, the responsibilities assigned to different government levels should be clearly defined. In Malawi, the responsibilities for decentralisation, regulating, implementing, and monitoring across all levels of government are moderately clear. Malawi's form of decentralisation is supposed to be devolution, a variant of decentralisation that prioritises administrative autonomy and is therefore theorised to be quite strong and enduring.⁶ Table 2 delineates the functions that are supposed to be devolved to local government per the 1998 Local Government Act. Devolution in Malawi as codified in policy would entail devolving functions, human resources management and fiscal responsibility.

TABLE 2: FUNCTIONS DEVOLVED BY THE 1998 LOCAL GOVERNMENT ACT⁷

Nature of services	Key functions devolved to local government councils
Education services	Nursery and kindergarten; primary schools; and distance education centres.
Medical and health services	health centres, dispensaries, maternity clinics and health posts, control of communicable diseases, health education, and environmental sanitation.
Agriculture, livestock and irrigation	Livestock extension, control of livestock diseases, land husbandry, crop husbandry, food and nutrition, and construction, rehabilitation of small dams.
Environmental services	Burial services refuse disposal, sewerage removal and disposal, environmental reclamation, and environmental education.
Roads and street services	District roads, township roads, city roads; estate roads (if done to acceptable standards), street naming, issuing of road permits; and issuing of drivers' licences.
Community development	Women in development, community development, street children and orphans; youth and cultural affairs, district information services.
Public amenities	Sports stadiums, community halls, recreational parks and playgrounds, and public conveniences.
Water services	The provision and maintenance of water supplies including boreholes, piped water projects, protected wells, distribution of water, and gravity fed piped water schemes.
Forestry	Establishment of wood lots and forests, forestry surveys, inventory of forests, Forestry extension, and Forest management.
Fisheries	Licensing and inspection of fishign gear i.e. nets and boats, fisheries extension; and community participation in fish management.

Source: Chiweza 2016, Table 6.1

However, little has been achieved in terms of devolution of decision-making power from the central level to local government structures. In practice, Malawi's form of decentralisation is closer to deconcentration, the most limited and weakest type of decentralisation in which ministries delegate representatives to local governments and these delegates are responsible for ministry activities in that unit.⁸

Many ministries appear resistant to devolution. As of 2014, 15 ministries had devolved some functions, though only the Ministry of Lands, Housing, and Urban Development had undertaken a for-

mal process to devolve, and only the Ministries of Education, Health, and Agriculture had devolved sector funding proportional to devolved functions.⁹ The 2022-2023 Local Authority Budget indicates only an additional three ministries (for a total of 18) have devolved.¹⁰ In fact, line ministries resist devolving their powers and influence in service delivery to Councils, preventing the latter from fulfilling their mandate.¹¹ For example, the Ministry of Education, one of the more devolved sectors in Malawi,¹² nonetheless retains authority for human resources management at the central level, particularly (but not exclusively) for secondary education.¹³

FUNDING OF FUNCTIONS

At the local level, access to finance is not consistent with functional responsibilities. Central government has extensive discretion in allocations to local authorities, and fiscal equalisation is not in operation. While the law benchmarks a 5% fiscal decentralisation, inter-government transfers to local councils have repeatedly not met the target.¹⁴

There is also a significant funding discrepancy between urban city councils compared to rural district councils. Funding levels and sources differ across city, municipality, and district councils. The average city council has a significantly larger development budget (MK 5.5 billion) and locally generated revenue base (MK 5.2 billion).¹⁵ The average municipality receives the lowest amount from the central government (MK 68 million) and has only a slightly larger locally generated revenue base (MK 253 million).¹⁶ The average district council receives more in Other Recurrent Transaction (ORT) transfers from the central government (MK 1.4 billion), but far less in development funds (MK 863 million).¹⁷ The average district receives only 214 million kwacha per year in locally generated revenue. These discrepancies in resource bases translate into discrepancies in service delivery and economic development trajectories, with comparatively better services in urban than in rural areas.¹⁸

LOCAL GOVERNMENT FISCAL AUTONOMY

The “traps” of decentralisation, in other words, corruption, elite capture, accountability failures, and administrative proliferation, presumably happen when administrative decentralisation is not accompanied by fiscal decentralisation and when the political will to support decentralisation at the central government level is absent.¹⁹ Specifically, financing decentralisation with locally generated revenue leads to more efficient government and higher quality public service provision than does financing decentralisation purely with intergovernmental transfers.²⁰

