Malawi

**Malawi**

- **Land area, thousands of km²**: 118
- **Population, thousands (2007)**: 13,925
- **GDP per capita, USD at constant 2000 prices (2007)**: 158
- **Life expectancy (2007)**: 48.3
- **Illiteracy rate (2007)**: 34.1
Despite remaining one of the poorest and least developed countries in Africa, Malawi is beginning to make real progress in terms of laying the foundations for faster economic growth and more effective poverty reduction.

The year 2007 saw continued stronger economic growth of 6.8 per cent following an exceptionally high 7.9 per cent in 2006, as the country begins to benefit from several years of prudent financial and macroeconomic management (Figure 1). Interest rates are now beginning to fall, and the share of credit extended to the private sector has risen as the public sector no longer crowds out private investment. The successful deployment of a national fertiliser subsidy, coupled with consistent rains across most of the country, resulted in a bumper harvest in maize, the most important staple crop. Thus, reduced food security challenges together with improved central budget discipline led to a reduction in inflation to 8.6 per cent in 2007 — the lowest in more than two decades. In order to sustain rapid economic growth, the country will need to address more effectively the structural constraints to increased private investment, such as lack of skills and low productivity, weaknesses in the business environment, and infrastructural constraints.

Figure 1 - Real GDP Growth and Per Capita GDP (USD at constant 2000 prices)

Source: IMF and National Statistical Office (NSO) data; estimates (e) and projections (p) based on authors’ calculations.

StatLink: http://dx.doi.org/10.1787/316535821211
Recent Economic Developments

GDP growth is estimated at 6.8 per cent in 2007, down from 7.9 per cent in 2006, when agricultural output rebounded sharply following the ending of the drought. Growth in 2008 and 2009 is forecast to be more moderate, at 5.1 per cent and 5.5 per cent, respectively.

While it is likely that economic growth in 2007 still included some element of recovery from the 2005 drought, it is also clear that the economy is beginning to respond positively to improved domestic economic and fiscal management through increased private-sector borrowing and investment, especially in the construction and transport sectors. After a decade of contraction, the manufacturing sector is also beginning to show promising, if modest, signs of recovery.

Agriculture, as the mainstay of the Malawi economy, was a key driver of the 2007 performance, growing by 10.8 per cent; mining and quarrying grew 2.7 per cent; manufacturing 8.8 per cent; construction 13.7 per cent; and transport and communications 17.3 per cent.

A second year of good rains saw rising yields for maize, the basis of food security in Malawi, with aggregate production up from 2.61 million tonnes in 2005/06, to 3.22 million tonnes in 2006/07. The national food requirement for 2007/08 is estimated by the Ministry of Agriculture and Food Security to be 2.25 million tonnes. Hence the country will have a net food surplus of close to 1 million tonnes. Similarly, the proportion of total farm families without food from their own production was measured in March 2007 to be only 6 per cent, down from 42 per cent at the same time in 2006.

Although good and consistent rains played an important part in the bumper maize production in 2006/07, the successful deployment of a national fertiliser subsidy that allows all rural households to buy 50 kg of chemical fertiliser for MWK 900.00 (Malawian Kwachas) (USD 6 [US dollars]), approximately a quarter of the retail price, substantially raised yields. The government plans to distribute and sell 200 000 tonnes of fertiliser in the 2007/08 growing season, accounting for around one-third of the national agriculture budget.

Almost all crops registered substantial increases in production in the 2006/07 growing season compared with in 2005/06. In addition to the 24.9 per cent jump in maize production, rice production was up 19.6 per cent to 92 000 tonnes, and groundnut production was up 29.1 per cent to 263 000 tonnes. Sorghum, millets, pulses, cassava and sweet potatoes also saw increased production of a similar magnitude. Cotton production was up by a more modest increase of 5.6 per cent to 62 000 tonnes.

Disappointing prices for tobacco sold on the auction floors in 2005/06 translated into somewhat lower production in the 2006/07 growing season with aggregate production down 4.8 per cent to 116 000 tonnes.

