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Chapter 1

THE WORLD ECONOMIC BACKGROUND

1.1 The World Economic Outlook for 2005 and Prospects for 2006

1.1.1 Global GDP growth is projected to average 4.3 percent in 2005, but is expected to slow down slightly during the early part of 2006 due to the adverse impact of higher oil prices. This, however, is expected to be offset by still-accommodative macroeconomic policies, benign financial market conditions and increasingly solid corporate balance sheets.

1.2 Economic Outlook for Industrial Countries

1.2.1 Growth in the United States has eased moderately, but is projected to remain the highest in the G-7 despite the appalling cost in life and property from Hurricane Katrina. The indirect effects, particularly as a result of higher gasoline prices, may be more of a concern with low household savings. This increases the risk of a sharp slowing in private consumption growth especially if the housing market, which is becoming increasingly richly valued, were to weaken.

1.2.2 In the Euro area, the tentative recovery in domestic demand in the second half of 2004 has slowed considerably. While incoming data are broadly consistent with the strengthening of activities in the second half of 2005, GDP growth forecasts for 2005 have been markedly down, particularly for Italy; risks remain to the downside, given continued weak final domestic demand and the euro area's lack of domestic resilience to external shocks. In contrast, Japan's economy is regaining momentum with GDP growth rising sharply in the first quarter of 2005 and recent data pointing to continued expansion, thereafter GDP growth is now expected to average about 2 percent in both 2005 and 2006, with downside risks coming primarily from external factors.

TABLE 1.1 ADVANCED ECONOMIES: REAL GDP, CONSUMER PRICES ANDUNEMPLOYMENT: 2005-2006
(% Change)

Country	Real GDP Growth		Consumer Prices		Unemployment	
	2005	2006	2005	2006	2005	2006
USA	3.5	3.4	3.4	3.2	5.1	4.9
UK	1.8	2.5	2.1	1.9	4.8	4.9
Japan	2.7	2.8	-0.4	0.3	4.4	4.1
Germany	0.9	1.3	1.9	1.8	9.1	8.7
France	1.4	2	1.9	1.7	9.6	9.6
Italy	0.1	1.2	2.3	2.5	8.1	7.8
Canada	2.9	3.1	2.2	1.8	6.8	6.6

Source: IMF World Economic Outlook

1.3 Economic Outlook for Emerging and Developing Countries

1.3.1 Growth prospects for emerging market and developing countries in aggregate have remained broadly unchanged due to substantial changes in regional and individual forecasts, reflecting the impact of oil and other commodity price changes, exposure to global manufacturing and trade, among other factors.

1.3.2 In emerging Asia, GDP growth in China has continued to exceed expectations with substantial liquidity remaining in the banking system, and risks of a rebound in credit and investment growth remain a concern. Growth in India has also remained robust with the continued expansion in services, including information technology and accelerating industrial production. Elsewhere in the region, after a sluggish growth in the first quarter, GDP growth is projected to pick up in line with global manufacturing, although much will depend on the expected rebound in the information technology (IT) sector and oil prices.

1.3.3 After a strong rebound in 2004, GDP growth in Latin America has slowed, particularly in Brazil, where domestic demand fell back in early 2005 in response to monetary tightening to contain inflation, and political uncertainties in some countries are an increasing risk. Strong export growth and improved macroeconomic policy performance should help sustain the regional expansion going forward while the widespread pre-financing of forthcoming debt repayments will help reduce the risk of financial market volatility in response to current political uncertainties and forthcoming elections.

1.3.4 Rising oil production and prices, accompanied by dramatic improvements in external current account and fiscal positions, have continued to support GDP growth in the Middle East. Despite strong domestic demand, inflation has so far remained contained in the region. Therefore, fiscal and structural policies will need to be carefully managed to ensure that higher oil revenues should be effectively absorbed. In Turkey, while GDP growth has slowed to a more sustainable pace, the current account deficit has widened further, underscoring the need for firm implementation of the economic program. GDP growth in Russia has slowed since mid-2004, reflecting rising capacity constraints and the adverse effect of the Yukos affair. Growth in emerging Europe has also eased due to key risks, including high current account deficits.

TABLE 1.2: DEVELOPING COUNTRIES REAL GDP AND CONSUMER PRICE CHANGES

	Real GDP			**Consumer Prices**		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
Africa	5.1	5.2	5.7	7.7	8.5	9.1
Emerging Asia	7.8	8.6	8.2	4.0	3.5	3.8
South Asia	7.1	7.9	7.1	4.3	5.0	5.3
ASEAN-4	5.8	5.2	5.1	4.4	7.5	8.8
Newly Industrialised Asian Economies	5.5	4.6	5.2	2.4	2.2	2.2
Western Hemisphere	5.7	4.3	4.3	6.5	6.3	5.8

Source: IMF World Economic Outlook

1.4 Countries in Africa

1.4.1 GDP growth in Sub-Saharan Africa is forecast to moderate to 4.8 percent in 2005, partly reflecting a sharp slowdown in Nigeria as oil production nears capacity. Growth in oil-importing countries, while slowing, has so far held up surprisingly well. This is because the adverse impact of higher oil prices has so far been offset by stronger non-oil commodity prices as well as the benefits from improved macroeconomic stability and ongoing structural reforms. Looking forward, GDP growth is projected to rebound to 5.9 percent in 2006. This will be attributed to surging growth in oil producers as new capacity comes on stream. However, with oil prices now increasing more rapidly than non-fuel commodities, downside risks for net oil importers have increased; but much will depend on the strength of policies, improved political stability, and favourable weather conditions.

Chapter 2

MALAWI MACROECONOMIC PERFORMANCE IN 2005/06 AND PROSPECTS FOR 2006/07

2.1 Overall Economic Performance

2.1.1 Overall, the macroeconomic performance during 2005/06 fiscal year was associated with some hardships mainly due to the drought that hit the country in February and March, 2005. Since Malawi is an agro-based economy, the poor performance in the agriculture sector contributed to the poor economic growth of 2.1 percent in 2005 compared to a growth of 5.1 percent that was registered in 2004. Malawi is expected to have satisfactory performance in 2005/06 financial year due to the bumper harvest in most of the districts except for a few districts which had floods and dry spells. Consequently, the growth in real GDP is expected to increase to 8.4 percent in 2006 from 2.1 percent in 2005.

2.1.2 Due to pressure on foreign exchange emanating from importation of maize and fertilizers, the exchange rate depreciated to K118.40 per US Dollar as at end-December 2005 from K109 per US Dollar registered in December, 2004. During 2005, Government continued to exercise financial prudence in its operations by observing the budget targets. As a result, domestic borrowing by Government from the financial market reduced significantly and this maintained the base rate at 25 percent. The year average inflation stood at 15.4 percent in 2005 compared to 11.5 percent that was registered in 2004. This attributed in part to the food inflation as result of increases in food and oil prices. Prospects for 2006 look good as the inflation is expected to drop to 10.4 percent due to reduction in food prices because of the increased maize supply, emanating from high production registered in the year.

2.2 Economic programme for 2005/06

2.1.2 Perspectives of the 2005/06 budget as laid out in the 2005/06 Budget Statement, among others, highlight landmark of the budget which is the continuation of the strengthening of expenditure control mechanisms and reduction in the domestic borrowing by Government. In pursuance of this objective, Government implemented the Integrated Financial Management and Information System (IFMIS), a public accounting computer system that allows centralization of government's payment system. The aim of this system is to improved public financial management.

2.3 Performance on Economic Targets

2.3.1 In July 2004, a 12-month Staff Monitored Programme (SMP) was agreed upon by the IMF and the Government of Malawi as a requirement for the country to establish sound fiscal management before it resumes the PRGF arrangements with the IMF. Malawi excelled in the implementation of the SMP and with this satisfactory financial and economic performance, the IMF Board approved a new Poverty Reduction and Growth Facility (PRGF) Programme for Malawi in August, 2005. The macroeconomic performance continued to be satisfactory and Government met all the quantitative and structural performance criteria targets during the year.

2.4 Fiscal Performance

2.4.1 In 2005/06, total revenues and grants are projected to amount to K122.1 billion and represent 44.9 percent of GDP. This is an increase compared to K85.1 billion that was registered in 2004/05 fiscal year. Total expenditure and net lending is expected to rise to K129.3 billion compared to K97.7 billion that was registered in 2004/05. Out of the K129.3 billion, K94.6 will be current expenditure and K34.7 will be development expenditure..

2.5 Monetary Performance

2.5.1 Monetary developments in 2005 were expansionary mainly due to liquidity injection emanating largely from the extension of credit to the private sector by the banking system. Pressure on money supply arose from an increase in net foreign assets of the banking system as donor inflows resumed following the International Monetary Fund's approval of the new Poverty Reduction and Growth Facility (PRGF).

2.5.2 Money supply rose by 14.3 percent and totalled K52.2 billion in 2005 compared to an increase of 29.8 percent recorded in 2004. From the demand side, the expansion was explained by both components of money supply. Narrow money contributed 10.4 percent to the growth in M2 while quasi money explained 3.9 percent of the increase. The bank rate remained at 25 percent, a level which was reached in June 2004.

2.6 Real Sector Performance in 2005 and Prospects for 2006

2.6.1 Agriculture

2.6.1.1 At the end of 2005, the agricultural sector which includes agriculture, forestry and fishing recorded a real GDP growth of -9.3 percent from a projection of -6.7 percent in April 2005. However, in 2006, the sector is projected to grow by 11.8 percent on account of having a rebound to the normal production levels. This is due to the implementation of the fertilizer subsidy programme and the normal rains recorded in most parts of the country in 2005/06 growing season.

2.6.2 Mining and Quarrying

2.6.2.1 The sector grew by 52.1 percent in 2005 due to the new capital injections into the sector. However, the sector is projected to grow by 9.6 percent in 2006. The growth in 2005 was attributed to the sound performance recorded in mining of quarry, coal, cement and heavy sands, which was projected to increase further with inclusion of mining of rare earth minerals.

TABLE 2.1: GROSS DOMESTIC PRODUCT (GDP) BY SECTOR OF ORIGIN AT 1994 FACTOR COST: 2002-2006

	2002	2003	2004	2005	2006*
	(K'mn)	(K'mn)	(K'mn)	(K'mn)	(K'mn)
Agriculture	5,025.9	5,323.0	5,469.2	4,962.8	5,546.7
Smallscale	3,846.2	4,324.6	4,266.2	3,767.4	4,300.8
Largescale	1,179.8	998.4	1,203.1	1,195.4	1,245.8
Mining and Quarying	123.7	146.7	216.5	329.4	361.1
Manufacturing	1,453.5	1,500.0	1,603.0	1,717.9	1,818.1
Electricity and Water	185.9	190.2	204.4	223.0	239.4
Construction	311.2	352.6	389.3	438.1	497.7
Ownership of Dwellings	195.0	200.4	205.9	216.8	226.0
Services	5,587.6	5,672.6	5,977.3	6,470.7	6,882.7
Distribution	2,826.0	2,804.7	2,991.4	3,375.8	3,633.5
Transport and Communication	640.9	694.4	744.8	814.9	859.6
Financial and Professional Services	1,088.9	1,155.4	1,263.3	1,365.9	1,400.0
Private Social and Community Services	287.1	295.4	303.7	320.7	329.7
Producers of Government Services	1,182.7	1,202.9	1,230.7	1,250.2	1,293.2
Unallocable Finance Charges	-438.0	-480.2	-556.6	-656.8	-633.3
GDP at Factor Cost	12,882.8	13,385.5	14,065.7	14,358.6	15,571.6
	Annual percentage growth rates				
Agriculture	2.7	5.9	2.7	-9.3	11.8
Smallscale	-0.4	12.4	-1.4	-11.7	14.2
Largescale	14.2	-15.4	20.5	-0.6	4.2
Mining and Quarying	-38.7	18.6	47.6	52.1	9.6
Manufacturing	-0.1	3.2	6.9	7.2	5.8
Electricity and Water	5.8	2.4	7.5	9.1	7.4
Construction	14.1	13.3	10.4	12.5	13.6
Ownership of Dwellings	2.8	2.8	2.8	5.3	4.3
Services	2.9	1.5	5.4	8.3	6.4
Distribution	1.6	-0.8	6.7	12.8	7.6
Transport and Communication	17.5	8.3	7.3	9.4	5.5
Financial and Professional Services	6.7	6.1	9.3	8.1	2.5
Private Social and Community Services	2.9	2.9	2.8	5.6	2.8
Producers of Government Services	-0.5	1.7	2.3	1.6	3.4
Unallocable Finance Charges	13.5	9.6	15.9	18.0	-3.6
GDP at Factor Cost	**2.1**	**3.9**	**5.1**	**2.1**	**8.4**

NOTE: *Projections.
Source: National Accounts and BOP Technical Committee.

2.6.3 Manufacturing

2.6.3.1 Manufacturing sector registered a 7.2 percent growth in the year 2005. This was mainly a result of low levels of interest rates that allowed the industry to access capital to invest and repositioning of most industries by acquiring enough stocks of raw materials to mitigate the impact of the drought. The sector is expected to grow by 5.8 percent in 2006.

2.6.4 Electricity and Water

2.6.4.1 The sector is expected to grow by 7.4 percent in 2006 as compared to 9.1 percent growth attained in 2005. This is mainly due to the increased production in non-agricultural sector and reduction in electricity blackouts as a result of a new Tedzani Hydro Project. In the water sector, some improvements are expected in major water boards.

2.6.5 Construction

2.6.5.1 The sector registered a growth of 12.5 percent in 2005 due to the increase in the construction projects by the Government in its efforts to upgrade and provide good infrastructure facilities in the country. However, in 2006 the construction sector is expected to grow further by 13.6 percent.

2.6.6 Distribution

2.6.6.1 The distribution sector registered a growth of 12.8 percent in 2005 mainly due to increase in food imports into the country as a result of drought and agricultural distribution. In 2006, the sector is expected to grow by 7.6 percent.

2.6.7 Transport and Communication

2.6.7.1 Transport sector grew by 9.4 percent in 2005 and this was attributed to the increased activities in rail, road and air transport, especially the freight transportation that is the main driving force. However, the sector is expected to grow by 5.5 percent in 2006

2.6.8 Financial and Professional Services

2.6.8.1 The sector registered growth rate of 8.1 percent in 2005 as a result of the reduced interest rate from 35 to 25 percent in May 2004. The sector is estimated to grow by 2.5 percent in 2006.

2.6.9 Government Services

2.6.9.1 The sector registered a growth rate of 1.6 percent in 2005. However, it is expected to grow by 3.4 percent in 2006 on account of increased productivity in the public sector following the implementation of the some public sector reforms including the wage policy.