Inadequate fiscal decentralisation is an endemic problem across Africa.²¹ For Malawi in particular, “the extent to which revenue sources accompany the transfer of administrative responsibilities is crucial to the service delivery success of local government.”²² In Malawi, district councils have limited ability to locally generate revenue for three reasons. First, they lack the administrative capacity to identify and monitor taxable businesses and other entities. Second, even if they were identifiable, these tax bases are often quite limited, and instead concentrated in urban centres where city, municipal, or town councils have authority. Finally, even if the revenue base was present and the district councils had the capacity to identify and monitor it, the power to tax is still incredibly centralised in Malawi. For rural districts, the lack of fiscal decentralisation means that human resources are managed directly by the central government, which is not only inefficient but leads to long delays in remuneration of public sector workers,²³ fuelling corruption.

LOCAL GOVERNMENT CAPACITY

For decentralisation to be successful, district level capacity needs to be sufficient to deliver the services in which it is accountable. Public financial management capacity is weak in local authorities. Local authorities (including VDCs and ADCs) have not yet developed the capacity to meaningfully engage citizens. Performance monitoring and best practice dissemination systems are underdeveloped.

The performance of the local authorities has been subpar due to a very weak capacity, financial accountability, and incentive to perform. The lack of efficiency and financial mismanagement at the local level is often cited as a reason for holding back the resources at the central level, hence creating a vicious cycle.²⁴ Many resources rest with the line ministries, while the MPs use Constituency Development Funds largely as handouts.²⁵

Simultaneously, there is rising evidence of the benefits from decentralisation. Payroll devolution in 2014 resulted in timely payments of salaries and elimination of many 'ghost' workers from the records; sectoral staff at the local level reported that access to local development funds increased their ability to respond to immediate citizen needs; and, while this has been limited, expanded information avenues have yielded increased accountability.²⁶ Yet, to maximize these benefits, more effective agreements between line ministries and subnational authorities will be needed to improve the assignment of responsibilities and the allocation of resources.²⁷

There also needs to be adequate coordination mechanisms across levels of government and between jurisdictions. There are currently no structures such as intergovernmental boards to facilitate communication and coordination across different levels of government. Working relationships between MPs, councillors, and TAs are not functional. This is further complicated by the active resistance of many line ministries in decentralising their authority and service delivery, with many undermining attempts at devolution in order to sustain their own power and prestige.²⁸



GOVERNMENT'S VISION AND PLANS

The MW2063 mentions the need for effective decentralisation, recognising the importance of local revenue generation for decentralisation to be implemented. The Vision asserts that all councils should receive the necessary incentives to develop their own economic anchor activities. Subsequently, local revenue will be generated, allowing the local councils to fulfil their mandates and to meet the minimum socio-economic amenities of the given district or region.

The MIP-1 incorporates various initiatives to further decentralisation and devolution in Malawi. For example, the plan for the Urbanization Pillar has a set of activities under the category "Sustainable Municipal Self-Financing Mechanisms" that detail devolving land-based taxation to councils. As another example, the plan for the Effective Governance Systems and Institutions Enabler includes an activity to decentralise governance oversight institutions (e.g., ACB, Ombudsman, Office of the Director of Public Officers' Declarations). The most significant decentralisation-relevant activities occur under the Enhanced Public Sector Performance Enabler. For example, in this section of the MIP-1, it suggests integrating public IFMIS standalone systems across councils and to National Local Government Finance Committee.



ANALYSING THE PLANS

There are two important notes regarding the decentralisation-relevant initiatives in the MIP-1. First, the anticipated costs for decentralisation-relevant initiatives are both unrealistically low and much lower than comparable non-decentralisation initiatives in the MIP-1. For example, the activity "Capacitate Local Councils to Manage the Decentralisation Process" is budgeted at MK2,440 million for 2021-2030, whereas the activity "Build Capacity of the Pest and Disease Research Unit" is budgeted at MK2,949 million for 2021-2030. Second, as can be seen in Figure 3, the costs for Enabler Effective Governance Systems and Institutions and Enabler Enhanced Public Sector Performance (the two pillars or enablers with the most decentralisation-focused activities) are relatively evenly spread out over the next ten years, whereas the costs for accomplishing all three of the pillars are highly concentrated in the first five years of the program. This pattern runs contrary to the recommendation to invest in decentralisation and allow local governance structures to take seed prior to investing in development. In other words, a "pragmatic implementation strategy" is a critical prerequisite for decentralisation in Malawi to last.²⁹