---

**Figure 2 - GDP by Sector in 2006 (percentage)**

![GDP by Sector in 2006](image)

**Source:** Authors’ estimates based on National Statistical Office (NSO) data.

[StatLink](http://dx.doi.org/10.1787/317787530028)
In 2006/07, the Government of Malawi concluded an agreement with an Australian mining company that will undertake the exploitation of uranium oxide from deposits in Kayelekera, in the far north of the country. This exploitation will considerably increase the level of private investment (+22 per cent). The government has negotiated a 15 per cent equity stake in the venture. At full capacity by the end of 2008, uranium will become Malawi’s second biggest export after tobacco, accounting for 20 per cent of exports and 5 per cent of GDP. Regarding the components of final demand, growth of private and public investment sharply increased in 2007.

Malawi’s formal manufacturing sector remains small, and accounted for 10.8 per cent of GDP in 2006; this is down from a high of 32 per cent in 1992 (Figure 2). Manufacturing firms also tend to be inward-looking, with only 14 per cent of output exported.

Regarding final demand, it is anticipated that Malawi will continue to see a modest strengthening driven by a gradual improvement in export performance, along with greater confidence in the private sector demonstrated by similarly modest rises in private-sector investment (Table 1). The agreement signed to develop the Kayelekera uranium mine could, over a decade starting in 2009, generate output worth about USD 1.6 billion at current prices, at its peak raising GDP by 10 per cent and exports by 25 per cent.

Looking ahead, while Malawi’s economic prospects for 2008 and 2009 look brighter than what has been seen in the last two decades, growth will be fragile and dependent on a number of key factors, including the continued successful deployment of the national fertiliser subsidy, the avoidance of serious drought, and continued prudent macroeconomic management. The outlook is for a reduction in the rates of growth of both public and private investment in 2008 and 2009 compared to 2007. However, if major new investments in uranium mining and sugar production come into fruition as per current plans, then substantially stronger export performance could be a key driver of Malawi’s economic growth in the next five years.

### Macroeconomic Policy

The current administration has continued to put the maintenance of macroeconomic stability at the heart of national policy. Increased confidence in the capacity of the government to manage resources was demonstrated by the World Bank’s decision to begin providing general budget support to the country, with the first of three USD 20 million Poverty Reduction

---

**Table 1 - Demand Composition**

<table>
<thead>
<tr>
<th>Percentage of GDP (current prices)</th>
<th>Percentage changes, volume</th>
<th>Contribution to real GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2006</td>
</tr>
<tr>
<td>Gross capital formation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>15.2</td>
<td>9.8</td>
</tr>
<tr>
<td>Private</td>
<td>10.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Public</td>
<td>4.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Consumption</td>
<td>103.1</td>
<td>113.2</td>
</tr>
<tr>
<td>Public</td>
<td>13.8</td>
<td>15.2</td>
</tr>
<tr>
<td>Private</td>
<td>89.3</td>
<td>98.0</td>
</tr>
<tr>
<td>External demand</td>
<td>-18.3</td>
<td>-23.0</td>
</tr>
<tr>
<td>Exports</td>
<td>26.1</td>
<td>30.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-44.4</td>
<td>-53.0</td>
</tr>
</tbody>
</table>

**Source:** National Statistical Office (NSO) data; estimates (e) and projections (p) based on authors’ calculations.
Support Credits released in October 2007. For the first time since it joined the Fund, Malawi has now achieved satisfactory performance under the country’s IMF programme for three consecutive years.

**Fiscal Policy**

It is expected that stronger tax revenues in 2007/08 (up to a new high of 21.9 per cent of GDP), together with reduced interest payments (down to a new low of just 3.1 per cent of GDP) will lead to an increase in fiscal space, permitting an increase in both recurrent and capital expenditures. Nevertheless, the primary budget balance is expected to remain close to zero (but positive in 2009), and the overall budget deficit is expected to be sustainable.

Grants have risen strongly since 2004/05 when donor confidence was restored in Malawi with the election of the new government, more than doubling from a low of 7.2 per cent of GDP in 1998/99 to 16.3 per cent in 2007/08 and accounting on average for just under 40 per cent of the total budget. Aggregate donor inflows and tax revenues have grown strongly in the last three years, but similarly strong GDP growth has seen the share of total revenue and grants remain roughly constant, at 41 per cent in 2007/08.

The increases in revenue collection can be attributed in part to the incentive-based collection schemes and widening of the tax base. Although the revenue percentage of GDP did not grow significantly, nominal revenue mobilisation increased by 20 per cent. With the recent redefinition of the make-up of GDP (GDP has long been understated in Malawi)\(^1\), this is a positive improvement.