2.7 External Sector

2.7.1 In the external sector, the current account deficit excluding official transfers worsened from –26.8 percent of GDP in 2004 to –40.3 percent of GDP in 2005. This deterioration was due to the increase in the importation of maize and fertilisers due to the drought that hit the country in the 2004/05 season and the fertiliser subsidy programme for 2005/06 growing season.

TABLE 2.2: BALANCE OF PAYMENTS IN MILLIONS OF KWACHA

	2002	2003	2004	2005	2006*
	(K'mn)	(K'mn)	(K'mn)	(K'mn)	(K'mn)
Trade balance	-13,895.4	-24,400.3	-33,888.9	-74,323.6	-54,720.6
Exports of Goods, fob	31,713.1	42,252.0	54,419.6	56,690.7	78,913.9
Imports of Goods, fob 1/	45,608.4	66,652.3	88,308.4	131,014.3	133,634.5
Non-factor Services (net)	-12,679.7	-14,545.1	-18,521.6	-25,128.1	-25,811.0
Receipts	3,815.2	3,899.0	4,494.7	5,095.1	5,274.9
Payments	16,494.9	18,444.1	23,016.3	30,223.2	31,085.8
Factor Services (net)	-2,794.1	-3,267.8	-4,992.8	-5,162.4	-4,560.9
Receipts	933.8	1,187.3	504.4	463.8	1,300.1
Payments	3,728.0	4,455.1	5,497.2	5,626.2	5,861.0
Private Transfers (net)	623.2	610.6	1,888.9	5,562.6	7,583.9
Receipts	1,652.9	2,101.5	3,152.2	6,934.8	9,015.3
Payments	1,029.7	1,490.9	1,263.3	1,372.2	1,431.4
Current account balance	-28,746.1	-41,602.6	-55,514.3	-99,051.5	-77,508.5
Capital account balance	15,151.1	14,012.0	29,441.9	33,083.3	31,036.0
Long-term Capital balance	14,324.8	15,316.0	29,376.9	33,012.7	30,962.3
Government Transfers (net) 2/	9,185.3	11,779.6	24,186.2	24,840.9	21,330.5
Receipts	9,327.7	11,843.2	24,266.2	24,927.7	21,421.1
Payments	142.4	63.6	80.0	86.9	90.6
Government Drawings (net)	4,194.1	2,125.9	3,625.7	6,426.9	7,811.8
Receipts	6,346.1	8,507.9	11,567.4	13,467.0	15,896.1
Payments	2,152.0	6,382.0	7,941.7	7,040.1	8,084.3
Public Enterprises (net)	669.6	1,060.0	1,173.1	1,319.2	1,376.0
Receipts	929.6	1,181.9	1,321.3	1,435.2	1,497.1
Payments	260.0	121.9	148.2	116.0	121.0
Private Sector (net)	275.7	350.6	391.9	425.7	444.1

Receipts	518.9	659.7	737.5	801.1	835.7
Payments	243.2	309.1	345.6	375.4	391.6
Short-term Capital (net)	826.4	-1,304.0	65.0	70.6	73.6
Receipts	3,929.0	2,256.0	2,520.0	2,737.3	2,855.2
Payments	3,102.6	3,560.0	2,455.0	2,666.7	2,781.6
Errors and Omissions	19,498.4	22,216.5	18,565.8	58,019.6	37,249.5
Balance before debt relief	5,903.5	-5,374.1	-7,506.7	-7,948.5	-9,223.0
Debt Relief	2,244.0	4,634.2	5,125.2	5,644.1	9,223.0
Overall balance after debt relief	8,147.5	-739.9	-2,381.5	-2,304.4	0.0
Change in NFA	-8,147.5	739.9	2,381.5	2,304.4	0.0
Memorandum items:					
Current account deficit/GDP (percent)					
Excluding official transfers	-19.4	-24.2	-26.8	-40.3	-25.9
Including official transfers	-13.2	-17.3	-15.1	-30.2	-18.8
Capital Accounts Balance (% GDP)	10.2	8.2	14.2	13.5	10.4
Overall Balance Before Debt Relief (% GDP)	4.0	-3.1	-3.6	-3.2	-3.1
Overall Balance After Debt Relief (% GDP)	5.5	-0.4	-1.1	-0.9	0.0

NOTE: *Projections.
Source: National Accounts and BOP Technical Committee.

2.7.2 Average export prices in Kwacha terms were generally better for most of the crops in 2005 than in 2004 except for Tobacco, which declined from K272.03 per kg to K248.37 per kg. Overall, the trade balance deficit worsened from K33.9 billion in 2004 to K74.3 billion in 2005. Prospects for 2006 look good as the current account balance excluding official transfers is expected to bounce back to the 2004 level of –26.9 percent of GDP. This is attributed to the improved agriculture season of 2005/06 season.

2.8 Savings and Investment

In 2004, domestic savings as a percent of GDP worsened from –9.9 percent in 2004 to -10.3 percent in 2005. However, in 2006, it is expected to decrease to –8.1 percent of GDP.

TABLE 2.3: SAVINGS AND INVESTMENT

	2002 (K'mn)	2003 (K'mn)	2004 (K'mn)	2005 (K'mn)	2006* (K'mn)
INVESTMENT					
Gross Fixed Capital Formation	14,110.2	17,742.3	18,984.3	21,945.9	30,947.9
Public	11,472.9	14,426.2	15,436.0	17,844.0	20,422.5
Private	2,637.3	3,316.2	3,548.3	4,552.9	4,695.3
Stock Building	3,238.1	3,687.4	4,320.4	5,094.0	5,830.1
Gross national investment	17,348.3	21,429.8	23,304.7	27,039.9	30,947.9
SAVINGS					
Gross national savings	17,348.3	21,429.8	23,304.7	27,039.9	45,014.2
National Savings	-2,212.4	-8,393.3	-8,023.4	-50,320.8	-27,555.1
Domestic savings	-9,226.7	-17,515.6	-29,105.7	-75,561.9	-51,908.6
Net factor income	-2,794.1	-3,267.8	-4,992.8	-5,162.4	-4,560.9
Net private transfers	623.2	610.6	1,888.9	5,562.6	7,583.9
Net official transfers	9,185.3	11,779.6	24,186.2	24,840.9	21,330.5
Foreign savings	19,560.8	29,823.1	31,328.1	77,360.7	72,569.3

NOTE: *Projections.
Source: National Accounts and BOP Technical Committee.

2.9 Conclusion

The economic performance worsened in 2005 as compared to 2004 due to the drought that hit the country and resulted in low agricultural output. Economic growth rate declined from 5.1 percent registered in 2004 to 2.1 percent registered in 2005. Inflation increased from 11.5 in 2004 to 15.4 in 2005 due to the maize shortage. In August 2005, IMF recognized Malawi's satisfactory performance under the Staff Monitored Programme and approved a new PRGF arrangement. The macroeconomic performance remained satisfactory and the country met all the quantitative and structural performance criteria targets.

TABLE 2.4: SELECTED ECONOMIC AND FINANCIAL INDICATORS

	2002	2003	2004	2005	2006*
	(Annual Percentage changes, unless otherwise indicated)				
GDP AND PRICES					
Real GDP	2.1	3.9	5.1	2.1	8.4
Inflation (period average)	14.9	9.6	11.4	15.5	10.9
GDP Deflator	16.6	9.2	12.5	15.4	11.9
MONEY AND CREDIT (beginning of yr, M2)					
Money and Quasi Money	25.2	29.3	29.8	14.3	20.0
Net Foreign Assets	-55.4	21.5	6.0	5.0	27.2
Net Domestic Assets	80.6	7.8	23.8	9.3	-7.3
Credit to the Government	45.1	11.3	10.3	2.2	-1.0
Credit to the rest of the Economy	4.1	8.1	11.3	5.6	3.4
	(As a percentage of GDP, unless otherwise indicated)				
CENTRAL GOVERNMENT					
Revenue (excluding grants)	20.0	22.6	25.1	24.8	24.3
Expenditure	38.3	42.5	43.1	47.5	41.0
Overall Balance (excluding grants)	-18.3	-19.9	-18.0	-22.7	-16.7
Overall Balance	-11.6	-7.8	-5.6	-3.7	-1.2
SAVINGS AND INVESTMENT					
National Savings	-0.8	3.3	5.1	8.6	10.0
Domestic savings	-11.0	-11.7	-9.9	-10.3	-8.1
Foreign savings	-11.2	-7.6	-9.3	-5.9	-5.0
Gross Investment	10.4	10.9	14.4	14.5	15.0
EXTERNAL SECTOR (million US$)					
Exports f.o.b.	421.1	440.6	470.0	524.2	572.0
Imports c.I.f	-726.8	-791.6	-893.9	-997.9	-1023.2
Gross Official Reserves	103.4	115.6	119.3	131.2	175.7
In months of import cover	1.4	1.4	1.3	1.4	1.9
Kwacha per U. S. dollar (period avg)	76.7	97.5	109	118.4	123.5
DEBT STOCK AND SERVICE (% GDP)					
External Debt (Public Sector)	143.3	158.9	148.1	136.8	46.9
Net Domestic Debt (Central Govt)	17.4	22.3	22.6	21.9	18.0

NOTE: *Projections.
Source: National Accounts and BOP Technical Committee.

Chapter 3

AGRICULTURE AND NATURAL RESOURCES

3.1 Agriculture Sector

3.1.1 Performance of the Agriculture Sector During the 2005/06 Season

3.1.1.1 As initially forecast by the Department of Meteorological Services (DoMS), during the 2005/06 rainfall season, a greater part of the country experienced normal cumulative rainfall amounts with fairly good distribution. There have been few areas in some districts, which experienced some patches of dry spell during the season. While these have had a negative impact on crop production, those areas were very few and the negative impacts were localised.

3.2. Crop Performance

3.2.1 Smallholder Crop Performance

3.2.1.1. The favourable rainfall experienced by most parts of the country coupled with the Inputs Subsidy Programme has resulted in substantial increase in crop productivity and production. Taking 2004/05 production season as a basis, crop production levels for all major crops in 2005/06 have registered a substantial increase in 2005/06 season.

3.2.1.2 The crop production estimates presented in the Table 3.1 in 2005/06 column are based on Second Crop Production Estimates which are close to the Final Crop Production Estimates to be released in June 2006. Past trends have shown that the difference between the Second Round Figures and the Final Round Figures is +/-5 to +/-10 percent.

TABLE 3.1: NATIONAL CROP PRODUCTION ESTIMATES FOR SELECTED CROPS FOR 2001/02 TO 2005/06

Crop	2001/02	2002/03	2003/04	2004/05	2005/06*
Maize	1,899,185	1,983,440	1,733,000	1,259,332	2,350,159
Paddy Rice	93,200	88,184	49,000	44,815	81,303
Groundnuts	155,200	190,112	161,000	141,795	199,037
Tobacco	82,500	94,312	106,186,000	72,504,000	109,840,000
Cotton	37,600	40,446	53,000	59,212	56,327
Sorghum	36,900	45,438	41,000	19,039	68,419
Millet	20,400	24,515	17,000	12,259	41,192
Pulses	303,000	323,488	247,000	225,664	335,204
Cassava	3,362,400	1,735,065	2,559,000	2,192,806	2,831,840
Sweet Potatoes	2,586,900	1,535,137	1,784,000	1,041,790	1,746,617

* Second Crop Production Estimates. These will be confirmed after third crop estimates.

3.2.1.1 Maize

3.2.1.1.1 2,350,159 metric tonnes of maize is expected to be produced in 2005/06, reflecting an increase of about 87 percent over 1,259,332 million metric tonnes of maize produced in the 2004/05 agricultural season.

3.2.1.2 Puddy Rice

3.2.1.2.1 Production of rice is also expected to increase by 81 percent to 81,303 metric tonnes from 44,815 metric tonnes for the 2004/05 season.

3.2.1.3 Groundnuts

3.2.1.3.1 An increase of 40 percent in production of groundnuts from 141,795 metric tonnes registered in 2004/05 to 199,037 metric tonnes of groundnuts, is be recorded in 2005/06 due to favoured rainfall conditions;

3.2.1.4 Tobacco

3.2.1.4.1 In 2005/06, tobacco production has increased by 52 percent over last year's production. It is expected that about 109,840,000 kg of tobacco has been produced in 2005/06 smallholder sector compared to 72,504,000 kg in 2004/05 season.

3.2.1.5 Cotton

3.2.1.5.1 Despite the increases in production of other crops in 2005/06, cotton produced is expected to register a decline of 5 percent from 59,212 metric tonnes grown last year to 56,327 metric tonnes of cotton. The drop in cotton production is attributed to low prices offered by the main cotton buyers in the country last year and some dry spell in some cotton growing areas.

3.2.1.6 Sorghum

3.2.1.6.1 Production of sorghum is expected to increase to 68,419 metric tonnes from 19,039 metric tonnes produced last year.

3.2.1.7 Millets

3.2.1.7.1 Millet production in 2005/06 is expected to increase from 12,259 metric tonnes produced to 2004/05 to 41,192 metric tonnes in 2005/06, reflecting in increase of 36 percent.

3.2.1.8 Pulses

3.2.1.8.1 Production of pulses (beans, pigeon peas, cow peas, field peas, grams, soy beans and chick peas) in 2005/06 has improved significantly to 335,204 metric tonnes from 225,664 metric tonnes recorded in the 2004/05 season, representing a 48 percent increase;

3.2.1.9 Cassava

3.2.1.9.1 Production of cassava is expected to grow by 29 percent to 2,831,840 metric tonnes of cassava from last season's production of 2,192,806 metric tonnes.

3.2.1.10 Sweet Potatoes

3.2.1.10.1 1,746,617 metric tonnes of sweet potatoes is expected to be produced this year from 1,041,790 metric tonnes recorded last year, representing a 68 percent increase; and

3.2.3 Malawi's Food Requirement and Expected Food Gap

3.2.3.1 Malawi requires 2.18 million metric tonnes of maize for the 2006/07 marketing season. This comprises 2.00 million metric tonnes for consumption, 38,009 metric tonnes for seed requirements, and 60,000 metric tonnes for the SGR. With a total estimated production of 2.35 metric tonnes, the country is due to have a surplus of 250,000 metric tonnes in 2005/06 season.

3.2.4 Planned Food Security Operations during the 2006/07 Fiscal Year

3.2.4.1 Based on the success of the 2005/06 Inputs Subsidy Programme, Government will through the Ministry of Agriculture and Food Security implement the following programmes:

1) Replicate the Inputs Subsidy Programme whereby 15,000 metric tonnes of fertilizer and 10,000 metric tonnes of seed will be procured and sold to farmers at a subsidised price;
2) Replenish the SGR to 60,000 metric tonnes, of which 40, 000 metric tonnes will be bought with donor finance while 20, 000 metric tonnes will be purchased with local resources;
3) Purchase of 40,000 metric tonnes of maize for commercial purposes through ADMARC;
4) Intensify the winter cropping in all ADDs, particularly in districts and areas hit by the dry spell during the 2005/06 growing season; and
5) Intensify seed multiplication for cassava and sweet potatoes through the establishment of community and government managed seed banks.