In a similar vein, to ensure the effectiveness of decentralisation and avoid some of its pitfalls, it is critically important to pair administrative capacity building with fiscal empowerment and independence.³⁰ Currently, the local councils lack the revenue base to ensure the long-term sustainability of many of the initiatives laid out in the MIP-1. Notably, revenue generation is a priority across the Government of Malawi. There are two plans on the horizon worth mentioning here. First, the Malawi Ministry of Finance recently launched a Domestic Revenue Mobilisation Strategy (DRMS). The DRMS entails customs and excise tax measures that took effect in February 2022 and value added tax (VAT), income tax, and enhanced taxation administration that took effect in April 2022. These measures are anticipated to increase domestic revenue by five percentage points of GDP within five years.³¹ Nevertheless, none of this increased revenue base will benefit the districts, and instead it is all being channelled to the central government via the Malawi Revenue Authority.



PRIORITIES FOR TRANSFORMATION

Malawi needs to fulfil the promise that came with democracy by fully implementing administrative, fiscal and political decentralisation, along with promoting electoral reforms. The Office of the President, the Ministry of Local Governance and the National Planning Commission should strongly promote decentralisation, ensuring political will to support devolution efforts in each area and function. Effective decentralisation – including fiscal, political, and administrative functions – will translate into functioning structures and institutions that can set up the foundations for broad-based growth and societal well-being for all Malawians. Effective decentralisation will also remove current asymmetries between rural and urban areas, as well as across macro-zones and districts, leading – if done properly – to equitable service delivery.

- **Prioritise expansion of decentralisation in the next five years.** Full devolution of functions, personnel, and finances should be realised prior to the implementation of other components of the MIP-1, specifically the Malawi Secondary Cities Plan (MSCP) and other economic investments at the local level. Correct inconsistencies in de facto devolution across ministries (sectors), ensuring all sectors devolve functions (including sector planning, when possible), human resources management and fiscal responsibility to the councils.
- **Commit financial resources from central Government to furthering decentralisation.** The financial commitments outlined in the Malawi 2063 First 10-Year Implementation Plan should be viewed as minimum commitments. Review the conditions and allocation regarding local and national revenue collection to increase fiscal decentralisation. Adopt legislation which would enable the districts to raise critically needed revenue to support decentralisation.
- **Ensure all districts have the human capacity necessary for devolution to succeed** to level the devolution playing field across districts. Devolve public servant hiring and administrative support to local authorities. This will need to be accompanied by appropriate funding.
- **Roll-out nationally integrated system and e-government tools for district, city, and municipal council** to be locally managed. This will allow monitoring, tracking, and reporting levels of advancements in each of the 17 functions that councils need to fulfil. Additionally, develop a cross-cutting system that allows proper monitoring of functions, expenditures, and beneficiaries of local and central government programs.
- **Remove the power of the MPs in the District Councils.** In addition, it is necessary to gradually reduce and eventually eliminate the Constituency Development Fund allocation. On the one hand, these reforms will allow MPs to focus on their legislative role, and on the other hand, they will make district authorities solely responsible and accountable for service delivery and devolved functions in their council.

- **Dedicated days in the electoral campaign period where only councillors can have events, media time and debates, gradually conducting local elections for councillors off cycle.** To ensure popular engagement in local elections and clear understanding of the relevant role that councillors should play in the country's development, the Government needs to make certain there is sufficient coverage for the local elections. Eventually, once participation in local elections increases, schedule them outside of the Presidential and the Parliamentary election cycle. That will guarantee an actual competition and a programme-focused approach from parties and local candidates.
- **Increase the mandate of elected councillors** to increase their direct involvement in the day-to-day management of public services.
- **Empower districts leaders, and councillors** to allow them to be fully engaged in local economic development.
- **Implement planning, financial, and human resources management training for local authorities, including elected councillors, public servants, ADCs, and VDCs.** Along with function devolution each ministry and the central government need to launch full training programmes for VCDs and ADCs so they feel empowered to fulfil their mandate – many have reported that lacking training has impeded their effectiveness.
- **Increase public awareness of the functions of the local authorities.** The Government should engage with citizens in local communication campaigns via radio and other means to increase the awareness of the role local authorities play and start to develop an understanding of the role of the civil society as a guardian of governmental accountability. Additionally, expand digital government presence by creating websites for all local agencies, including clear outlines of the mandates of each local institution, and guidance for local businesses and individual administrative services. Similarly, expand the use of non-digital transparency tools, such as billboards/posters and hard copies of such key information to be stored in one-stop centres at the ADC and VDC level, so information is freely available to those without internet access. Furthermore, the centres should have a hotline so citizens can ask any questions about policy, regulation requirements, registration, or any other public enquiries.
- **Enact coordination and accountability mechanisms between local authorities, VDCs, ADCs and citizens.** This will support the efforts to build relational capital guaranteeing that citizens are heard and local leaders are held accountable when promising to put forward recommendations from local to central level.