Malawi has continued to make excellent progress in reducing the overall fiscal deficit and paying down domestic debt. Programme aid and domestic revenue projections have increased substantially since the budget was formulated. By mid-2007, the stock of domestic debt had been reduced to just 11.5 per cent of GDP. The government expects the stock of domestic debt to stabilise at 10 per cent of GDP in 2008, with interest payments accounting for around 1.5 per cent of GDP. The government’s debt strategy is to restructure domestic debt in favour of long-term debt instruments, which will substantially reduce the costs associated with short-term debt securities. This, together with the strategy to limit new borrowing, should lead to a decline in the debt/GDP ratio.

The paying down of domestic debt, which peaked at around 25 per cent of GDP in 2003/04, has freed

<table>
<thead>
<tr>
<th>Table 2 - Public Finances (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>1999</strong></td>
</tr>
<tr>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Total revenue and grants(^a)</td>
</tr>
<tr>
<td>Tax revenue</td>
</tr>
<tr>
<td>Grants</td>
</tr>
<tr>
<td>Total expenditure and net lending(^a)</td>
</tr>
<tr>
<td>Current expenditure</td>
</tr>
<tr>
<td><strong>Excluding interest</strong></td>
</tr>
<tr>
<td>Wages and salaries</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Capital expenditure</td>
</tr>
<tr>
<td>Primary balance</td>
</tr>
<tr>
<td>Overall balance</td>
</tr>
</tbody>
</table>

\(^a\) Only major items are reported

Source: Reserve Bank of Malawi data; estimates (e) and projections (p) based on authors’ calculations.

StatLink: \(\text{http://dx.doi.org/10.1787/322022554450}\)

1. The informal sector was included in Malawi’s GDP for the first time in 2006/07.
up significant resources and permitted an expansion of the development budget. However, it remains to be seen whether political pressures on government spending in the run-up to the 2009 elections will not reverse these achievements.

Monetary Policy

After 15 months of reductions in inflation, the rate of increase in consumer prices appears to have bottomed out. In 2007, year-on-year headline inflation is estimated at 8.5 per cent, which represents a significant achievement, since inflation was as high as 17.1 per cent in February 2006. Annual inflation has only dropped into single figures three times in Malawi’s modern economic history. Price increases in Malawi are driven primarily by domestic maize production and by the price of imported petroleum and diesel, so the country remains vulnerable to weather fluctuations and further shocks to the world price of oil. Malawi does not have a working automatic compensation mechanism against oil price changes. There can be delays of up to three months for the changes to filter through to pump price increases, amounting to the equivalent of a tax on oil import companies.

In view of the recent progress in reducing inflation, the Reserve Bank of Malawi has not felt the need to tighten monetary policy further. In fact, it cut the base rate from 20 to 17.5 per cent on 1 August 2007, and again on 1 November 2007, to 15 per cent. Considering that the base rate was as high as 45 per cent in mid-2004, this also represents a major policy achievement. The share of credit to the private sector is now beginning to recover, with the private sector taking a bigger share (60 per cent) than the public sector in 2006 for the first time in five years (United Nations Development Programme [UNDP] 2007).

External Position

Early trade figures for 2007 show that Malawi’s current account deficit has begun to stabilise after several years of relentless expansion (Table 3). This may well be evidence that improved macro stability has begun to translate into better performance by the private sector. In real terms, total exports of goods grew strongly, from USD 543 million in 2006 to USD 628 million in 2007, while imports of goods rose marginally, from USD 1 039 million in 2006 to USD 1 066 in 2007. Coupled with a reduction in the services deficit (as a result of substantially lower foreign interest payments), the current account deficit narrowed from USD 705 million in 2006 to USD 634 million in 2007. Average export prices for tobacco rose from USD 2.34 in 2006 to USD 2.60 per kg in 2007. However, disappointment over prices in the 2005/06 season saw reduced planting in 2006/07, and therefore the volume of exports fell from 124 000 tonnes in 2006 to 109 000 tonnes in 2007. As a result, exports slipped slightly, from USD 289.7 million in 2006 to USD 284.3 million in 2007 (all figures from National Statistical Office [NSO]).

Tea saw an improved performance during the year as stable average export prices (unchanged at USD 1.11 per kg), coupled with increased production (up from 43 100 tonnes to 44 000 tonnes), resulted in greater export revenue. The aggregate value of tea exports therefore rose from USD 47.9 million to USD 49 million.