3.2.5. Irrigation Development

3.2.5.1 Despite the transfer of the Irrigation Department to the Ministry of Irrigation and Water Development, the Ministry of Agriculture and Food Security continues to collaborate and implement activities towards irrigation development. In the 2006/07 financial year, the Ministry will commence the implementation of a US$50 million World Bank funded project. Under this project, four existing schemes will be rehabilitated before being handed over to the surrounding local communities.

3.2.6 Tobacco Exports

3.2.6.1 As can be observed from the table below, tobacco prices continue to decline at a progressive rate resulting in intermittent closures of the auction floors this year. This is against the backdrop of tobacco being the biggest foreign exchange earner for the country. Government continues to explore ways of providing a competitive marketing framework to the farming community.

TABLE 3.2: TOBACCO EXPORTS: VOLUME, VALUES AND AVERAGE PRICES

	Actual 2004	Actual 2005	Actual 2006*	Forecast 2006
Volume (mn kgs)	81.13	101.74	22.25	123.21
Value (US$ mn)	201.59	233.00	50.71	280.50
Average Price (c/kg)	248.48	229.02	227.89	227.66

Source: Tobacco Control Commission

3.2.7. Crop Diversification: Strategy for Improving Agricultural Productivity

3.2.7.1 The Ministry of Agriculture through the Crops Department is putting in place several mechanisms that will ensure crop diversification as a way of improving agricultural productivity. Some of the crops the Department is targeting through this strategy include cotton, cassava and sweet potato.

3.2.8 Promotion of Cotton Production

3.2.8.1 The Ministry in collaboration with various other stakeholders such as private cotton buyers continues to promote cotton production and marketing. Cotton is identified in the Malawi Growth and Development Strategy (MGDS) as one of the strategic crops. Promotion of the crop is envisaged to create jobs in Malawi through revamping the cotton textiles and garment chain. As such, considerable amount of resources will be allocated towards promotion of cotton production and marketing in the 2006/07 annual budget.

3.2.8.2 In this regard, the Ministry has planned to intensify multiplication of cottonseed, targeting to produce 50 metric tonnes of basic seed and 250 metric tonnes of certified seed. The Ministry also intends to establish a cotton council, which will be charged with the responsibility of overseeing the development of the cotton chain industry in Malawi. Production technologies are also expected to be developed, starting with five trials.

3.2.9 Promotion of Cassava and Sweet Potato Production

3.2.9.1 The Ministry has also heightened efforts to promote production and utilisation of drought resistant crops such as cassava and sweet potatoes. This is with a view of

* From January, 2006 to 30th April, 2006

reducing food security risks associated with the frequent droughts experienced by the country. In this regard, the Ministry has, with assistance from USAID, set aside K24 million for the promotion of cassava and sweet potato production and utilisation.

3.2.9.2 Under this initiative, the Ministry has planned to supply improved and clean planting materials for the two crops so as to cover 30,000 hectares of land with cassava and 40,000 hectares with sweet potatoes of improved varieties. The Ministry is also planning to promote processing and utilisation of these crops among the farming communities through awareness campaigns.

3.3 Fisheries Sector

3.3.1 Importance Of The Sector

3.3.1.1 Fisheries sector is of great importance to the national economy as a source of employment, food, rural income, export, import substitution and bio-diversity. The sector directly employs about 57,854 people and indirectly employs about 300,000 people who are involved in fish processing, fish marketing, boat building and engine repair. Furthermore, nearly 1.6 million people in lakeshore communities (about 10 percent of Malawi's population) are supported by the fishing industry.

3.3.1.2 Fish provides over 60 percent of the dietary animal protein intake of Malawians and 40 percent of the total protein supply. It also provides vital vitamins, minerals and micronutrients. Much of the fish is consumed in rural areas, contributing significantly to daily nutritional requirements to some of the vulnerable groups such as HIV/AIDS victims, orphans and the poor.

3.3.1.3 In 2004, fish landings had a beach value of K2.6 billion (Table 3.3), about 4 percent of GDP. Most of the fish caught is locally consumed and this substitutes fish imports. Lake Malawi is endemic to over 800 fish species of both local and international scholarly importance and is also a source of tourist attraction. Some fish species such as mbuna are exported and this helps to bring the much-needed foreign exchange. Fish farming is also being promoted and it contributes about 1 percent to total fish supply in Malawi.

3.3.2 Fish Production

3.3.2.1 The Malawi fisheries are conventionally divided into three sectors; the small-scale commercial sector (often called the traditional or the artisanal sector), the semi-industrial sector, and the industrial sector. Each of these sub-sectors contributes differently towards the total catch and employment in Malawi.

3.3.2.2 The total national estimated catches are currently over 50,000 metric tonnes per year, of which 81.3 percent originates from Lake Malawi. Beach recorders situated in every fishing district collect the fish production data and the data is then aggregated and analyzed at the Malawi Fisheries Research Institute in Monkey Bay, Mangochi.

TABLE 3.3. FISH CATCH IN METRIC TONNES BY WATER BODY AND TOTAL LANDED VALUE

Year	Lake Malawi – Artisanal	Lake Malawi – Commercial	Lake Malawi - Total Tonnage	Lake Malombe	Lake Chilwa	Lake Chiuta	Lower & Middle Shire	Total Tonnage	Landed value (MK '000)
1980	23,000	7,200	30,200	6,500	19,400	800	3,900	60,800	10,521
1981	17,700	7,600	25,300	8,500	8,600	900	4,000	47,300	8,220
1982	17,800	6,400	24,200	12,100	15,500	1,400	5,200	58,400	9,346
1983	23,400	7,800	31,200	9,700	16,800	1,100	6,100	64,900	17,649
1984	25,000	7,600	32,600	11,3,00	14,600	2,000	4,900	65,400	20,513
1985	21,000	8,000	29,000	8,600	15,200	1,700	7,600	62,100	27,649
1986	29,200	7,200	36,400	13,400	13,800	800	9,200	73,600	37,128
1987	41,800	8,200	50,000	13,000	8,400	3,300	7,100	81,800	40,580
1988	40,400	6,700	47,100	11,500	7,400	2,000	8,200	76,200	71,706
1989	33,800	4,900	38,700	6,200	12,600	1,300	10,300	69,100	77,345
1990	31,600	6,200	37,800	12,200	20,300	2,400	7500	80,200	65,000
1991	30,000	5,700	35,700	9,625	7,400	1,700	9,000	63,425	89,804
1992	35,500	4,900	40,400	7,600	10,459	2,687	3,000	64,146	96,219
1993	38,200	3,569	41,769	5,811	10,810	3,532	2,900	64,822	130,916
1994	29,461	4,775	34,236	4,134	10,186	3,350	2,011	53,917	215,668
1995	21,470	5,211	26,681	2,653	1,328	1,159	2,074	33,895	203,370
1996	36,716	2,988	39,704	3,573	3,200	4,045	2,173	52,695	742,275
1997	25,154	3,662	28,816	2,790	4,510	2,733	1,586	40,435	808,700
1998	28,381	1,370	29,751	4,789	4,973	3,250	1,756	44,519	1,023,937
1999	29,051	3,674	32,725	3,717	4,742	1,519	2,146	44,849	1,123,915
2000	37,686	3,698	41,384	620	14,945	1,575	4,618	63,142	1,814,070
2001	33,318	4,928	38,246	512	7,912	1,058	2140	49,868	1,517,483
2002	23,408	3,767	27,175	693	6,288	1,273	2,173	37,602	1,175,815
2003	40,045	5,600	45,645	553	6,772	1,313	1,837	56,120	2,661,210
2004	31,988	3,391	35,379	510	7,411	790	2,449	46,552	4,876,300

Source**:** Fisheries Department, 2005

3.3.2.3 Total catches from Lake Malawi alone fluctuate from 26,000 to 47,000 metric tonnes per year, with 75 percent and 85 percent of the catch coming from “traditional” sector and “commercial” sector, respectively. Total catches from traditional sector of Lake Malawi for the years 1989-1999 have fluctuated from year to year, with a declining trend. The Lake Malawi fisheries, if treated as a whole, reveal a stable catch per unit effort (CPUE). However, individual cases differ. For instance, the CPUE of the fishery in the South East Arm of Lake Malawi appears stable while the South West Arm has experienced a reduction in the CPUE. The highest catch of 50,000 metric tonnes was recorded in 1987 for Lake Malawi.

3.3.2.4 The ‘industrial fishery’ sector’s contribution to the landings has generally been declining over years. However, this is expected to increase due to the introduction of more powerful vessels and expected increase in participation in the sector as a result of the duty waiver granted on all fishing equipment

3.3.3 Catch Composition

3.3.3.1 Average traditional catch is composed of 16 main species of which *Haplochromines* and *Usipa* are a dominating group with the average of 10,114 metric tonnes and 8,441 metric tonnes, respectively, whilst *Tilapiines* catches have been declining over the years (Table 3.3). These three species groups yield 50.5 percent of the average total catch. The catfish species and other species yield the remaining 49.5 percent.

TABLE 3.4: AVERAGE ANNUAL FISH CATCH (METRIC TONNES) BY SPECIES FOR ALL WATER BODIES

SPECIES	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
Chambo	3,569	2,437	1,486	2,616	2,261	1,514	1,246	3,349	2,389	3,175	6,202	30,244
Kambuzi	1,813	3,088	3,043	3,077	1,952	2,159	2,763	3,454	2,698	1,765	1,948	27,760
Kasawala	0	10	90	44	6	32	62	592	2,163	,66	228	3,293
Kampango	1,578	1,496	1,447	762	735	686	857	1,086	1,268	929	1,615	12,459
Mlamba	4,923	4,098	2,008	1,319	1,519	2,875	7,318	9,211	6,713	3,320	3,898	47,202
Mbaba	0	0	36	402	297	329	2,447	1,283	3,928	2,575	3,277	14,574
Mcheni	0	0	4	263	20	60	774	649	1,277	1,715	1,081	5,843
Ntchila	142	174	121	94	60	19	19	11	17	8	27	692
Sanjika	0	0	0	10	60	68	77	45	18	7	22	307
Usipa	6,765	6,079	9,126	20,796	12,796	10,526	5,006	8,751	3,726	4,293	4,986	92,850
Utaka	8,150	13,923	5,371	10,382	9,947	6,560	6,749	16,638	11,329	7,146	15,061	111,256
Chisawasawa	167	295	15	120	295	61	999	2,343	6,665	2,272	1,394	14,626
Ndunduma	0	0	0	0	0	0	0	3	13	131	166	313
Mpasa	0	0	0		1	128	25	84	37	214	482	971
Nkholokolo	0	0	0	0	0	0	0	58	281	13	148	500
Other tilapia	0	0	0	0	0	0	0	433	171	460	1,517	2,581
Other spp	5,619	5,246	3,478	1,598	2,506	2,906	2,705	5,851	2,831	3,199	2,557	38,496

Source: Department of Fisheries

3.3.4 Distribution Of Fishers And Fishing Craft

3.3.4.1 There are 15,316 vessels[1] distributed countrywide in Malawi. However, high proportion of these are predominantly dugout canoes. For instance, only 3.2 percent are motorized vessels, partly as a result of increased fuel, lubricants costs and maintenance costs and 77 percent are dugout canoes, which typifies the levels of investment, reflecting a small scale nature of the sector. The number of gear owners increased by 15 percent from 13,503 fishers in 1999 to 15,542 fishers in 2003 while that of crew members also increased by 20 percent from 35,347 crew members in 1999 to 42,312 crew members in 2003

[1] Vessel means a steamer, motor vessel, launch boat, canoe, hovercraft, submersible or floating craft.

3.3.5 Fish Supply Per Capita

3.3.5.1 Fish supply per capita has steadily fallen due to high population growth against declining fish production and this is a real threat to food security and human nutrition in Malawi. In 1976, per capita annual fish supply was 12.9 kg. This had fallen to 7.4 kg in the 1990s and then decreased further to 6.1 kg in 2000. This is by far less than 13-15kg per capita supply recommended by World Health Organization. In order to redress the situation, Government in collaboration with other stakeholders is implementing various strategies in capture fisheries, aquaculture and trade.

3.3.6 Current Potential And Exploitation Methods

3.3.6.1 Research findings over the 1990s indicate that there is enough fish biomass in deep waters of about 50 metres to allow harvestable quota of about 35,000 metric tonnes per year. Taking into account the type of fishing equipment and gear that is being used, this fish is beyond the limits of present small-scale fishers. Hence, appropriate technology and enough capital is required to exploit this offshore resource. It should also be emphasized that the most important fishing gears in Malawian waters are gillnets and fish traps. The number of gillnets has increased markedly from 20,000 to 42,694 gillnet units[*].

3.3.7 Status of Fish Farming

3.3.7.1 Due to the decline in fish catches and per capita fish supply in Malawi, Government is promoting fish farming. The goal is to increase and sustain fish production from small-scale and large-scale farming operations by encouraging farmers to adopt fish farming system as a source of subsistence and income. There are presently approximately 4,600 small-scale fish farmers in Malawi, owning over 9,500 fish ponds that are scattered through out the country. A few investors in the private sector such as Sugar Co-operation of Malawi (SUCOMA) and NALI COMPANY LIMITED are undertaking large-scale fish farming, mostly in their initial stages. Combined production from both small-scale and large-scale fish farmers in Malawi is around 565 metric tonnes per annum.

3.3.7.2 The major fish species currently in use are T*ilapia rendalli* (chilunguni), *Oreochromis shiranus* (makumba*), Oreochromis karongae (chambo) and Clarias gariepinus* (Mlamba). Research work is underway at National Aquaculture Centre in Domasi to domesticate some of the Malawian cyprinids such as *Labeo cylindricus* (Ntchira) in the near future.

[*] 1 unit = 100m net length

TABLE 3.5: PRODUCTION FIGURES FROM AQUACULTURE IN MALAWI 1995-2002

Year	Total Production (metric tonnes)
1995	226
1996	210
1997	250
1998	340
1999	590
2000	640
2001	750
2002	800

3.3.7.3 From the above table, it is important to note that 93 percent, 5 percent and 2 percent of production in each year is tilapia; catfish; and other exotic species such as common carp, black bass and trout, respectively.

3.3.8 Current Investment Efforts For Fish Production

3.3.8.1 The sector has put a number of strategies in place, including the Chambo Restoration Strategic Plan, which aim at increasing fish production for local consumption as well as export. Currently, the Press Corporation, through MALDECO Aquaculture have embarked on a cage culture of chambo in Lake Malawi, while a consortium of Malawi Development Corporation (MDC) and Lake Harvests of Zimbabwe are preparing an appraisal to invest into the production of chambo and mlamba in the Lower Shire. These investments include establishment of EU-standard processing plants that will enable Malawi export to Europe within the next few years. An estimated 3000 metric tonnes will be produced annually from this investment.