BOX 6: STRUCTURE OF LOCAL GOVERNANCE

In theory, Malawi's Local Government System (LGS) consists of 35 single-tier authorities: 28 district councils (governing rural areas), four city councils, and three municipal councils.

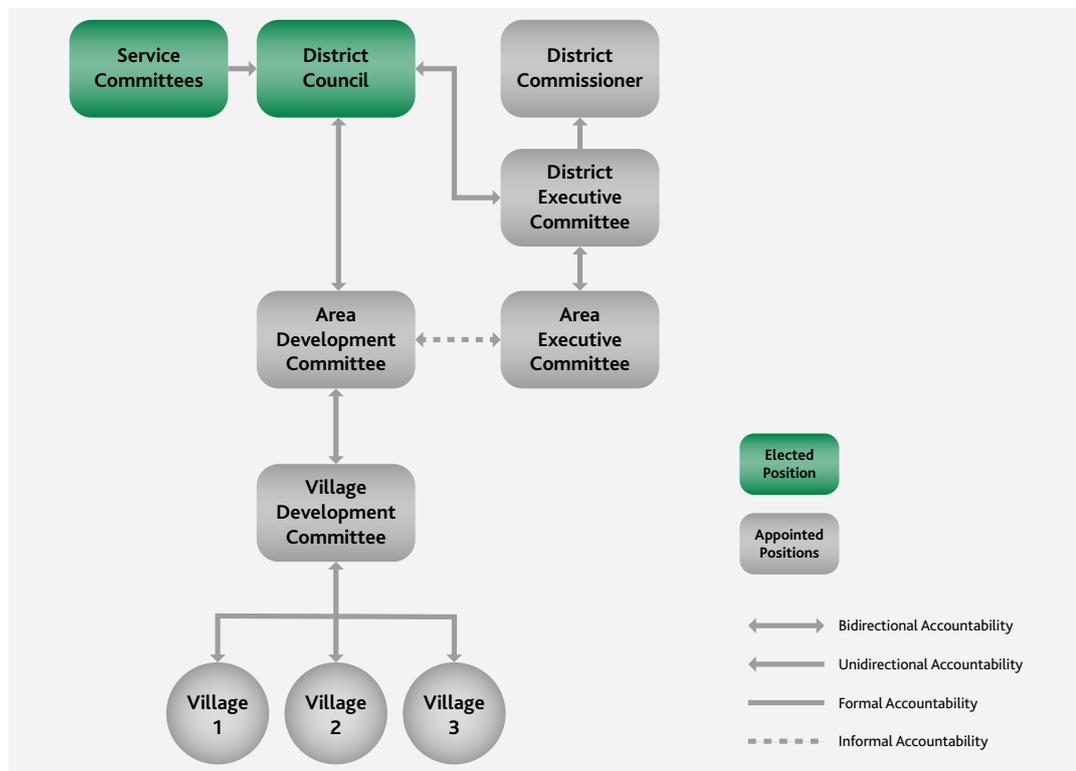
Local government in Malawi currently involves five distinct governing bodies. These governing bodies are coordinated (and, in a de facto sense, led) by a District Commissioner (DC), who is appointed by the central government. The District Commissioner serves as the Chair of the District Executive Committee and as the Secretary of the District Council (see below).

The elected governing body at the local level is the council. Ward councillors are elected from single-member wards, the smallest electoral unit in Malawi. Members of parliament (MPs) are elected from single-member constituencies, the middle electoral unit in Malawi. Both councillors and MPs are voting members of the council.³² Traditional authorities (TAs), designated representatives of five interest groups, the District Commissioner, and the director-level members of the District Executive Committee are also members of the council, though they are not voting members. The members of the council serve on a set of service committees, which differ a bit from district to district and between districts and cities, but typically includes a Finance Committee, Development Committee, Education Committee, Works Committee, Health and Environmental Committee, Human Resource Committee, Youth Committee and Disabilities Committee.