Malawi’s sugar sector holds enormous potential, once the country is granted unrestricted access to the EU market from 2009 under the terms of the “Everything But Arms” (EBA) initiative. In late 2006, the owner of Malawi’s two sugar estates, Illovo Sugar of South Africa, was acquired by Associated British Foods of the UK, and a major expansion in both estate and out-grower production is planned in order to capitalise on the opportunities provided by the lifting of quotas in 2009. Average export prices for sugar grew during 2007, up to USD 0.55 per kg, from USD 0.52 in 2006. However, reductions in the volume of sugar exports, down to 83 400 tonnes from 90 200 tonnes in the previous year, led to a slight decline in total exports, from USD 46.5 million in 2006 to USD 46.1 million in 2007.

The volume of cotton exported in 2007 was 15 000 tonnes, up from 14 000 tonnes in the previous year. Stable average export prices at USD 0.96 resulted
in an increased export value, rising from USD 13.5 million in 2006 to USD 14.5 million in 2007.

Malawi has continued to make progress in diversifying exports away from the traditional core products. Rice, coffee and pulses all saw strong export growth, albeit from a low base. The value of coffee exports, in particular, surged 60 per cent from USD 2.2 million in 2006 to USD 3.6 million in 2007. Malawi also became a major maize exporter in 2007, reversing the need in recent years for large emergency maize imports to alleviate hunger, with 400 000 tonnes exported, earning USD 94 million in total. The main destination for the exports was Zimbabwe.

Despite passing the nominal deadline to conclude an Economic Partnership Agreement (EPA) at the end of December 2007, Malawi (negotiating as part of the Eastern and Southern Africa [ESA] configuration) is not yet close to signing an EPA with the European Union (EU). As one of the Least Developed Countries (LDCs), Malawi already benefits from almost universal tariff- and quota-free access to the EU market under the EBA initiative, and the last remaining exception — sugar — will be included, much to Malawi’s benefit, in 2009. Hence, compared to the non-LDCs, the benefits of signing an EPA are more limited to Malawi and the other LDCs within the ESA grouping. Nonetheless, potential benefits to Malawi include: cementing the improved market access that EBA provides (EBA can be unilaterally withdrawn by the EU); simplifying rules of origin (a major area of contention); and increasing the volume of developmental assistance provided to Malawi by the EC. In addition, as a member of both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), Malawi stands to lose should the country be forced into a regional economic grouping with fellow-ESA countries that might see the withdrawal of trade preferences with South Africa, Malawi’s most important trade partner. As doubts about both the value and risks of signing an EPA emerge, not least due to an energetic debate within civil society, Malawi’s position remains uncertain. With the current World Trade Organization (WTO) negotiations still showing no progress, the significance of concluding an EPA is important to Malawi more from a regional integration perspective than from that of improved terms of trade.

Like other garment exporters in Africa, Malawi is struggling to compete in international markets without the protection of the WTO Agreement on Textiles and Clothing, which ended in January 2005. Exports of apparel slipped from USD 40.5 million in 2006 to USD 32.5 million in 2007.

FDI has hovered around USD 20-40 million during the last ten years, but recently increased sharply as a result of the uranium project mentioned above. Absorbing a project of this magnitude will send a strong signal to the international private sector that Malawi is now “open for business”; there could also be a real effect on the growth path and on poverty reduction. Large capital inflows such as this investment will also help to offset the current account deficit and contribute

<table>
<thead>
<tr>
<th>Table 3 - Current Account (percentage of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
</tr>
<tr>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Trade balance</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Factor income</td>
</tr>
<tr>
<td>Current transfers</td>
</tr>
<tr>
<td>Current account balance</td>
</tr>
</tbody>
</table>

*Source*: Reserve Bank of Malawi; estimates (e) and projections (p) based on authors’ calculations.

*StatLink* | [http://dx.doi.org/10.1787/322837848488](http://dx.doi.org/10.1787/322837848488)
Malawi

to the increased stability of the Kwacha. This investment will also contribute to the development of Malawi’s industrial capacity, and will therefore have a positive effect on the level of industrial diversification.

The Malawi Kwacha remained relatively stable against the US Dollar at around USD 1 = MWK 140 throughout 2007, as the dollar’s weakness balanced out the effects of Malawi’s higher rate of inflation compared to the United States. Import cover is currently running at 2 months, below the minimum target of 3 months set by the Reserve Bank of Malawi, but up on previous figures. The high seasonality of Malawi’s tobacco-dominated exports can result in significant swings in foreign exchange reserves over the course of a year.