3.3.8.2 The sector is also developing Aquaculture Master Plan through technical and financial support from JICA. The Master Plan will guide development in aquaculture for the next 10 years. Small-scale integrated agriculture-aquaculture programme is also being promoted especially in irrigation schemes through Integrated Irrigation-Aquaculture Project that is funded by the FAO.

3.3.8.3 While the stock assessment surveys reveal a potential of 30,000 to 35,000 metric tonnes of fish to be caught annually from the unexploited deep water fish, there has been localized over-fishing near the shores as artisanal fishers lack the resources to expand their activities further inside the lake. In this regard, the Department of Fisheries is focusing on achieving strong commitment on government side by ensuring that capture fisheries production is enhanced. A loan of about K900 million has been secured from the African Development Bank (ADB) to support the Lake Malawi Artisanal Fisheries Development Project (LMAFDP) for five years (2003-2008).

3.3.8.4 The LMAFDP Project aims at addressing the problem of over-exploitation of shallow water stocks as well as lack of resources and capacity to tap the proven deep-water fish resources. The project has four major components that will focus on fish production and marketing development, credit delivery, capacity building and institutional strengthening. It is anticipated that at least 17,920 households in the five littoral districts of Mangochi, Salima, Nkhotakota, NkhataBay and Likoma will benefit from this Project.

3.3.8.4. The development of fish farming will be supported by the recently developed framework called the Presidential Initiative on Aquaculture Development (PIAD). This is an initiative undertaken by the President of the Republic of Malawi to develop aquaculture in Malawi. This is aimed at playing a catalytic role of boosting economic growth through active participation of various stakeholders to increase fish production from aquaculture from the current 500 metric tonnes to over 5,000 metric tonnes of fish catch by 2011.

3.3.8.5 This initiative builds on previous efforts to promote aquaculture, which are outlined in the Department of Fisheries' 2003 – 2008 Strategic Plan, 2003 – 2013 Chambo Restoration Strategic Plan, and the National Aquaculture Strategic Plan. The potential for aquaculture exists both at small and large-scale commercial levels. Based on perennial water supply, availability of suitable soils and climatic conditions, it is estimated that 1.8 million hectares of total available land is conducive for pond aquaculture.

3.3.9 Fisheries Resource Management and Monitoring

3.3.9.1 In order to achieve sustainable exploitation of the aquatic resources by artisanal fishers, the Department of Fisheries has adopted a co-management approach whereby stakeholders from local management authorities look after the resources. During the last financial year, fisheries economic profiles for fishing gears were developed for all the water bodies; training for local communities on fish resources management was conducted; market study was also done; devolution plan for the fisheries sector was developed; draft management agreements were produced for Lake Chiuta and Chilwa; quarterly district meetings were conducted where performance and progress of various programmes were reported and evaluated.

3.3.9.2 In addition, the Department sensitised the communities all over the country on how to form local fisheries management authorities and offered training on leadership skills to some existing community institutions. As a result, a total of about 450 beach village committees (BVCs) have been set up all over the country and are jointly managing resources within their localities with the Department of Fisheries and district assemblies.

3.3.9.3 The Department also strengthened institutional capacity in resource management, monitoring and control by deploying newly recruited technical assistants to different sites and making sure that fisheries staff are available in all districts as part of devolution of its functions.

3.3.10 Development of Legal Framework

3.3.10.1 Local community participation in fisheries management requires procedures and legal instruments. The instruments provide for mutually acceptable agreements on how best to set up regulations and manage resources sustainably. The operations of the Department are guided by the Fisheries and Aquaculture Policy of 2001, the Fisheries Management and Conservation Act of 1997, and the Fisheries Five Year Strategic Plan (2002-2007) that outlines the major strategies for the development and management of the sector.

3.3.10.2 During the 2004/05 financial year, fishing regulations were reviewed. By-laws for Lake Chilwa and Mpoto Lagoon have also been developed. However, more resources are required to develop legislation to assist in the management of the shared water resources and foster regional cooperation among countries of Malawi, Mozambique and Tanzania.

3.3.11 Fisheries Research

3.3.11.1 Decisions guiding fisheries management arises from fisheries research findings. Research provides information on status and composition of fisheries resources, biological and chemical characteristics of aquatic environment and level of human involvement in fisheries activities. This information guides the direction the sector should take in the management and development of fisheries resources. This calls for timely and appropriate formulation and implementation of research programmes.

3.3.11.2 Fisheries research for the 2005/06 in fish farming focused on seed production and rearing techniques for new fish farming species in order to define optimum conditions for fast growing rates. Furthermore, a manual of fish farming procedures was developed that is to be used by various stakeholders in the sector. On capture fisheries, research activities concentrated on stock assessment. Information generated is used in managing the fish resources in a manner that will maximize food production. In addition, the generated knowledge is used to ensure that resources are not over-exploited.

3.3.12 Existing Import and Export Market for Fish

3.3.12.1 Apart from 2000, fish imports have generally been increasing for the past four years. The highest level of fish imports amounting to 2,808 metric tonnes was recorded in 1999, showing that demand for fish in Malawi is still growing. Most of imported fish came from Zimbabwe, South Africa, Tanzania, Mozambique, Thailand, Namibia, Swaziland and China.

TABLE 3.6: FISH IMPORTS AND EXPORTS (1997-1999)

Year	Fish Imports		Fish Exports	
	CIF Kwacha	Quantity (kg)	CIF Kwacha	Quantity (kg)
1997	13,029,738	759,808	1,096,550	5,000
1998	19,493,426	444,179	400	102
1999	27,840,370	2,808,408	328,749	3,909
2000	34,293,103	1,630,670	-	-

Source: National Statistics Office (2001)

3.3.12.2 On the other hand, fish exports have been fluctuating (5 tonnes in 1997, 0.102 tonnes in 1998 and 3.909 tonnes in 1999. It was observed that most of the fish products exported from Malawi are re-exports which have been increasing indicating a growing number of middlemen who supply overseas and coastal fish resources to other neighbouring countries. The re-exports constitute over 80 percent of the total exports especially since 1997. The re-exports include fish such as frozen shrimps and prawns, trout, salmon, cod fish and flat fish.

3.3.12.3 Fish meal is also being imported into the country by poultry/livestock feed producing companies such as Grain-tech Company. In 1997, Malawi imported 112 metric tonnes, 84 metric tonnes in 1998 and about 26 metric tonnes in 1999. The declining trend does not, however, imply that fish meal is locally available but rather it shows a declining trend in demand for the livestock and poultry industries in the country.

3.3.12.4 In terms of aquarium trade, Malawi exported a total of 5,099 units of aquarium fish at a value of K3,879,108 in 1997, and in 1998 a total of 33,408 units were exported at a value of K3,240,792 while in 1999 a total of 40,821 unit of aquarium fish was exported at a value of K8,476,768 (Table 7). On imports, a total of 25,200 units and 717 units of live fish were imported into the country in 1997 and 1998, respectively.

TABLE 3.7: IMPORTS AND EXPORTS OF AQUARIUM FISH

Year	Fish Imports		Fish Exports	
	CIF Kwacha	Quantity (Units)	CIF Kwacha	Quantity (Units)
1997	294,911	25,200	3,879,108	5,099
1998	0	0	3,240,792	33,408
1999	51,652	717	8,476,768	40,821

Source: National Statistics Office (2001)

3.3.12.5 The aquarium fish was exported to various countries like Belgium, Denmark, France, Germany, Japan, Netherlands, Portugal, South Africa, Sweden, Switzerland, United Kingdom and the United States of America. This is the only fisheries sector that is promoted by the Malawi Export Promotion Council (MEPC) as it is considered to have a steady supply of fish.

Chapter 4

TRANSPORT

4.1. Overview

4.1.1 This chapter reviews the performance and highlights some of the major activities of the transport sector in Malawi between July 2005 and April 2006. The chapter particularly focuses on infrastructure.

4.2 Road Construction and Bridges

4.2.1 The National Roads Authority (NRA) with funding from the Government of Malawi and donors has carried out several transport infrastructure projects during the year under review. Some of the projects were completed while others are on going. The projects were carried out mainly to facilitate trade and travel, and overall contribute to the country's economic development.

4.2.2 Some of the projects that were completed during the period under review include the following: Construction of Likuni Bridge, Area 18 to Area 49 Road and Limbe-Choda-Chisitu Road; resealing of Jenda-Chikangawa Road and Lusangadzi-Mzuzu Road; and rehabilitation of Chilambula Road in the city of Lilongwe.

4.2.3 During the period under review, some projects commenced and these include construction of Kamphata-Nkhoma, Mponela-Ntchisi, and Zomba-Jali-Phalombe-Chitakale Roads; reconstruction of Luwadzi and Nankhokwe Bridges between Balaka and Salima; and rehabilitation of Churchill and Mahatma Ghandi Roads.

4.2.4 However, some of the projects are in the pipeline for implementation in the 2006/07 financial year. For instance, construction of the Jenda-Euthini-Rumphi, Lumbadzi-Dowa-Ntchisi and Mitundu-Bunda Roads will be among te projects to be implemented from 2006/07 financial year.

4.2.5 Meanwhile, Parliament has just passed a bill to separate the National Roads Authority into the Road Fund and Road Administration. The separation is aimed at improving the operations of the National Roads Authority.

4.3 Shire-Zambezi Waterway Project

4.3.1 The completion of this project will entail re-opening the Shire and Zambezi Rivers for navigation in order to provide a direct waterway between Nsanje in Malawi and the Port of Chinde at the mouth of the Indian Ocean in Mozambique, a distance of approximately 238 km. In addition, the project will provide Malawi with a multi-modal transport linkage through the rehabilitation of the rail line from Nsanje through Blantyre to Chipata in Zambia and through Dona Ana to Sena in Mozambique.

4.3.2 When this project is completed, Malawi will cease to be ‘landlocked’ within the conventional definition and transportation costs will also decrease. In this regard, a memorandum of Understanding will soon be signed with the Government of the Republic of Mozambique.

4.3.3 Several partners including donors have expressed interest in this project. Meanwhile, a pre-feasibility study funded by the European Union is underway.

4.4 Air Transport

4.4.1 In an effort to satisfy demand for air services, Air Malawi Limited has embarked on fleet expansion programme and launched new routes such as Dubai. During the period under review, Air Malawi acquired a new aircraft, Boeing 737-500. The acquisition of the new aircraft will assist Air Malawi to consolidate on existing routes.

4.4.2. As part of the efforts to improve management of airport and increase private sector participation in the transport sector, the World Bank funded a study on the feasibility of private sector participation in the management of airports. The study, among others, recommends the expansion of the shareholding of Airport Developments Limited to include the private sector and the establishment of an autonomous Civil Aviation Authority. The implementation of the recommendations will be carried out soon after the review of the institutional, legal and regulatory framework, among others.

4.4.3. In order to facilitate passenger travel, the Passenger Service Charge will be incorporated in the Air Ticket in the coming financial year.

4.5 **Road Safety**

4.5.1 The country has been experiencing high rate of accidents over the past few years because of several factors. Statistics indicate that about 20 accidents happen everyday in Malawi, of which two are fatal, and two cause serious injury. The statistics also indicate that almost 1,000 Malawians are killed every year in road accidents. The Road Accidents Baseline Survey Report in 2003 estimated the cost of accidents to be at least K3.2 billion, which about 2 percent of GDP.

4.5.2 In order to reduce the rate of accidents, a number of activities were undertaken during the period under review. These included civic education and the erection of billboards with road safety messages in 24 districts. In addition, the National Road Safety Council with financial assistance from the World Bank under the Road Maintenance and Rehabilitation Programme will procure traffic enforcement and control equipment such as Speed Traps and Breathalysers by June 2006.

4.6. Buildings

4.6.1 A number of projects were undertaken by the Buildings Department during the period under review. Some of them include construction of the Mausoleum for the Former President of Malawi, late Dr Hastings Kamuzu Banda, was completed and phase

1 of the construction of new Parliament Building started. Phase 1 of the construction of New Parliament Building, which includes earthworks will cost K75 million and it is funded by the Governments of Malawi and Taiwan. The actual construction of New Parliament Building will cost K4 billion. The construction of the new Blantyre Magistrate Court resumed in August, 2005 and is expected to be completed in 2007.

4.7. Public Works Programme

4.7.1 The Public Works Programme was carried out during the period under review. The Programme aimed at improving transport infrastructure as well as economically empowering poor households through cash transfers. Under this programme, 1,761 km of feeder roads were reshaped and 1,849 km of earth roads were graded. A total of 79,429 people were employed. The Programme was funded by the Government of Malawi and the World Bank and K161, 515,900 transferred to poor households.

4.8. Challenges in the Transport Sector

There are several challenges being faced in the transport sector, including shortage of resources that is adversely affecting implementation of programmes and most of the infrastructure that are critical to operational safety are obsolete and require replacement. For those in the passenger and freight industry, there are high operational costs arising from increasing costs of fuel and spare parts.

Chapter 5

MINING AND QUARRYING

5.1 **Overview**

5.1.1 The performance of the mining and quarrying industry in 2005 was quite encouraging with most of the major minerals being mined registering positive upward trend due to increased demand by the consuming industries and steady phased expansions of some mining operations. This chapter reviews the performance of Malawi's mineral production, employment, domestic exports and sales. It also presents a recap on new mineral exploration and assessment, licensing and mining investment opportunities.

5.2 **Mining Products**

5.2.1 Table 5.1 shows the production of minerals and minerals products for the years 2003 to 2005 period. The sole indigenous producer of cement, Shayona Cement Corporation, increased its cement output by 35 percent. This is due to the continuous expansions of cement operations in Kasungu.

TABLE 5.1: MINERAL PRODUCTION (2003 – 2005)

Product	2003	2004	2005	Percentage Change
Coal (metric tonnes)	47,037	41,901	51 870	+ 24
Cement Limestone (metric tonnes)	23,965	21,224	28 755	+ 35
Agricultural Lime (metric tonnes)	8,752	18,892	22 733	+ 20
Slaked Lime (metric tonnes)	10,125	2,135	500	-77
Quarry aggregate (m^3)	103,196	102,185	110 506	+8
Gemstones (kg)	2,297	1,818	1 994	+10
Ornamental stones (metric tonnes)	450	-	72	+100
Clay/pottery (pieces)	2,220	2,250	3 000	+20
Terrazo	330	1,080	1 200	+11
Other industrial minerals (metric tonnes)	-	14.7	-	- 100

Source: Department of Mines

5.2.2 Coal production, which is mostly done by Mchenga Coal Mines Limited increased by 24 percent to 51,870 metric tonnes during 2005. The company plans to expand its monthly productions to 5,000 metric tonnes from 2006 to cater for increasing demand by various industries, especially tobacco industry.