The District Executive Committee (DEC) consists of appointed government officials serving as directors of different ministry (sector) operations in the district, representatives of other government institutions and parastatal organisations, and representatives of civil society organizations. For example, the Director of Finance is appointed by the Ministry of Finance to manage operations on behalf of the Ministry of Finance in the district. Other commonly held appointed positions on the DEC are: Director of Planning and Development (DPD); District Education Manager (DEM); and the Director of Health and Social Services (DHSS). Underneath the DEC are a set of Area Executive Committees (AECs) with subordinate government officials reporting to their corresponding directors.

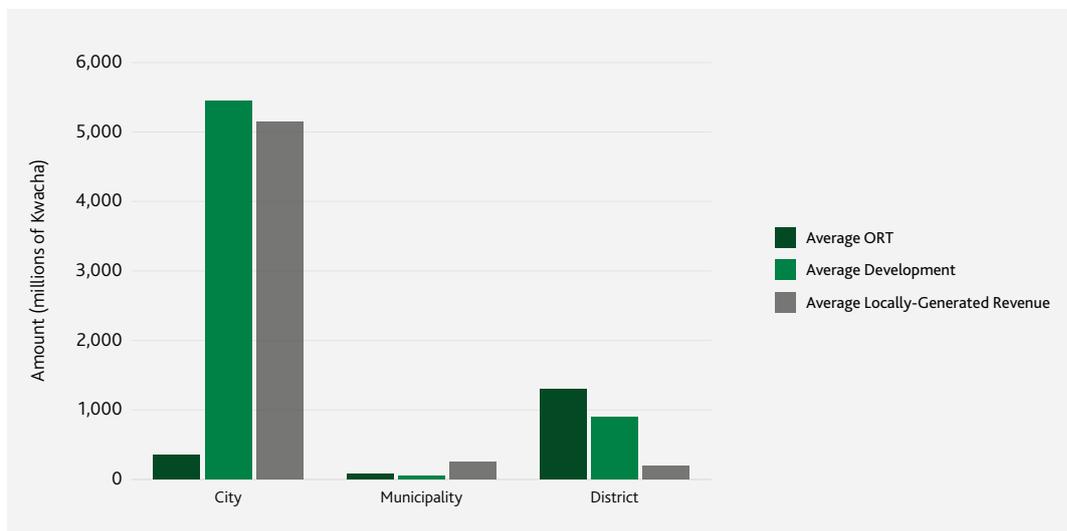
Two community-based structures provide input into the Local Development Plan (LDP): the Area Development Committee (ADCs) and the Village Development Committees (VDCs). The ADC is organised at the ward level or at a level just below the ward. It consists of traditional leaders, MPs, councillors, donor and non-profit representatives, and other community leaders and representatives. The VDC consists of the same membership except it is organised within a village, and several VDCs report into a given ADC. The ADC is supposed to liaise with its VDCs and the corresponding Area Executive Committee to provide necessary input into the LDP. It also indirectly reports to the council as MPs and councillors are ADC members. However, this accountability link is inconsistent from district to district, depending on whether MPs and councillors consistently attend ADC meetings and communicate with ADC leadership.

FIGURE 20: LOCAL GOVERNMENT STRUCTURE IN MALAWI



BOX 7: LOCAL AUTHORITIES HAVE FOUR PRIMARY SOURCES OF REVENUE³³

1. Other Recurrent Transactions (ORT) are funds transferred from the central government. They consist of devolved sector grants and general resources and account for 9.1% of local authority funding on average. While 18 sectors have devolved, 41.6% of the sector grants are for education and 40.8% are for health, leaving less than 18% of the grants for the other 16 sectors.
2. The development budget is also transferred from the central government. It consists of the Constituency Development Fund (42%), funds for construction of roads (42%), the District Development Fund (DDF) (9%), the Water Structures Fund (5%), and the Infrastructure Development Fund (IDF) (2%). This funding source accounts for 10.5% of local authority funding on average. The prominence of the CDF as a funding source at the local level reinforces the significant power held by members of parliament compared to their local councillor counterparts.
3. Personnel emoluments funds are also transferred from the government. It consists of funds for salaries, leave grants and other allowances for central government staff stationed in the local authority and sector staff for health, education, and agriculture. (Note that other sectors have not devolved personnel management functions to the local authorities.) This is the largest funding source for the councils, at 79% of transfers from the Central Government and 74.1% of local authority funding on average.
4. Locally generated revenue consists of taxes and fees collected locally. Mostly, the revenue is generated via property rates, fees and service charges as well as commercial undertakings. It accounts for only 6.3% of local authority funding on average.