Following debt relief under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) in September 2006, in early 2007 Malawi’s sovereign debt rating was raised by Fitch Ratings to investment grade “B-”. This development can be viewed as an indication of increased confidence in the economy by international private investors. This debt relief reduced Malawi’s debt stock from USD 2.97 billion (245 per cent of exports in 2005 net present value terms) at the end of 2005 to USD 488 million (43 per cent of exports) as of December 2006.

**Structural Issues**

**Recent Developments**

The year 2007 saw the first full year of implementation of the Malawi Growth and Development Strategy (MGDS), the country’s national development plan that has replaced the Poverty Reduction Strategy Paper (PRSP). The MGDS represents a clear improvement on the previous Malawi Poverty Reduction Strategy, which provided only scant focus on private-sector issues. The plan emphasises achieving poverty reduction through economic growth,
with the private sector recognised as the engine of growth.

While it is clear that Malawi is now benefiting from better macroeconomic management and an improved fiscal and monetary environment, tackling the key infrastructural constraints and achieving deeper policy reform will be necessary to sustain rapid economic growth.

Malawi has an ongoing privatisation programme. However, since the sale of a majority stake in Malawi Telecommunications Ltd in January 2006, few attractive assets remain in state hands. Air Malawi has been on “passive privatisation” for several years, meaning that the company is effectively up for sale and awaiting interest from interested buyers. In late 2007, discussions began with Comair of South Africa on a possible sale or partial sale.

Attention is now shifting towards the use of Public-Private Partnerships (PPPs) as a means of leveraging private-sector finance and expertise in the provision of public-sector services and infrastructure. While some PPPs have been negotiated under the Privatisation Act, a separate law on PPPs is presently being drafted that will provide greater flexibility, allow for the possibility of agreeing on long-term contingent liabilities, and shift responsibility for promoting and concluding such agreements from the Privatisation Commission to a dedicated PPP Unit housed within the Ministry of Finance. Given the poor public image and controversial nature of privatisation in Malawi, it is believed that PPPs will be a more successful means of leveraging private finance for public infrastructure and services only if they are clearly separated from the existing law and institutions for privatisation.

The restructuring of the Agricultural Development and Marketing Corporation (ADMARC) continued in 2007 with the establishment of Malawi Agricultural Warehousing and Trading Company (MAWTCO). MAWTCO will assume the commercial operations of ADMARC, allowing the corporation to return to its original role of providing social marketing in areas of market failure.

Recent research has suggested that firms in Malawi are divided into two groups: a low-growth, low-productivity, short-term returns group; and a high-growth, high-productivity, long-term investing group. Poor access to finance is the principal barrier that prevents migration from the low-growth group into higher growth. While improved macroeconomic management has resulted in lower interest rates and inflation, a number of structural challenges still inhibit financial-sector development. The lack of a national identification system makes it difficult for banks to share credit-scoring information, and there is no legislation in place to permit information sharing on creditor history or establish a formal credit information bureau.

The costs for businesses to carry out basic functions are also high. According to the Doing Business 2008 report, it takes 37 days to start a business in Malawi, compared with an average of 15 days in OECD countries (although this is better than the average of 56 days for sub-Saharan Africa). Similarly, enforcing a debt contract costs 142 per cent of the claim, compared to an average of 18 per cent in OECD countries and 49 per cent in sub-Saharan Africa. In the Doing Business 2008 report, Malawi is ranked 127th out of 178 countries, better than Tanzania (130th) and Mozambique (134th), but behind Zambia (116th) and Lesotho (124th).

Recognising that improving the investment climate is necessary in order to increase both domestic and foreign investment, and create jobs, the government is beginning to take steps that will support private-sector development. The establishment of a dedicated Commercial Division in the High Court of Malawi in April 2007 was a major step forward, and should reduce the time taken and cost incurred in settling commercial

---

disputes. The year 2007 also saw the launch of a USD 18.7 million "Business Environment Strengthening Technical Assistance Project" funded jointly by the World Bank and the European Commission: this project aims to raise the rate of private investment through targeted interventions that will reduce the costs of doing business.