5.2.3 Production of gemstones experienced a slight increase of 10 percent when compared with the previous year, and this trend is expected to continue. Both terrazzo and agricultural lime maintained a steady course. Demand for agricultural lime by the tobacco estates has resulted in steady growth for this sub-sector, registering an increase of 20 percent over the previous year. Much of the lime is used to neutralize the acidity of agricultural soil and as part of feed in the poultry industry.

5.2.4 Production of ceramic products by Paragon Ceramics in Dedza maintained a steady course mainly due to steady demand for electrical bobbins by ESCOM and for exports. Paragon Ceramics registered an increase of 20 percent in production in 2005. Electrical bobbins for ESCOM are a clear and significant demonstration of potential for import substitution.

5.2.5 During 2005 quarry (stone) aggregate production amounted to 110,506 cubic metres, registering a modest increase of 8 percent over the previous year. This is a reflection of the continued booming building and construction industries as well as active development activities.

5.3 **Employment**

5.3.1 Employment in the mining sector in 2005 amounted to 2,353, reflecting steady mining activity in Malawi. The coal, quarry aggregate and ceramics sub-sectors continued to provide the major formal employment opportunities in the mining sector. However, overall employment figure is much higher than captured if artisanal sand and stone aggregate knappers are taken into consideration. It is anticipated that the Chipoka Heavy Mineral Sands Project will contribute significantly towards the employment once full scale production commences during the latter part of 2006.

TABLE 5.2: FORMAL EMPLOYMENT IN THE MINING SECTOR, 2005

Sub-Sector	Workforce
Coal	530
Cement Lmst	63
Lime (s)/ Agricultural Lime	155
Quarry aggregate	650
Clay/pottery	300
Gemstones	500
Ornamental stones	45
Other industrial minerals	20
Terrazo	90

Source: Department of Mines

5.4 **Domestic and Export sale of minerals**

5.4.1 During the period under review, domestic sales of minerals continued to be dominated by coal, quarry aggregate, bobbin insulators for ESCOM, cement and agricultural lime. Export of minerals continued to be dominated by coal, gemstones and gift ware products from Paragon Ceramic. The value of exports amounted to K43 million which is comparable to what was exported in the previous year.

TABLE 5.3: DOMESTIC SALES OF MINERALS AND MINERAL PRODUCTS

Product	2003	2004	2005
Coal (metric tonnes)	36 322	38,403	38,690
Cement Limestone (metric tonnes)	23 965	21,224	28,755
Agricultural Lime (metric tonnes)	8 752	18,892	22,173
Lime (Slaked)	10 125	2,135	500
Quarry aggregate (m^3)	103 196	102,185	109,818
Terrazo (m^3)	50	1,080	1,200
Clay/pottery (pieces)	Na	1,000	1,500

Source: Department of Mines

5.4.2 Prospects for future exports are promising when Chipoka Heavy Mineral Project becomes fully operational (Tables 5.3 and 5.4). Currently, the main destinations for Malawi's export minerals include Tanzania, Europe, Thailand, Mozambique and South Africa.

TABLE 5.4: EXPORTS OF MINERALS AND MINERAL PRODUCTS: 2003 –2005

Product	2003	2004	2005
Coal (metric tonnes)	10,715	3,418	13,180
Clay/pottery (pcs)	-	1,500	1,500
Gemstones (kg)	2,297	1,818	1,994
Other Industrial minerals (metric tonnes)	11	14.7	-
Ornamental stones (metric tonnes)	450	-	72
Agricultural Lime (metric tonnes)	-	-	280
Quarry aggregate (m^3)	288	-	688

Source: Department of Mines

5.5 New Mining Operations and Licences

5.5.1 During 2005, Government granted a number of licenses for prospecting mining companies and individuals as depicted in the table below. .

TABLE 5.5: MINING AND PROSPECTING LICENCES ISSUED IN 2005

Type of License	No. Issued	Minerals
Non – Exclusive prospecting Licence	94	Gemstones
Mining Claim License	36	Gemstones and ornamental stones
Reserved Minerals Licenses	31	Gemstones
Reconnaissance Licence	1	Base metals
Exclusive Prospecting Licence	26	Base metals PGEs, heavy mineral sands
Mining Licence	10	Quarry aggregate, heavy mineral, sands, rare earth minerals,Limestone,

Source: Department of Mines

5.6 Mining Investment Opportunities

5.6.1 Malawi is endowed with a number of mineral deposits, some of which are being pursued actively by both international and local companies. Industrial minerals, which are generally not of much interest to international companies, need to be seriously considered by Malawian companies in order to attain an import substitution position.

5.6.2 In 2005, an increase in the number of international exploration companies was registered. The companies are mostly from Australia, South Africa and the UK. The Minerals being sought included base metals nickel and copper, titanium/zircon heavy mineral sands, platinum group of metals and uranium. Two projects were at an advanced stage by Allied Procurement Agency (locally registered company) and Mineral Sands of South Africa, which are developing the Chipoka heavy mineral sands deposit. The mining at Chipoka is at pilot phase and full production is anticipated in 2007. Similarly, Paladin Resources of Australia were in the middle of their bankable feasibility study (BFS) of the Kayelekela Uranium Project in 2005, and initial results indicate that the project is viable with anticipated start up sometime in 2008.

TABLE 5.6: MINERAL DEPOSITS AND ESTIMATED RESERVES

Deposit	**Location Delineated Reserve**	**Reserves (Million**
Tonnes)		
Bauxite	Mulanje	28.8
Uranium	Kayelekera (Karonga/Chitipa)	12.5
Monazite/Strontianite	Kangankunde(Balaka)	11.0
Corundum	Chimwadzulu	8.0
Graphite	Katengedza – Dowa	2.7
Limestone	Malowa Hill – Bwanje	15.0
Titanium Heay Mineral Sands	Salima – Chipoka	700.0
	Makanjila (Mangochi)	680.0
	Lake Chilwa (Zomba)	15.0
Vermiculite	Feremu- Mwanza	2.5
Coal	Mwabvi - Nsanje	4.0
	Ngana - Karonga	15.0
Phosphate	Tundulu - Phalombe	2.0
Limestone	Chenkumbi - Balaka	10.0
Pyrite	Chisepo - Dowa	34.0
Glass Sands	Mchinji	1.6
Dimension Stone	Chitipa, Mzimba	Large
	Mangochi, Mchinji	volumes
Gemstones	Mzimba, Nsanje	
	Chitipa, Chikwawa	
	Rumphi, Ntcheu	

Source: Department of Mines

Chapter 6

INDUSTRY, SCIENCE AND TECHNOLOGY

6.1 Overview

6.1.1 The general performance of the industrial sector during the period under review was remarkable in that a number of potential investors showed some interest whilst others commenced investment processes. However, the sector faced serious challenges such as the prolonged dry spell in February 2005, which adversely affected production in the sector. There was also scarcity of foreign exchange, which hampered importation of some raw materials. The sector also continued to suffer from influx of cheap and fake products from other countries. These had a negative impact on demand of the locally produced products and exports. It is expected that the Ministry of Industry, Science and Technology in close collaboration with Ministry of Trade and Private Sector Development would come up with strategies to minimize the impact.

6.1.2 The construction sector registered a growth rate of 12.5 percent in 2005. This was due to the increase in construction projects by the Government in its efforts to upgrade and provide good infrastructure facilities in the country. However, in 2006, the construction sector is expected to grow by 13.6 percent.

6.2 Index of Industrial Production

6.2.1 The total Index of Industrial Production shows that there has been 40 percent growth in the industrial sector from 108.4 in 2004 to 151.8 in 2005.

TABLE 6.1: INDEX OF INDUSTRIAL PRODUCTION, 2002-2005

	2002	2003	2004	2005
Goods Manufactured for Domestic Market				
Consumer Goods				
Food, Beverages and Tobacco	64.7	53.7	74.7	67.6
Clothing, Foot wear and Textiles	34.3	34.4	52.1	57.7
Other Goods	70.8	66.5	72.0	273.0
Total Consumer Goods	61.7	56.4	68.8	170.6
Intermediate Goods				
Products for Building and Construction	75.1	72.4	66.3	58.5
Total Domestic Production	65.5	61.0	68.1	138.5
Exports Goods	117.0	120.0	127.6	114.0
Total Manufacturing	79.3	76.8	84.0	132.0
Electricity and Water	242.4	237.0	258.3	273.3
Total Index Of Industrial Production	102.1	99.2	108.4	151.8

Source: National Statistical Office.

6.2.2 The food, beverages and tobacco category registered a decline of 9.5 percent in 2005 mainly due to the drought that affected yields and consequently slowed down the agro-processing industry.

6.2.3 The clothing, footwear and textiles industry registered a percentage increase of 10.7 percent as compared to the increase of 58.4 percent in 2004. This could be attributed to the decelerated performance by the country's textiles, apparel and footwear manufacturing industries

6.2.4 The other goods registered a percentage increase of 279 percent in 2005 as compared to 8.3 percent in 2004. This is attributed to sound performance of the plastics manufacturing industry and the emergence of new players in this industrial sub-sector. The increase in activities in the printing and publishing and packaging industries also contributed to this increased performance.

6.2.5 The index of export goods registered a decline of 10.7 percent in 2005 as compared to an increase of 6.3 percent in 2004. This could be attributed to the drought situation in 2005. Since most of the major exports are agro-based, the drought adversely affected raw materials as well as exportation of primary goods. Most of the exporters might have scaled down operations especially in the textiles and apparel sub-sector.

6.2.1 Industrial Development

6.2.1.1 Cognizant of the important role the integrated cotton and textile industry is envisaged to play in poverty reduction, wealth creation and linkage creation as identified in the Malawi Growth and Development Strategy (MGDS), the Ministry of Industry, Science and Technology is formulating a Cotton/Textile Industry Policy which will compliment the cotton strategy in regulating and guiding operations in the sub-sector.

6.2.1.2 In order to encourage value addition, the Ministry in collaboration with the Taskforce on Rural Industrialization has profiled the country and recommended various products that have potential in various districts in Malawi. Some of the products with investment potential include beef and dairy production in Mzimba, cassava processing in Nkhotakota, coal mining and processing in Rumphi, soy bean processing in Kasungu/Ntchisi, tomato processing in Dedza/Ntcheu, cotton processing in Chikwawa/Nsanje and fruit processing in Mwanza.

6.2.1.3 The Ministry will from the next financial year start implementing the Industrial Clusters Development Programme that is aimed at bringing together economic actors who are concentrated along similar value chains within a specific geographical area. This will help to integrate the combined potential of several economic actors in the quest to improve productivity, create wealth and sustainable poverty reduction. The programme will also minimize importation of raw materials so that they are sourced locally by the large-scale industries. It is envisaged that the programme shall also have positive impact on the employment level especially in rural areas.

6.2.1.4 With regard to the Malawi National Accreditation Service (MANAS), the Ministry has put in place structures to operationalise the service in the next financial year

6.2.1.5 The Ministry continues its efforts of encouraging industries to include fortification programmes in their operations as a way of improving the micronutrient status of the consumers. This effort has resulted in new companies such as Capital Oil Refinery Industries (CORI) and Oil and Protein Company joining other existing companies in food fortification programmes thereby increasing the coverage of fortified foods in the country.

6.2.1.6 The Ministry will in 2006/7 financial year embark on a linkages promotion programme aimed at encouraging linkages among small, medium and large-scale industries. This will foster industrial development because it will allow greater specialization, skills development, technology diffusion and economies of scale thereby enabling small and medium-scale industries to participate effectively in the economy.

6.4 Science and Technology

6.4.1 The Ministry through Department of Science and Technology will double its efforts in promoting rapid industrialisation through application of science and technology. This is aimed at improving low utilization of science and technology in all sectors of the economy. Low utilisation of science and technology is one of the major weaknesses in exploitation of natural resources, and addressing the worsening poverty situation in the country.

6.4.2 The current Government's vision of creating wealth and achieving high rate of economic growth requires significant utilisation of science and technology. In pursuit of its vision, the Department of Science and Technology developed, published and distributed the Strategic Plan that gives a clear strategic direction on development and promotion of science and technology in the country. The plan advocates co-ordination and complementarity among players from both the private and public sectors.

6.4.3 During the period under review, the Department of Science and Technology facilitated the transfer and commercialisation of proven technologies in urea mineral licking blocks. Plans are also underway to identify entrepreneurs who would be involved in mushroom spawn production. The Department has also identified windmill technology as an effective tool for irrigation and water supply. Prospects are high that during next financial year, some artisans and communities shall be trained in windmill making and maintenance. Currently, most of the windmills in the country are not operational due to lack of maintenance.

6.4.4 The Ministry together with Ministry of Education continued to take a leading role in establishment of Lilongwe University of Science and Technology, which is being created as a centre of excellence to articulate and promote application of new and proven technologies in Malawi. The Steering Committee meetings were conducted and reports were produced and summitted to the State President. The site for the university campus has been identified and a separate Secretariat for the university is being established. It is expected that the university shall start its operations during the next financial year.

Chapter 7

TRADE AND PRIVATE SECTOR DEVELOPMENT

7.1 Overview

7.1.1 This chapter describes Malawi's performance in the trade sector and policy developments and achievements in the trade and private sector development.

7.1.2 The goal of the Ministry of Trade and Private Sector Development, as defined in its Strategic Plan is "*to transform the economy from predominantly importing and consuming into a producing and exporting country, thereby contributing significantly towards sustainable economic growth, job creation, economic empowerment, generation of competitive exports and harnessing of local resources".*

7.1.3 The Ministry participated in the development of the Malawi Growth and Development Strategy (MGDS), in which trade and private sector development issues feature strongly and the role of the private sector is enshrined as the "engine of growth" in Malawi. During the period under review, the Ministry of Trade and Private Sector Development also completed a Strategic Plan for the period 2005-2009, outlining medium-term ministerial objectives and activities.

7.2 Trade

7.2.1 Overview of Performance in 2005

7.2.1.1 The performance in the external trade sub-sector was not satisfactory with a widening deficit on the current account in both nominal and real terms. Nominal exports rose from K52.6 billion in 2004 to K58.8 billion in 2005; but in US Dollar terms this effectively represented no change. The imports increased from K101.6 billion in 2004 to K129.9 billion in 2005. It is clear that Malawi is not yet making much headway in terms of transforming the structure of the economy in line with the Presidential and Government vision.

7.2.1.2 The overall current account balance therefore widened from K48.9 billion in 2004 to K71.0 billion in 2005. In real terms, this represented a similarly increasing deficit from US$450.5 million in 2004 to US$592.0 million in 2005.