FIGURE 21: AVERAGE REVENUE ACROSS SOURCES FOR CITIES, MUNICIPALITIES, AND DISTRICTS

BOX 8: HISTORY OF DEVOLUTION

Malawi's division into districts, each overseen by a District Commissioner, was first executed by British colonial authorities.³⁴ Between 1964 and 1994, districts were stripped of their power and the central government managed functions at a district level.³⁵ Finally, the 1998 Local Government Act outlined a plan for democratic decentralisation.

The 1998 Local Government Act empowered districts to become centres for local governance and service delivery. It aligns with various elements discussed above in that it provides a vehicle to connect policy with most of the population and allows local knowledge to inform policy making.

There are two key components of the Act, neither of which have been fully realised. The Act called for the decentralisation of service delivery, specifically the devolution of "planning, budgeting, expenditure, and management responsibilities."³⁶ However, ministries have inconsistently and incompletely devolved their sectors over the last two decades. The Act also provided for elected government at the local level in the form of councillors, elected from small, single-member wards across the country. However, in 2005, then-President Bingu wa Mutharika disbanded elected local government, and councillors were removed from their positions. This persisted until 2014, when tripartite elections were held, and councillors were reinstated.

This nearly decade-long hiatus in elected local government resulted in two related but distinct issues with local government in Malawi. First, members of parliament (MPs) became more powerful at the local level, with significant authority over spending and policy priorities. They had already received status as voting members of councils during the reforms of the early 2000s, and once the councillor level was removed entirely, the MPs quickly assumed even more power. Second, appointed government officials at the district level were less accountable, acting relatively autonomously to manage district-level affairs. DECs were (and, in many cases, still are) directly appointed by the central government, which undermines the supposedly democratic nature of local government, and also demonstrates the propensity within the Malawian system to allow executive dominance. Since councillors were elected again in 2014, it has been difficult for them to regain de facto authority, and power struggles within local government are common.

The local governance system experienced reforms in 2000, 2002³⁷ and 2010, though its general structure and democratic nature have remained. In 2014, the Ministry of Local Government partnered with the United Nations Development Programme (UNDP) to commission a review of decentralisation in Malawi. Conducted by a team of academics, the review concluded that Malawi needed to "deepen the decentralisation process", specifically recommending the following strategic areas of action, which are closely aligned with the "Priorities for Transformation" identified above:³⁸

1. Full devolution and integration of sectoral and central ministries' staff and other resources in councils
2. Enhancing revenue collection, retention, and accountability in councils in direct support for efficient service delivery and socio-economic development
3. Legal reforms to support decentralisation
4. Promoting civic engagement and a democratic culture in Malawian society

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Malawian children fetching drinking water at their village water pump.
Credit: Riccardo Mayer

Conclusion

The pathway to prosperity for Malawi is long and uncertain. For a landlocked nation, with a predominantly rural population and relatively low levels of education (over 80% under 35 years of age), the development challenge is significant. The country is highly reliant on rain-fed subsistence agriculture driven by a monoculture production mentality and remains highly donor dependent, with a strong tradition of tied political and economic development benefitting few.

Malawi has a weak democracy captured by competitive clientelism, whereby the economy has created and distributed rents to mostly urban elites and specific ethnic groups to the detriment of the rest of the country, mainly the rural population. Nonetheless, the country has made notable progress in infrastructure and social dimensions, such as improvements in access to water and sanitation, increased life expectancy, along with institutional developments, including a recent, clear demonstration of commitment to rule of law by the judiciary and a strong anti-corruption stance by the President. However, there has been a 'transition without transformation in Malawi'. The stable but low-level equilibrium of the political economy, based on rent-seeking and vested interests, has been and remains the most significant impediment to real change – primarily because of the resulting political marginalisation of most of its population – particularly in rural areas.