Poor infrastructure remains the most significant barrier to long-run economic development in Malawi. High transport costs — accounting for up to 50 per cent of the costs of production in some export sectors, namely tobacco, sugar, tea, cotton and coffee — hamper competitiveness. Although the rehabilitation of Malawi's hydropower plants is ongoing, the country still suffers from inadequate electricity-generating capacity for current needs. Increased exploitation of Malawi's mineral resources would require a massive expansion in capacity. In 2007, one positive development in this regard was an agreement between the Government of Malawi, the Government of Mozambique and the World Bank on the construction of an interconnector that will join Malawi's power grid up with Cahora Bassa Hydro and the Southern African Power Pool.

**Technical and Vocational Skills Development**

In July 1997, the Ministry of Labour set up a Task Force to review the vocational education and training system and to come up with a policy framework to address the problems identified. The Task Force, comprising stakeholders from both the private and public sectors, recommended a new policy on technical, entrepreneurial and vocational education and training. This became the Technical, Entrepreneurial and Vocational Education and Training (TEVET) policy.

In January 1999, the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA) was created. The main objectives of technical education and training are to: promote an integrated, demand-driven, competency-based modular technical education and training system; monitor gaps between supply and demand for skills; support the adoption and application of appropriate skills, and a spirit of entrepreneurial culture with regard to both wages and self-employment; facilitate sound and sustainable financing and funding mechanisms for technical education and training; and to facilitate and bring together the expertise and moderate the different interests of stakeholders of technical education and training.

Technical and training colleges offer courses in such fields as forestry, marine science, social welfare and hotel management, as well as in various trades. These courses lead to certificates awarded after studies lasting between six months and four years.

Since 2000, TEVETA has been implementing a reformed National Apprenticeship Scheme in order to make it more flexible and responsive to the demands of the labour market. Competency-Based Education and Training (CBET) is the main feature of training methodology.

As from 2006, approximately 2 000 students have been admitted into public and private technical colleges in Malawi. There were 1 400 students in 2004. Numbers would have been higher than the current level had it not been for the limitation of space and capacity in the existing colleges. There are only seven established public colleges in Malawi, and they can accommodate fewer than 300 students each year, against enormous yearly demands.

The Private Sector Training Programme in the TEVET System supports training needs analysis and the development and organisation of training for staff already employed in the private sector. The process has three levels namely: training needs analysis; facilitating the development of training programmes; upgrading, refresher and specialised training, and the reimbursement of training costs.

Currently, TEVETA reimburses 33 per cent of the total training costs incurred by the employer for approved training. In a way, this is a direct benefit to companies that are levy compliant. To date, TEVETA has facilitated this kind of training for over 45 companies, reaching over 200 employees.
TEVETA also facilitates the implementation of on-the-job training through co-operation with partner organisations that are involved in the construction of infrastructures such as schools, and market centres in the towns and Assemblies. TEVETA attaches youths from within the areas where the project sites are located to this programme, and they receive modular training. TEVETA is currently co-operating with the United Kingdom Department for International Development (DFID), Malawi Social Action Fund (MASAF) and the Secondary Centres Development Programme (SCDP). So far, over 300 youths have been trained under this programme.

It appears, however, that the government has not achieved the objectives of setting up the TEVETA due to various reasons. For instance, there is some confusion about the types and levels of tests and certificates. One of the constraints highlighted by the Investment Climate Survey of Malawi is the lack of skilled labour, which is a severe impediment to business operations and growth. The underlying causes of this scarcity are twofold. The education system in Malawi is particularly weak, especially compared to neighbouring countries. Less than half of the children who start school get past primary school level. Less than 60 per cent of students enrolling in secondary education graduate to grade 12. Access to higher education is poor, with fewer than 4000 places available, and this is further restricted by finances and accommodation. There are only seven public technical colleges in Malawi, all established in the 1960s, and all of which have very poor facilities. In addition, the content of education does not meet the requirements of employers. The capacity of firms to compensate for the weak education system through training is also limited. Training budgets are always the first to be cut in difficult times. With the manufacturing sector shrinking, increased competition through globalisation, and increasing trade liberalisation and regional integration, companies are focusing on survival, and are often too resource-constrained to become effective partners in broader national strategies for technical and vocational training.

The shortage of skills is one of the leading constraints reported by manufacturing firms in Malawi. Training represents one way to address the scarcity of skilled labour, and is crucial to maintaining a competitive labour force. For workers with very low levels of education or skills, on-the-job training represents the single most important channel of augmenting human capital.