TABLE 7.1A: EXTERNAL TRADE – VALUE OF EXPORTS AND IMPORTS, 2000-2005 IN MILLIONS OF KWACHA

	2000	2001	2002	2003	2004	2005
Total exports	23,624.6	31,816.6	31,416.9	51,671.9	52,627.9	58,810.5
Total imports	32,282.7	39,480.1	53,657.0	76,650.1	101,554.7	129,856.1
Trade balance	(8,658.1)	(7,663.5)	(22,240.1)	(24,978.2)	(48,927.3)	(71,045.7)

Source: NSO

TABLE 7.1B: EXTERNAL TRADE – VALUE OF EXPORTS AND IMPORTS, 2000-2005, MILLIONS US DOLLARS

	2000	2001	2002	2003	2004	2005
Total exports	397.1	440.7	409.6	530.0	484.6	490.1
Total imports	542.6	546.8	699.6	786.2	935.1	1082.1
Trade balance	(145.5)	(106.1)	(290.0)	(256.2)	(450.5)	(592.0)

Source: NSO and Ministry of Trade and Private Sector Development

7.2.2 Malawi's Major Trading Partners

7.2.2.1 While Malawi registered a modest improvement in exports to the SADC region in 2005, growth in imports outpaced this performance and the deficit with SADC region increased significantly from K42,449 million in 2004 to K68,763.9 million in 2005. Export performance in the COMESA market was very disappointing and recorded a fall in exports to the bloc in nominal and real terms. Similarly, imports from COMESA almost quadrupled during the year under review, rising from K11,771 million in 2004 to K42,874 million in 2005.

TABLE 7.2: TRADE WITH SADC AND COMESA COUNTRIES*, 2001-2005 (MILLIONS OF KWACHA)

	2001	2002	2003	2004	2005
SADC					
Imports	22,363.5	30,334.4	40,753.6	56,926.4	85,712.1
Exports	5,741.0	5,656.7	8,505.0	12,650.9	16,516.2
Re-exports	602.5	1,660.1	1,579.3	1,826.5	432.0
COMESA					
Imports	3,327.0	3,3902.6	8,426.1	11,771.3	42,873.8
Exports	9,044.1	4,350.2	7,329.2	8,523.7	7,883.3
Re-exports	107.8	33.8	301.4	462.4	148.6

Source: NSO

7.2.2.2 The Republic of South Africa continues to be Malawi's dominant trading partner in terms of both imports and exports. Despite an asymmetrical trade agreement in Malawi's favour, the balance of trade relationship weighs heavily in South Africa's favour. Malawi enjoys modest trade surpluses with developed country partners in the EU and US and records massive deficits with regional trading partners closer home. Malawi's trading relationships with its neighbours are most unbalanced – imports from Mozambique, Zimbabwe and Zambia are around eight times larger than exports to these destinations.

TABLE 7.3: MAIN TRADING PARTNERS, 2005 (MILLIONS OF KWACHA)

	Imports	Exports	Re-exports
South Africa	45,183.9	11,038.9	277.7
UK	6,489.7	6,831.2	4.6
USA	3,445.8	6,433.5	0.8
Germany	3,974.8	4,458.7	1.0
Switzerland	0	4,158.5	0.2
Netherlands	1,586.6	2,565.8	0
Russia	0	2,156.8	3.7
Mozambique	17,526.5	2,059.7	111.7
Egypt	210.4	1,842.5	0
Zimbabwe	10,646.8	1,331.9	13.7
Poland	0	1,259.3	0
Spain	770.5	1,056.3	0
Japan	1,748.8	907.5	2.7
Zambia	7,377.3	862.2	19.0
Kenya	2,239.8	822.2	0
Australia	172.9	491.7	0.4
Tanzania	3,825.3	485.2	3.9

Source: NSO

7.2.3 Main Exports and Imports

7.2.3.1 Tobacco continues to be the export commodity for Malawi, accounting for 53 percent of total exports of K31.24 billion in 2005. There was a sound performance in the tobacco sector in 2005, registering an increase from K22.30 billion in 2004 to K31.24 billion. Sustained improvements in export prices for tea have made this crop to regain its position as second major export for Malawi. Tea exports increased from K5.13 billion in 2004 to K5.94 billion in 2005. Other commodities, which experienced growth in 2005 are apparel and clothing and wood. However, sugar exports recorded a declining performance from K7.88 billion in 2004 to K5.41 billion in 2005. Cotton exports in value declined somewhat in 2005 because of low prices offered. However, the export volumes were still higher than those recorded in 2004.

TABLE 7.4: PRINCIPAL DOMESTIC EXPORTS, 2000-2005 (MILLIONS OF KWACHA)

	2000	2001	2002	2003	2004	2005
Tobacco	14,200.3	18,363.3	17,893.1	24,191.2	22,303.5	31,241.5
Tea	2,235.4	2,461.0	2,827.8	3,481.5	5,132.5	5,937.4
Sugar	2,339.2	3,975.7	2,684.2	10,571.4	7,881.4	5,408.5
Apparel and clothing[1]	797.8	2,018.0	2,464.6	3,858.1	4,795.5	4,995.7
Cotton	438.5	316.6	260.8	483.9	2,224.3	1,847.1
Groundnuts	239.7	368.2	378.1	1,132.0	1,581.0	1,473.0
Pulses	134.3	211.3	218.8	494.1	608.3	
Wood (sawn and plied)	34.3	57.0	62.7	178.6	219.3	380.5
Natural rubber	73.7	171.0	152.9	265.8	399.0	248.1
Coffee	316.4	451.5	175.6	245.1	217.5	
Spices	85.6	78.3	224.0	141.2	170.7	169.0
Hides and skins	21.1	33.9	32.1	31.5	44.0	67.5
Wooden furniture[2]	-	-	-	-	-	270.8

Source: NSO

7.2.3.2 Improved export performance in Malawi continues to be limited by supply side constraints. The poor macro-economic environment which includes high interest rates, high inflation and volatile exchange rate, high transportation costs, high cost and unreliability of electricity, and poor telecommunications undermine the competitiveness of the export sector. Over-dependence on a few non-branded commodities leaves Malawi highly vulnerable to changes in world prices. The sanitary and phytosanitary (SPS) requirements in the developed country markets continue to act as a de-facto barrier to trade for many of Malawi's agricultural products. Finally, a continued dependence on rain-fed agriculture leaves Malawi's agricultural production and exports highly vulnerable to changing weather patterns as was demonstrated during the 2004/05 growing season.

7.2.3.3 While the total value of petroleum imports has stabilised somewhat in value terms in 2005, the volume imported declined significantly from 94 million litres in 2004 to 67 million litres in 2005. Similarly, while the value of diesel and other fuels imported into the country increased in 2005, the volume declined. This means in part that demand for fuel is no longer inelastic, reflecting that there are responses in demand to the oil price changes.

[1] Note that SADC and COMESA are not mutually exclusive and that trade with dual member countries such as Zambia and Zimbabwe is recorded both under SADC and COMESA.
[2] Previously counted under "others".

TABLE 7.5: VALUE OF SELECTED IMPORTS, 2000-2005 (MILLIONS OF KWACHA)

	2000	2001	2002	2003	2004	2005
Petroleum	1,613.2	1,701.6	1,827.7	2,760.7	3,500.4	3,252.1
Paraffin	538.8	462.0	433.8	664.2	859.2	1,074.7
Diesel and other fuels	2,283.0	3,160.6	2,573.7	4,210.5	5,954.0	6,684.5
Fertilizer	1,004.7	299.5	3,710.3	4,556.1	6,980.0	13,159.4
Coal	18.9	23.9	91.3	86.2	221.5	232.8

Source: NSO

7.2.3.5 Fertilizer imports increased significantly in 2005, owing to Input Subsidy Programme.

7.2.4 Trade Agreements

7.2.4.1 In an effort to enhance Malawi's integration into regional and multilateral trading systems, the country continued to participate actively in bilateral, regional and multilateral trade agreements (commitments).

(a) Multilateral Commitments

7.2.4.2 Malawi's trade policy is aligned to the World Trade Organization (WTO) Agreement and Malawi participates in the WTO trade negotiations under the Doha Work Programme. Malawi's concern, as a least developed country (LDC), is to safeguard national interests by focusing on trade-related development issues, including improved market access, preservation of existing preferences, provision of special and differential treatment to poor countries, and the reduction of technical barriers to trade, non-tariff barriers and other distorting measures that hamper Malawi's trade performance. Malawi continues to strive for a comprehensive breakthrough under the Doha Development Agenda and fully supports the LDC Livingstone Declaration of June 2005.

7.2.4.3 Malawi is currently benefiting from the Integrated Framework for Trade-related Technical Assistance Programme whose objective is to promote the integration of least developed countries into the global economy, and integrate trade issues into national development strategies. The Framework is funded jointly by the WTO, the International Monetary Fund (IMF), the World Bank (WB), the International Trade Centre (ITC), the United National Development Programme (UNDP) and the United Nations Conference on Trade and Development (UNCTAD). Malawi is currently benefiting from two technical assistance projects under the Integrated Framework: A Trade Policy Advisory Services and Capacity Building for Trade Integration Project in the Ministry of Trade and Private Sector Development; and a Standardisation, Quality Assurance, Accreditation and Metrology (SQAM) Infrastructure Project at the Malawi Bureau of Standards. The total value for the two projects is at US$1.00 million.

7.2.4.4 An additional multilateral programme through which Malawi is receiving trade-related technical assistance is through the Joint Integrated Technical Assistance Programme (JITAP). JITAP is an initiative of the WTO, ITC and UNCTAD aimed at building capacity in selected African countries in the following areas: Trade negotiations, implementation of WTO agreements and related trade policy formulation; national knowledge base on the multilateral trading system; and the supply capacity and market knowledge of exporting and export ready enterprises. During the year under review, JITAP provided training and capacity building on multilateral trading system for stakeholders in Malawi, provided information technology equipment in the Ministry of Trade and Private Sector Development, and technical assistance for the development of a cotton sector strategy.

7.2.4.5 Malawi is currently participating in the ACP/EU Economic Partnership Agreement (EPA) negotiations, which were launched in September 2002, under the Eastern and Southern Africa (ESA) Configuration. The Cotonou Agreement signed in 2000 between ACP and EU states introduced the concept of the EPAs, replacing the Lome Convention with agreements that will be compatible with the provisions of the WTO. This means changing the relationship from non-reciprocal trade preferences to reciprocal trade. Negotiations on the EPAs should be completed by the end of 2007. Identified clusters for negotiations include agriculture and fisheries; market access; trade in services; trade related issues; development cooperation; and legal issues.

7.2.4.6 The second phase of the EPA negotiations are dealing with substantive issues at the regional level. Malawi has opted to negotiate with the EU within the Eastern and Southern Africa (ESA) Configuration and the formal negotiations for the ESA region were launched in February 2004. The objective is to complete negotiations by end December 2007. Within the ESA Configuration, Malawi is the lead ministerial spokesperson on agriculture and lead ambassadorial spokesperson on trade in services. During the first half of 2006, Malawi is also holding the chairmanship for the ESA configuration.

7.2.4.7 At national level, a National Development and Trade Policy Forum (NDTPF) has been established in Malawi in order to effectively prepare for and participate in the negotiations. This has been established with financial support for the EC. It is multi-sectoral and a representative of the private and public sectors, academia and civil society. The NDTPF's mandate is to determine and develop negotiating positions for the country which will feed into the Regional Negotiating Forum. Sub-committees have been established under each cluster including lead ministries. For example, the Ministry of Economic Planning and Development leads on Development issues while the Ministry of Agriculture leads on Agricultural issues.

7.2.4.8 As developing country, Malawi enjoys preferential access to the EU under the "Everything But Arms (EBA)" Agreement and this has led to increased sugar exports to the EU. The initiative entails extending duty and quota free access to all imports from all LDCs except arms. Minor variations apply to bananas, sugar and rice whose trade will be fully liberalised in 2006, 2009 and 2009, respectively. The disadvantage, from Malawi's perspective, is that the EBA Initiative is unilateral and it could be withdrawn at any time. Hence, the initiative does not provide guaranteed access for products over the long-term.

7.2.4.9 Under the African Growth and Opportunity Act (AGOA), Malawi is granted preferential access to the United States market for a 1,800 products on duty and quota free basis in addition to the standard GSP Programme of the US. Previously,Malawi was benefiting through increased garment exports to the US after being designated as an AGOA textiles and apparel beneficiary country in October 2000. Garment exports to the US peaked during 2004 with an average of around US$30.00 million per year. However, with the phasing out of the WTO Agreement on Textiles and Clothing on 1 January 2005, US quota restrictions on more competitive garments producers in Asia were eliminated. This has lead to the US garments market becoming much more competitive for African manufacturers. Hence, Malawi's garments manufacturers switched exports back to the South African market during the year under review.

7.2.4.10 A new development in export market has happened for Malawi during 2005. Malawian exporters are selling macadamia nuts to the US market and as at now, Malawi is the largest exporter of macadamia nuts to the US under AGOA.

(b) Regional and Bilateral Commitments

7.2.4.11 Malawi is a member of the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area. During the period under review, members states within the COMESA region continued to consolidate the Free Trade Area in preparation for the forthcoming transition of the COMESA Free Trade Area (FTA) into a Customs Union, which is due to come into force in 2008.

7.2.4.12 Consideration is made to the fact that Malawi already operates a low tariff rate regime under the FTA and other preferential trade arrangements, and that Malawi has other multilateral obligations. Specific attention will be drawn to tariff rates; the treatment of goods of economic significance, including sugar; possibilities with regard to non-tariff protection; and the timing of membership in the Customs Union.

7.2.4.13 Malawi is also a member of the Southern Africa Development Community (SADC). Under SADC, Malawi is committed to reducing tariffs on intra-SADC trade progressively. The implementation of the SADC Trade Protocol aims at creating a SADC Free Trade Area (FTA) by 2008. A Mid-term Review of the SADC Trade Protocol is currently ongoing with a view to assessing progress on these issues.

7.2.4.14 Malawi has an asymmetrical bilateral trade arrangement with South Africa, a bilateral trade agreement with Zimbabwe and a customs agreement with Botswana. During the period under review, Malawi renegotiated the Malawi-Zimbabwe Bilateral

Trade Agreement to provide for better terms for Malawian firms and the new Agreement was signed in May 2006.

7.2.4.15 In December 2005, Malawi and Mozambique signed a bilateral trade agreement that provides for duty-free trade between the two countries. However, the agreement has a limited number of excluded products. This agreement provides for enhanced trade opportunities for Malawi's private sector and this will be effective in July 2006.

7.2.7 National Export Strategy

7.2.7.1 During the year under review, the work to develop a National Export Strategy reached an advanced stage. A concept paper titled "The Case for a National Export Strategy: Key Issues and Possible Response" was developed. The paper was officially launched by the Minister of Trade and Private Sector Development at a National Export Strategy Symposium in September 2005. Six priority sectors that include agro-processing, cotton, handicrafts, mining, services, and tourism were endorsed at the Symposium, and the writing of the constituent sector strategies was launched.