The challenge of reaching a Malawi that is prosperous for all by 2063 is a substantial one. With a history of being a peaceful nation with an elusive development path, the Government is at a unique decision point - to either continue with the current stagnation or change the country's trajectory. The shift from MW2063 as a long-term vision document to an actionable guiding route for the change the country anticipates requires movement in the political economy, so that it is aligned with a more open economy and strengthened state capacity. Given the current constraints, it is critical to focus initially on the most important and realisable changes that can generate a ripple effect across sectors and positively impact the livelihoods of the population.

Hence, what needs to be at the heart of the transformation?

From a socio-economic perspective, the evergreen test is going to be whether the transformation journey involves progressively raising incomes and improving livelihoods, especially for most of Malawi's population who reside in rural areas. The proximate drivers of this change will be increased agricultural productivity, value-addition and diversifying the economy beyond agriculture, including enhanced opportunities in mining and tourism. For this to happen, smallholder farmers, entrepreneurs and Malawians will need to be:

- *More connected* – to participate in larger and more complex value chains. This requires not only physical, virtual, and financial connectedness, but also enabled people who will build up networks of trusted relationships.
- *More incorporated* – to move from subsistence to a value-added economy, especially focussing on commercial activities rather than just household consumption. Creating simple business entities and accounts that can be recognised as such and that can grow and develop independent from the individual is a key enabler of participation in more complex activities.
- *More aggregated* – to form organisations that allow for specialisation and reduced transaction costs. For example, farmers (and other traders) should be able to form cooperatives, collectively purchase inputs, share assets such as machinery, and combine marketing activities rather than individually selling at sub-scale volumes.
- *Outward-looking* - to produce for both domestic and international markets. This will require removing barriers to trade and improving standards of products and services that can compete.

These are the lenses through which this report has diagnosed the economic structure of Malawi and assessed MW2063 and the objectives of MIP-1.

Notwithstanding, for these goals to predominantly drive the transformation, further structural changes will also be needed. In addition to sectoral diversification, the economy must be opened up to be more inclusive to unlock the potential of MSMEs. The easy access to opportunities afforded to a small well-connected group needs to be extended to the rest of society. In effect, the economy needs to be 'democratised'. This would mean 'rents' being diffused across the economy rather than concentrated in areas such as government contracts, state-owned enterprises, and land access. Such democratisation of the economy would entail making it easy to start and register a business to secure financing (especially for agricultural investment, quarry, and stones processing) and to participate in all sectors of the economy – no sector would be seen as the bastion of a particular group.

The Government needs to act pragmatically in the short term to ensure the business community has the organisational capacity for specific activities that support an economic transformation, allowing an alignment of the interests of all sectors of society. The Government – to achieve these aims – can focus on facilitating the enhancement of productivity in sectors with greater economic complexity and with the potential to generate spill-over effects in the economy. If well-established business groups have the organisational capacity to make money in areas of the economy that are more export-oriented, and they have a higher propensity to invest and can be a significant source of employment, then it is possible to break free from the current economic pattern.

Furthermore, major government contracts and SOEs should be shaped in a way that generates economic transformation. For example, the economics of transport, power, water and communication 'utilities' need to shift from incentivising high-cost, low penetration, poorly maintained services to mass-market, affordable reliable services. A similar approach should be adopted for agricultural inputs, extension and financial services. The eradication of price distortions across the commanding heights of the economy is a strategic way to reshape incentives and help to focus rents on more productive activities.

The main constraint to opening up the economy to broader participation is ultimately political. The connection between economic and political interests that exists in any country is particularly deep and narrow in Malawi. Hence, the big question for the country is how to create a more inclusive society, in which politics are more open and programmatic-based – not only because of the intrinsic benefits of a substantive versus fragile democracy, but also because the economic and social transformation outlined in MW2063 can only be realised with strong political participation from those whose lives will be changed the most – today's subsistence farmers and informal workers. The political process will need to accommodate their interests, for example by investing in multiple small-scale rural road remediation exercises that have broad-based benefits.

Furthermore, if the rural population, their children and grandchildren are to lead very different lives, they will need to feel a sense of ownership in that future. They must have the capacity to make political choices based on policies rather than personalities. They will need to feel that there are political voices serving their interests and that they have participated in choosing their future. Over time, this will involve the replacement of Malawi's patronage and clientelist political settlement with one based more on programmatic party politics, possibly including parties prioritising policies for rural development.