Table 4 shows how firms in Malawi respond to training needs. A little over half of formal manufacturing firms offer either internal or external training. Only 30 per cent of firms offer external training and 45 per cent of firms offer internal training. Large firms, foreign-owned firms and exporting firms are considerably more likely to provide external and internal training. The last two rows show the proportion of workers that received training. On average, 19 per cent of skilled workers and 12 per cent of unskilled workers in the manufacturing sample received training. Once again, larger, foreign or exporting firms provided more training to their skilled workers. The proportion of unskilled workers receiving training is remarkably uniform across firm categories.

Evidence from the Malawi Investment Climate Survey also shows that while only 22 per cent of manufacturing firms had a formal training programme, firms that offer training have much greater productivity.
(59 per cent higher) compared to those that have no training programmes.

The Malawi Investment Climate Survey also asked firms in the informal-firm sample whether they provide training to their workers and, if not, for reasons for not providing training. Two important results emerged from the analysis. First, the likelihood of training provision is much lower than among formal firms. Only 38 per cent of informal firms provide training. Moreover, this training consists primarily of internal training. Cost, a lack of incentives and a lack of demand account for a large percentage of responses of firms that do not provide training. Sixty-one per cent of firms that do not provide training do not perceive a need for it. Given that a similar proportion of firms report that training costs are prohibitive, it is difficult to establish which of these two reasons dominates.

The fact that only half of the formal sector provides any training, combined with the fact that half of firms report the availability of skilled workers to be a major constraint, points to an acute shortage of mechanisms to enhance the human resource base for the private sector in Malawi. While on-the-job training could provide an important source of human capital improvement, the problem of skilled labour shortages appears to be more deeply rooted in the education system. The analysis from the Ministry of Labour shows that candidates undertaking technical and vocational (T&V) training from the formal sector pass theory well and are weak on practical skill examinations, whereas candidates from the informal sector pass practical skills well and are weak on theory. In response to this, the Ministry is planning to better equip the training institutions with adequate equipment for formal training, while in the informal sector they plan to provide a wide range of self-learning materials. The analysis also found that 100 per cent of syllabi in Malawi were outdated.

In recent years, the Malawian government has introduced a formal training policy through the Technical, Entrepreneurial and Vocational Education and Training Authority (TEVETA). There is a TEVETA levy (1 per cent of total payroll for all employees) that is paid through the Private Sector Training Programme (PSTP). Those that pay this levy are entitled to several forms of training assistance from the government and a reimbursement of 33 per cent of total training costs. TEVETA realised total revenue of MWK 500 000 (USD 3.6 million). However, in reality the outreach and provision of training by TEVETA has been quite limited. On a positive note, TEVETA is now gaining acceptance as an organisation that can deliver quality service, and there is an increasing demand for its services.

Given these two self-reinforcing limitations, there are two policy options open to the government. The first is a short-term policy to provide training to workers who can no longer return to school. This can be done either by providing incentives for firms to train their workers, or by providing incentives and facilities where private firms can host training sessions. There is however widespread evidence to suggest that incentives do not work well, particularly where governments operate under severe budget constraints. TEVETA can play a pivotal role here by having a more proactive strategy for mobilising the private sector into becoming a better partner for TEVETA in training their employees. Part of TEVETA’s current strategy is to leverage its activities through linkages with other partners (bilateral donors, World Bank, corporate, non-state actors, civil society, etc.). Given the poor in-house training capacity in much of the private sector, TEVETA’s main challenge has been to get the right skills training into the right sectors in an effective manner. The shrinking manufacturing sector is pushing more semi-skilled and skilled people into the informal market in order to survive. TEVETA uses an entrepreneur-training programme to assist both trainees and workers who lose their formal employment to cope in the informal sector through self-employment. The key problem faced with respect to entrepreneurial training for the informal sector is to identify needs effectively and to provide the best fit through technical and vocational training programmes.

The second policy option would be a medium- to long-term policy aimed at improving the capacity and quality of schools. An important feature of an improved education system would be a revamped curriculum that is sensitive to the skill requirements of employers. This would be achieved through the following: review, rehabilitation and modernisation of all technical and vocational education centres, both at secondary and tertiary levels; introduction of new and emerging technologies to a selected number of secondary and tertiary education institutions; and expansion of partnerships with the private sector to assist in on-the-job training or technical and vocational skills development for more than just their employees (i.e. placements).