7.2.7.2 Sectoral work on cotton and tourism has already reached an advanced stage with good progress made in agro-processing and services. In addition, the cross-cutting issues group was established and the group has completed its work. The final National Export Strategy is scheduled for completion in mid 2006.

7.2.8 Trade Remedies Law and Anti-Counterfeit Law

7.2.8.1 Malawi is currently developing a draft Trade Remedies Law, which combines safeguards, anti-dumping and countervailing measures. The objective of the Law is to safeguard and protect the domestic private sector against import surges and unfair trade practices abroad. The Ministry is also leading efforts to develop an Anti-Counterfeit Law in order to protect both consumers and intellectual property rights.

7.2.9 EU Sugar Reforms

7.2.9.1 In June 2005, the European Commission announced a restructuring of the EU sugar regime, which is likely to have far-reaching effects on Malawi. The reforms will lead to a 36 percent reduction in the price paid for sugar imported under quota from ACP countries including Malawi. Currently, Malawi exports 40,000 metric tonnes of sugar to the EU under three different quotas at preferential prices of around four times world prices. In the short to medium term, the price cut will lead to reduced revenue earned on sugar exports to the EU. However, from 2009/10 onwards, Malawi will receive unrestricted access to the EU sugar market once sugar is included in the "Everything but Arms" Initiative.

7.3 Competition Policies and Law

7.3.1 Government embarked on liberalization of its trade regime in the early 1980s and in 1998 a Competition and Fair Trading Act was passed in Parliament. The main objectives of the Act are to encourage competition in the economy by prohibiting anti-competitive trade practices; establish the Competition and Fair Trading Commission; regulate and monitor monopolies and concentrations of economic power; protect consumer welfare; strengthen the efficiency of production and distribution of goods and services; secure the best possible conditions for the freedom of trade; and facilitate the expansion of the base of entrepreneurship.

7.3.2 After a number of delays, the Competition Commission was formally established in 2005. Commissioners have been appointed and the Ministry of Trade and Private Sector Development is acting as interim secretariat until full-time members of staff are appointed to provide support services. Training of judges on competition law took place and the Commission began to hear its first cases during 2005.

7.4 Private Sector Development

7.4.1 Private Sector Development Policy Activities in 2005

7.4.1.1 The Ministry of Trade and Private Sector Development continued to play an active role in the National Action Group (NAG). The NAG is a forum for dialogue between the public and private sectors and is co-convened by the Ministry of Trade and Private Sector Development, and a representative from the private sector.

7.4.1.2 A joint review of the country programme was held for the first time in 2005 to assess the country programmes of five major donors in Malawi, and to ensure that future donor assistance is aligned with the MGDS and the Paris Declaration on aid harmonisation. The private sector development (PSD) was one of five focus themes during the review process and the Ministry leads efforts to ensure that PSD issues are given prominence among donor programmes as a key driver of economic growth and poverty reduction.

7.4.2 Private Sector Development Strategy and Reform Programme

7.4.2.1 Despite efforts to improve the enabling environment for private sector development, Malawi remains a difficult place for enterprises to do business. The constraints are on the supply side and are numerous and undermine competitiveness. The revenue system imposes a significant burden on a narrow formal private sector. High cost of credit and limited lending facilities for the private sector, particularly the SMEs undermines the incentives for entrepreneurship.

7.4.2.2 In order to address these limitations, the Ministry of Trade and Private Sector Development began the preparation of a Private Sector Development Strategy and Reform Programme. A team is established and this visited Zambia and Tanzania to learn from them PSD reform agendas and how the experiences in the region can be applied to

Malawi. A concept paper on PSD reform was prepared and a high-level taskforce on preparation of the strategy and reform agenda was established.

7.4.2.3 The PSD strategy and reform programme aims at using the *Doing Business* indicators as a benchmark for improving the enabling environment for enterprise development in Malawi. To this end, technical working groups have been established for each of the five Doing Business indicators, which are getting credit; cross-border trade; paying taxes; dealing with licenses; and closing a business. The work of preparing the strategy and reform programme will draw upon the findings of the Survey on Investment Climate Assessment of Malawi, a detailed survey involving 300 manufacturing companies.

7.4.3 Micro-finance

7.4.3.1 In 2005, the Ministry of Trade and Private Sector Development worked on a number of micro-finance initiatives, including co-ordinating a consultancy to review the legal and regulatory framework for micro-finance under the chairmanship of the Reserve Bank of Malawi. The consultants are expected to come up with the draft Micro-finance Law by June 2006.

7.4.3.2 The Ministry in collaboration with the Malawi Micro-finance Network also conducted a survey on micro-finance institutions. The survey aimed at determining the growth of the micro-finance sector in Malawi and it was found out that the sector had grown by more than 20 percent from 2000 as the base year. With this growth, the sector had attained the completion point requirement under the Highly Indebted Poor Countries (HIPC) Programme.

7.4.4 Small and Medium-sized Enterprises

7.4.4.1 In developing economies such Malawi, SMEs play an important role in providing non-farm employment as a means of poverty reduction. Hence, the Ministry of Trade and Private Sector Development has the mandate to provide support services to facilitate the establishment and growth of SMEs.

7.4.4.2 During the year under review, the Ministry continued with its efforts of developing, promoting and creating a conducive environment for the development of micro, small and medium-sized enterprise sector (SMEs). The Ministry through service providers implemented two separate training programmes in agro-processing in bee-keeping and mushroom production as income generating activities for 200 small-scale producers in Mzimba and Mchinji. Another 200 small-scale women entrepreneurs were trained in mushroom production in Mangochi and Mzuzu.

7.4.5 Cooperatives

7.4.5.1 The cooperative movement is one of the principal institutional arrangements which is used to encourage economic and social development among disadvantaged groups in rural areas. With co-operatives, small-scale producers are able to access credit and essential business development services, and reach markets where a minimum efficient scale of production is required.

7.4.5.2 In line with its mandate of promoting and registering cooperative societies in Malawi, the Ministry registered 22 new cooperatives societies in 2005. The majority of them were agro-based and are located throughout the country. Hence, the total number of cooperative societies registered in Malawi is now 215, of which 75 are Savings and Credit Cooperative Societies (SACCOs).

7.5 Investments and Investment Promotion

7.5.1 Investment Trends in Africa

7.5.1.1 Foreign Direct Investment (FDI) inflows into Africa registered a new record high of US$29.8 billion in 2005. This translates into a 55 percent increase over the performance in 2004. The tremendous growth in 2005 was driven by substantial foreign investment in natural resources, such as oil exploration and mineral extraction, to meet the increased world demand that is being steered by the economic growth in China as well as continued reforms of FDI policies in many African countries. FDI inflows into the infrastructure sector are also increasing, particularly in telecommunications and electric power generation.

7.5.1.2 Overall, the bulk of the FDI inflows in 2005 went to South Africa, Egypt and Sudan in that order, and the inflows were in excess of US$1.0 billion. Within SADC region, South Africa recorded an 800 percent increase in FDI inflows reaching the level of US$7.2 billion and this was boosted by Barclay's acquisition of a controlling stake in ABSA Bank. Angola was the other key destination of FDI inflows in the region.

7.5.1.3 FDI inflows into Africa are projected to increase further in the medium term. For most countries, the bulk of this will concentrate in resource-based industries. When viewed in the global context, the African continent captures just about 3 percent of total global FDI compared with developing Asia, which receives nearly one in every four FDI dollars. Furthermore, FDI remains more of a lagging than a leading factor in growth and development in the region. There is need for targeted public and private sector initiatives that link industry, education, human capital and institutional capacity building in order for the bulk of the FDI to assist in creating a cycle of economic growth, job creation and rising incomes.

7.5.2 Investment Performance in 2005

7.5.2.1 Foreign Direct Investment into Malawi increased from USD 28.9 million in 2004 to USD 52.0 million in 2005. According to the UNCTAD's inward FDI performance index for 2004, Malawi has dropped in ranking from 110 in 2003 to 119 out of 140 economies that were surveyed. The World Investment Report 2005 classifies Malawi among the economies that are still performing below their potential in attracting FDI inflows.

7.5.2.2 Inward investment in 2005 generated employment opportunities for about 5,700 people. Most of the FDI inflows recorded in 2005 were in the form of new investments and there was very little investment in the form of mergers and acquisitions or expansion of existing investments. In terms of origin, the bulk of the FDI, about 80 percent in terms of volume, originated from a few sources such as Republic of China (Taiwan), South Africa, Pakistan and India. Domestic investment was also quite significant, amounting to over 12 percent of the total investment. On the sectoral level, the bulk of the FDI inflows, about 76.6 percent went to the manufacturing sector. The services and tourism sectors received 14.7 percent and 7.2 percent of FDI inflows, respectively.

7.5.3 Investment Prospects for 2006

7.5.3.1 Domestic investment and FDI inflows into Malawi are expected to continue growing in 2006. This is largely attributed to the further consolidation of prudent macroeconomic policies as well as other policy and structural reforms being undertaken by Government. All the initiatives are part of the broader policy context of private sector development which aims at creating a competitive economy that is production and export oriented.

7.5.3.2 During the last quarter of 2005, Malawi Investment Promotion Agency (MIPA) initiated the review of the Statement of Investment Policy and Investment Incentives. This initiative aims at updating the policy in order to make it more relevant to current economic development agenda. By addressing the uncompetitive elements within the current investment environment, the review will improve Malawi's competitiveness relative to the region as an attractive environment for doing business and locating investments. Beyond this exercise, the Investment Promotion Act (1991) will subsequently be updated to reflect the changes in the policy.

7.5.3.3 In the past few years, investment promotion activities have been greatly affected by the delays in the implementation of the merger of the Malawi Investment Promotion Agency (MIPA) and the Malawi Export Promotion Council (MEPC). Government has now signalled its commitment to conclude the MIPA/MEPC merger in 2006. This is a welcome development, as it will enable the successor institution to focus its approach and undertake effective investment promotion for Malawi.

7.5.3.4 The Balance of Payments and Investors Perceptions Survey was undertaken during 2005 and the results are expected in 2006. This survey aimed at generating information on capital flows into and out of Malawi; private sector debt and the investor perceptions on the investment and business environment in Malawi. The results from this exercise will feed into the investment policy review process as well as programming for investment promotion by MIPA.

7.5.3.5 As part of the effort to integrate into the regional investment framework, Malawi is participating in the negotiations for the agreement to establish the COMESA Common Investment Area (CCIA). Two rounds of negotiations on the draft agreement were held during the period under review. One of the requirements of this agreement is for member countries to prepare exclusion sensitive lists of the sectors and economic activities that may not be covered by the provisions in the agreement. Malawi will develop its exclusion list in 2006.

7.5.4 Investor Applications

7.5.4.1 A total of 180 applications for Temporary Employment Permits were made in 2005 to the Investment Approvals Committee under the One Stop Investment Centre. 153 applications were approved and represented an approval rate of 85.0 percent (Table 7.6).

TABLE 7.6: PERMIT APPROVALS BY QUARTER, 2005

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
Temporary Employment Permits	36	40	34	43	153
Business Residence Permits	8	11	10	18	47
Investment Certificates	16	8	13	19	56

Source: MIPA Investor Trading System

7.5.4.2 During the same period, a total of 74 applications for Business Residence Permits were made and 47 were approved, representing an approval rate of 63.5 percent. The total number of Investment Certificates that were issued through the One Stop Investment Centre were 56 and this represented an approval rate of 77.8 percent.

7.5.5 Key Issues Affecting FDI

7.5.5.1 Economic infrastructure remains a major impediment to increased investment in the economy. The privatisation of the Malawi Telecommunications Limited (MTL), the sole fixed telephone network operator to Telecom Holdings Limited (THL), a consortium of private sector firms led by the Press Corporation and NICO Holdings, offers the opportunity to substantially upgrade the capacity and network of the fixed telephone lines, leading to increased coverage and better levels of service. The energy sector capacity constraints continue to pose serious threats to the medium term prospects for attracting substantial new investment into the economy. The utility provider ESCOM embarked on a rehabilitation exercise of Tedzani 1 and 2, to return to the capacity that was lost when the two plants were non-operational.

7.5.5.2 The efficiency and cost of the transportation, logistics and distribution chain in Malawi continues to impose very high burden in operation of the business enterprises. Consequently, This makes the economy uncompetitive and a less attractive location for private investment.

7.5.5.3 Bureaucratic and administrative procedures continue to negatively affect investment and business operations in Malawi. This is manifested in unclear demarcation of responsibility between key stakeholders and the spread of authority on various elements of investment process. These obstacles lead to weaknesses in enforcing regulations; overlapping regulations that lead to co-ordination problems; lengthy and bureaucratic procedures; unnecessary delays in processing and decision-making as well as limited transparency. In order to improve on these issues, the administrative, regulatory and legal framework for investment will feature very highly in the ongoing investment policy review.

Chapter 8

ENERGY

8.1 Introduction

8.1.1 This Chapter reviews the performance of the energy sector in the economy during the 2005/06 financial year. In particular, the Chapter has examines performance in the electricity, petroleum, coal and wood fuel sub-sectors and various renewable energy programmes. Issues of energy sector reforms to improve technical and economic performance of energy supply industries, the enactment of legislation for improved energy sector governance, and implementation of the Rural Electrification Project were high on the Energy sector agenda.

8.2 Energy Policy Implementation

8.2.1 Following Government's approval of the National Energy Policy (NEP) in January 2003, the Department of Energy Affairs is in the third year of implementing the Policy. During the 2005/06 financial year, the Department has been occupied with setting the ground work for the establishment of the Malawi Energy Regulatory Authority (MERA). The Energy Regulation Act, 2004 calls for the establishment of a sector-wide energy regulator. The Act empowers the regulator to do all types of regulation namely: Economic, technical, and legal regulations. It also restricts the role of the state to governance, policy guidance and strategic plans in the sector thereby drawing a clear distinction in areas of jurisdiction between the state and the regulator. This is deemed crucial to attracting private sector participation and building the necessary confidence for private players in the reformed market. With the Act in place, the Petroleum Control Commission (PCC) and the National Electricity Council (NECO) will be dissolved.

8.2.2 It is envisaged that by 1st July 2006 MERA should be operational. Arrangements are underway to gazette the Energy Framework Law, which includes the Energy Regulation Act (2004); the Electricity Act (2004); the Rural Electrification Act (2004); and the Liquid Fuels and Gas (Production and Supply) Act (2004). The gazetting of the four Acts shall lead to the automatic repeal of the Electricity Act (1998); the Petroleum Control Commission Act (1996); and the Petroleum (Storage) Act (1951). To complete the legal framework for energy sector, the Department of Energy Affairs will undertake to formulate the Coal and the Renewable Energy Bills. Work on the drafting of the bills is anticipated to be done during the 2006/07 financial year.