The main medium- to long-term priority for government administration is to build state capacity. In the interim, it should focus on what it can do well. It needs to lead and coordinate, but it should focus on where it is best placed to deliver and bring in outside capacity for other areas. The transformation must be phased, with clear plans and policies that act as building blocks for further development. Policies should be targeted to each sector of the economy. Rather than targeting immediate needs or consequences, Government policies must address underlying and basic causes of the development challenge. These efforts should be coordinated between and within central

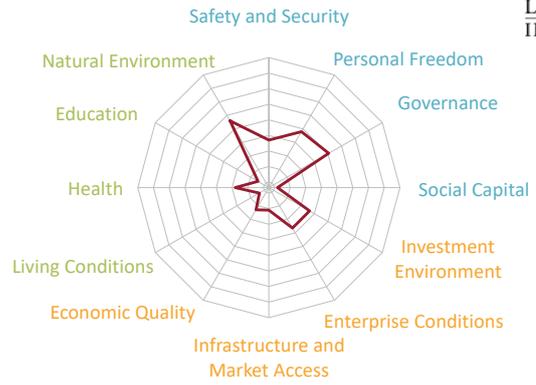
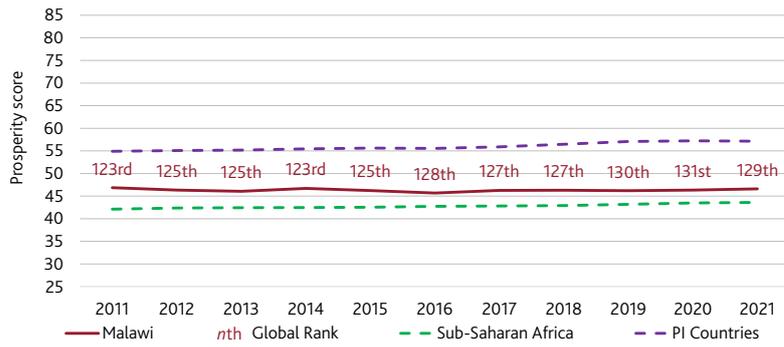
and local government, the private sector, international institutions, and the donor community to enhance cooperation and reduce duplication and unnecessary competition for resources.

The implementation of a vision of state-led development needs to be tailored to suit the evolving capacity of the state at central and local levels. Nonetheless, greater decentralisation with clear linkages of accountabilities with funding (both central and local) can play a role in not only distributing power but shifting how and where rents are created – thereby turning the serving of local needs into a profitable exercise. The programs and interventions should take into consideration the local characteristics, needs and priorities, as well as cultural traditions and key opportunities, for development. Therefore, instead of having a centralised economic development policy, Malawi's path to prosperity should be locally led but centrally coordinated.

Despite the challenges, there are grounds for hope. In recent years there have been some bold steps taken on the road to transformation, which include rerunning the election, a strong stance against corruption and a consensus around MW2063. For these to have any long-term impact, they need to be complemented by many more such actions that address those vested interests for whom the status quo is a source of power and wealth. This will require deft manoeuvring and the expenditure of political capital – an investment worth taking for the people of Malawi.

Malawi: Prosperity score 46.6 (129th)

Prosperity over time



Breakdown of performance

	2011	Score 10-year trend	2021	Rank - Global (1 to 167) 2021	10-year rank change	Rank - Sub-Saharan Africa (1 to 49) 2021
Prosperity score	46.9		46.6	129	▼ 6	20
Inclusive Societies	57.1		52.1	101	▼ 33	19
Safety and Security	70.5		63.9	107	▼ 36	22
Personal Freedom	57.1		57.2	85	-	13
Governance	48.8		47.4	80	▼ 3	13
Social Capital	52.1		40.0	157	▼ 85	44
Open Economies	40.7		41.7	127	▼ 10	19
Investment Environment	43.9		46.0	108	▼ 3	13
Enterprise Conditions	49.3		48.9	108	▼ 20	20
Infrastructure and Market Access	26.3		34.3	139	▲ 6	26
Economic Quality	43.5		37.8	135	▼ 18	26
Empowered People	42.7		45.9	141	▲ 1	27
Living Conditions	34.8		36.1	154	▼ 5	37
Health	50.3		60.5	125	▲ 15	12
Education	28.0		30.6	152	▼ 3	36
Natural Environment	57.8		56.4	69	▼ 3	7



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