**Political Context**

In 2007, political infighting continued to threaten Malawi’s nascent economic recovery. President Mutharika was elected in May 2004 under the auspices of the United Democratic Front (UDF) party, but within a year had left the party and established a new Democratic Progressive Party (DPP), allegedly due to UDF opposition to his anti-corruption campaign.

Although by-elections in late 2005 and early 2006 saw the election of the first six directly elected DPP MPs, President Mutharika continues to govern without a parliamentary majority. The process of debating the national budget has become increasingly fraught, and the 2007/08 budget was passed after almost three months of delays. A large backlog of outstanding bills has accumulated, as the legislative branch tries to use whatever leverage it can to frustrate the executive.

The impeachment motion launched by opposition MPs, which had appeared to fizzle out, was reignited during the budget debate. While the budget was eventually passed, legal wrangling surrounding the use of Section 65 of the Constitution (which provides for the Speaker to declare vacant the seat of any opposition MP who has crossed the floor to side with the government) still hangs over the operations of government.

**Social Context and Human Resources Development**

While GDP growth has picked up in the last 4 to 5 years, it will take some time before this translates into improved poverty outcomes. Malawi has one of the poorest distributions of income in the world, with a Gini coefficient of 39 in 2004. The poverty headcount ratio stands currently at 54.2 per cent, and has hardly changed since the last household survey was undertaken in 1997/98. Social indicators are also very poor.

The national adult literacy rate is still low, at 66 per cent in 2007. It is higher among females (78 per cent) than males (54 per cent). The overall youth literacy rate is 76 per cent, which is higher than the adult literacy rate. Interestingly, there is not much disparity between the literacy of young females and males. According to international sources, primary gross enrolment ratio is 120 per cent. The rate is slightly higher for girls (121 per cent) than for boys (118 per cent). These high enrolment numbers indicate that a large proportion of primary school pupils are overage for their grade. This could partly be explained by delayed enrolment along with high dropout and repetition rates.

The 2004 Malawi Demographic and Health Survey found that 8 per cent of children aged 5 to 14 worked for non-household members. About 40 per cent of these children work without pay. Among children who help around the house with household chores, 68 per cent do these chores for an average of less than 4 hours per day, and 2 per cent work for 4 or more hours per day. Overall, older children and children in rural areas are more likely to be working. Girls are more likely than boys to do domestic work. It is particularly worrisome that a recent ILO survey found that at least 71 per cent of children were in the worst form of child labour.

---
There is currently a special task force in the Ministry of Labour working on this issue, and there has been substantial measurable improvement in this area.

Malawi, like the rest of Southern Africa, has very high levels of HIV prevalence. The last figure available reported that HIV prevalence at rural clinics increased from 12.1 per cent in 1999 to 14.5 per cent in 2004. Much remains to be done for behavioural change to take place in Malawi. In 2004, only 5 per cent of women and 15 per cent of men who had sex in the past year reported having used a condom during their last sexual intercourse with any partner. At 1.8 per cent, condom use is alarmingly low among married women. This may point to the difficulty which women face in negotiating the use of a condom with their husband. Better-educated persons are more likely to use condoms. For example, while 2 per cent of women with no education used a condom during their last sexual intercourse with any partner, the corresponding proportion for women with secondary or higher education is 14 per cent. The proportions for men are 6 and 27 per cent, respectively.

The last statistics on population from the United Nations highlighted that the total fertility rate for women aged 15 to 49 has declined from 7.6 births per woman twenty years ago to 5.4 in 2007. Contraceptive use, especially use of modern methods, has continued to rise since the early 1990s and is one of the principal causes of the fertility decline. The prevalence of modern contraceptive methods among married women aged 15 to 49 has increased from 7 per cent in 1992 to 33 per cent in 2004. The most popular contraceptive method among married women is injectables, followed by female sterilisation, and the pill. Malawi’s maternal mortality rate is currently 984 per 100 000 live births, which is also one of the highest in the world.

The Welfare Monitoring Survey shows that the national labour force participation rate has declined slightly, from 82 per cent in 2005 to 81 per cent in 2006. The male labour force participation still remains higher than the female. The national unemployment rate among 15-24 year-olds has not changed from 2005 to 2006, and the rate for females is higher than that for males in both years.