8.2.3 The next step in the policy implementation process is the formulation and implementation of reform strategies for various sub-sectors in the energy industry, including electricity, liquid fuels and gas, biomass, coal and renewable energy technologies. So far, the Department of Energy Affairs has formulated reform strategies for the electricity sub-sector while formulation of the other sub-sectors' strategies is underway.

8.3 **Electricity**

8.3.1 In 2005, ESCOM sold 1,055 GWh of electricity compared to 992.8 GWh in the previous year, representing a 6.27 percent increase sales. The number of registered consumers grew by 21.18 percent from 128,396 in 2004 to 155,589 in 2005. The installed capacity for the interconnected system during the period in question is 284.5 MW of which 1,179.3 GWh were produced.

TABLE 8.1: ELECTRICITY GENERATION AND CONSUMPTION: 1999-2005

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Installed Hydro Capacity (MW)	220.7	284.7	284.7	287.4	284.5	284.6	284.5
Maximum Demand (MW)	190.2	196.9	204.9	212.7*	212.3	212.5	232
Energy generation (GWh)	1,031.8	1,071.9	1,103.3	1,127.5	1,177.4	1,179.3	1,703
Number Consumer	77,383	82,792	97,495	106,000	120,172	128,396	155,589
Consumption (GWh)Domestic	265.9	276.4	306	283.25	304	308	377
General (GWh)	133.6	138.8	141.2	128.43	146	149	180
Power Demand (GWh)	457.2	483.3	452.9	465.9	480.6	483.4	491
Export (GWh)	2.8	3.2	3.6	6.4	6.5	6.5	7
Total Consumption GWh)	859.5	901.7	904.4	884.1	937.6	992.8	1055

Source: *ESCOM*

8.3.2 **System Losses**

8.3.2.1 Systems losses went down from 19.5 percent in 2004 to 16.0 percent of the total energy generated in 2005.

8.3.3 **Demand Analysis and Planned Projects**

8.3.3.1 According to the power demand forecast, ESCOM will not be able to meet incremental demand after 2006 unless additional capacity is installed because the system is currently running without enough reserve capacity margins. With the projected peak demand of 394MW, 547MW and 767MW for years 2010, 2015 and 2020, respectively, ESCOM's system capacity needs to be increased accordingly in order to meet these levels of demand.

8.3.3.2 Therefore, ESCOM is planning to commission Phase II of Kapichira Generation Station in future. Furthermore, ESCOM is at an advanced stage of interconnecting with Mozambique in an effort to expand its capacity for security of power supply. This is the most attractive project in terms of security of supply arising from adverse hydrological conditions along the Shire River.

8.3.3.3 A 15 MW gas turbine in Blantyre has been rehabilitated for standby and peaking purposes and purchase of another 20 MW standby diesel generator for Lilongwe is being considered. ESCOM has secured resources for the rehabilitation of Tedzani I and II to ensure security and good quality supply and also improve generation capacity.

8.3.3.4 In addition, ESCOM has embarked on a project to improve quality and security of power supply through major maintenance of the transmission and distribution network. Some of the projects in this are Blantyre and Lilongwe Distribution Rehabilitation, and Stringing of Second Circuit 132 Kv line from Nkula B to Lilongwe B Station. ESCOM is also considering other options for generating electricity including hydropower sites of Lower Fufu in the north and Kholombidzo in the south, coal-fired plants, and gas turbines.

8.3.4 **Electricity Tariff Developments**

8.3.4.1 A study for the electricity tariff for ESCOM was commissioned in 2003 and the report was presented in April 2005. The study, among other factors had to derive a tariff structure, which removes the current distortions caused by non-uniform tariff increases for various consumer categories. The study further required deriving a tariff structure that reflects the cost of supply as well as tariffs for generation, transmission and distribution in line with Governments policy of restructuring the electricity industry. The tariffs to be determined shall be based on long run marginal cost (LRMC), ESCOM’s revenue requirements and national social objectives.

8.3.4.2 Tariffs have been rising in nominal terms but have been fluctuating in real terms. The average price per unit of electricity sold is still below the Long Run Marginal Cost (LRMC) of supplying electricity. This means a real increase of about 50 percent would be required to bring the average tariff of about 4.0 USc/kWh up to 6.0 USc/kWh (See Table 8.2 below). The average unit revenues in current prices have also constantly remained below the LRMC.

TABLE 8.2: TARIFF DEVELOPMENT IN NOMINAL AND REAL TERMS 1995/96 – 2004/05

	Unit	**19999/00**	**2000/01**	**2001/02**	**2002/03**	**2004/05**
Average Tariff = Average Unit Rev. (Current prices)	T/kwh	182.0	288.	388.	359.	446.5
PriceIndex (2000=100)		129.5	100	122.7	140.9	184.7
Average Unit Rev. in 2000 prices	T/kwh	140.5	288.	317.0	255.1	242.9
Real Increase	Per cent	52.2	104.9	10.1	-19.5	-6.7
Exchange Rate	MK/US$	45.4	80.1	74.5	92.5	111.1
Average unit Rev. (Current prices)	Usc/kwh	4.0	3.6	5.2	3.9	4.0
Long Run Marginal Cost	Usc/kwh	6.0	6.0	6.0	6.0	6.0

Source: ESCOM

8.3.5 **Rural Electrification**

8.3.5.1 There has been commendable progress in terms of rural electrification initiatives. Currently, Malawi Rural Electrification Programme (MAREP) Phase IV is under implementation. While Phase IV was expected to have been completed in May 2004 after two-year implementation duration from May 2002, this date has had to be extended twice due to inadequate local counterpart financing. Progress to-date shows that a total of 48 trading centres have been completed and commissioned. The remaining 10 sites are expected to be completed by July 2006. The Energy Fund currently benefiting from a levy on petroleum product sales met the local component of the cost.

8.3.5.2 In addition, the Department has finalized a feasibility study for the MAREP Phase V with financial and technical support from the Government of Japan through the Japanese International Cooperation Agency (JICA). The study has been carried out in 54 unelectrified trading centres across the country, that is, two trading centres considered per district. The estimated total cost of electrifying the sites is US$6.7 million, which was expected to be provided under the Japanese Debt Relief Aid. However, Treasury committed to provide funds for the electrification of 27 trading centres only. Foreign materials for the electrification of the trading centres have been budgeted at US$2.9million. Implementation of Phase V will commence in September 2006 with detailed feasibility study in the 27 sites. Parallel to this will be the preliminary feasibility study for Phase VI sites. Without the purchase of the foreign materials MAREP Phase V cannot be implemented with the current level of the levy, which constitutes local contribution.

8.4 Petroleum

8.4.1.1 Malawi's imports and consumption of petroleum products declined by 1.54 percent in 2005 as compared to that of 2004. Petrol and paraffin imports contributed to the decline as they registered decreases of about 7.75 percent and 6.83 percent, respectively. The decrease in imports of petrol and paraffin could be attributed to opening stocks and reduced consumption due to high prices of fuel**.** However, **i**mports of diesel registered an increase of about 15.04 percent.

TABLE 8.3: FUEL IMPORTS (IN LITRES) DURING PEROD 2000 – 2005

Year	**Petrol**	**Diesel**	**Jet a-1**	**Paraffin**	**Avgas**	**Total**
2000	84,896,135	124,905,868	7,238,749	31,397,224	107,269	248,545,245
2001	81,039387	125,106,968	8,800,186	18,921,235	356,926	234,224,702
2002	88,329,685	127,157,516	6,417,316	20,955,949	201,917	243,062,383
2003	92,976,658	136,408,597	-	23,652,991	-	253,038.246
2004	94,186,321	147,922,241	-	24,762,093	-	266,870,655
2005	84,023,978	152,664,646	-	21,838,787	-	258,527,411

Source: **Petroleum Control Commission**

8.4.1.2 Supply of fuel remained steady without any fuel shortages in the country. In procuring fuel, Malawi capitalised on the Beira and Dar-es-Salaam routes due to logistical and capacity problems with the Nacala Rail Line. 70 percent of fuel imports came through Beira, 3 percent through Nacala, 17 percent through Dar-es-Salaam (Malawi direct) and 10 percent through Mbeya in 2005 as compared to 60 percent, 14 percent, 14 percent and 12 percent through Beira, Nacala, Dar-es-Salaam and Mbeya, respectively, in 2004.

TABLE 8.4: MALAWI FUEL IMPORTS PER ROUTE 2000 – 2005

	ROUTES					**Total**
Year	**Beira**	**Nacala**	**Dar-es-Salaam**	**Mbeya**	**Gweru**	
2000	126,761,107	42,149,779	51,806,647	20,481,694	-	241,199,227
2001	130,585,831	16,134,199	66,135,812	21,368,860	-	234,224,702
2002	130,763,489	10,140,307	77,013,269	28,879,927	-	246,796,992
2003	158,652,734	35,988,318	39,857,111	31,998,208	1,065,575	267,561,946
2004	160,122,393	37,361,892	37,361,892	32,024,478	-	266,870,655
2005	182,861,911	6,862,335	43,545,416	25,257,749		258,527,411

Source: **Petroleum Control Commission**

8.4.2 Automatic Pricing Mechanism

8.4.2.1 Pricing of petroleum products continues to follow the Automatic Pricing Mechanism introduced in 2000. This links pump prices to procurement costs and exchange rate movements with a ± 5 percent trigger band. The formula is managed under a multi-sector Petroleum Pricing Committee (PPC), which meets once every month to assess changes in the agreed parameters that constitute the In-Bond Landed Cost (IBLC) and the value of the Kwacha against the US Dollar.

8.4.2.2 The industry generally experienced an increase in fuel prices in 2005. Hence, the fuel prices were revised three times in the year under review. The frequent revisions in 2005 underscored the work of the Automatic Pricing Mechanism (APM) system being used in pricing fuel in Malawi, the loss in value of the Kwacha against the US Dollar and high prices of fuel at the international market. The following were pump price revisions.

TABLE 8.5: PUMP PRICE REVISIONS

	03-June-2005	**27-Aug-2005**	**22-Nov-2005**
	Kwacha per kilogramme		
Petrol	115.20	130.40	134.80
Diesel	112.60	125.15	132.70
Paraffin	74.45	102.00	106.30

Source: Petroleum Control Commission

8.5.1 Oil Industry Expansion and Face-Lifting

8.5.1.1 Due to liberalization, there is stiff competition within the existing oil companies as evidenced by market share controls. In 2005 for example, market shares were 31.60 percent, 11.1 percent, 25.1 percent, 18.5 percent and 13.7 percent for British Petroleum (BP), Caltex, Mobil, Petroda and Total, respectively. In 2004, the market shares were 36 percent, 9.3 percent, 24.1 percent, 14.9 percent and 15.7 percent for same companies in that order, respectively. During the year Exxon Mobil in Malawi and other 16 African countries was taken over by Total. Although they are still operating as separate entities, they will soon merge. New oil marketing companies, which have obtained licences to operate in the country such as Energem and Injena, are yet to commence their operations.

8.5.1.2 As an industry, there was 1.20 percent growth in operation as shown by increase in fuel consumption. Some oil companies continued to expand in terms of service stations and others continued to face-lift the service stations though at a slowed pace because they were not given margin increases in their due time. The expansion and face-lifting exercise could be attributed to increase in motor vehicles population and overall liberalization in the country.

8.5.2 Unleaded Petrol

8.5.2.1 One of the objectives of the Malawi Energy Policy (2003) stresses the need to mitigate environmental, safety, and health impacts of energy production and utilization. Pursuant to this and in line with United Nation's call for the use of cleaner fuels during the World Summit for Sustainable Development (WSSD), Government through the Department of Energy Affairs and other relevant Government departments in collaboration with the oil industry, University of Malawi, the Malawi Bureau of Standards, the ethanol supply and motor vehicle traders industries initiated the process of phasing out leaded petrol along with the introduction of unleaded petrol in Malawi. This is in line with the call for all nations to completely phase out the use of lead in petrol by 1st January 2006.

8.5.2.2 With funding from UNEP, Government conducted an intensive public sensitisation campaign to ensure that the general public is aware of the policy change and its implications on the user. However, Malawi was not able to meet the 1st January 2006 deadline due to logistical problems. Nevertheless, importation of unleaded petrol started on 1st February 2006. Despite this, the petrol still has traces of lead and the tests to determine the level of lead in petrol are still being conducted. However, it is envisaged that Malawi shall be declared a lead free economy in a few months to come.

8.5.3 Coal

8.5.3.1 Coal is being utilized as a source of energy in the sugar, brewing, textile ethanol, cement, tea and tobacco industries and other large public institutions such as prisons and hospitals, among others. Coal has not yet been adopted for household use due to, among other factors, unavailability of appropriate cooking devices. Mchenga Coal Mine continues to be the main coal mine in the country. However, other sources of coal include Kaziwiziwi Mine and the recently opened Mean Jalawe Mine, which started its operations in July 2005. Because of transportation costs and other factors, some industries, especially those located in the southern part of the country, continue to import coal from neighbouring countries.

8.5.3.2 Whilst the Department of Mines oversees the operations of the coal production, the governing of the coal supply industry (CSI) rests with the Department of Energy Affairs, which is committed to develop strategies to reform the industry downstream and its associated regulatory framework during the 2006/07 financial year to ensure fair play, efficiency and effectiveness of coal supply and its expanded use.

8.5.4 **Wood Fuel**

8.5.4.1 Wood fuel (firewood and charcoal) remains the main source of energy, accounting for about 93 percent of the total energy consumption in the country. Demand for wood fuel exceeds the available sustainable supply and the deficit is increasing every year. Furthermore, the informal market structure for wood fuel makes it difficult to quantify its production and consumption in Malawi. However, the pattern for wood fuel consumption has not changed for a number of years, whereby 67 percent represents rural demand for wood fuel for cooking and heating and 15 percent of the balance is for urban demand for cooking, heating and industrial requirements. The tobacco and tea industry require 7 percent for curing and building purposes, and the rest is for other miscellaneous uses. Since there is little data on current wood stock levels and consumer demand patterns in Malawi, it is difficult to quantify the demand and supply scenarios accurately.

8.5.4.2 The demand for charcoal mainly by urban communities is growing at a very high rate. This has resulted in serious deforestation and degradation of the environment. Government is developing a programme that will endeavour to make available, on a large-scale, alternative sources of energy to urban communities in order to ease the pressure on the country’s fuel wood. Among the energy sources being considered are liquefied petroleum gas (LPG), ethanol based fuels and biomass briquettes. High demand for charcoal, especially from indigenous wood, can be explained by high level of urbanisation and low efficiency of the traditional stove (Mbaula) that is widely used. However, Government continues to promote the use of more efficient ceramic stoves already on the market. So far, an estimated 1 million stoves have been made available to the public through artisans who were trained by Government. Government in collaboration with the Agricultural Research and Extension Trust (ARET) has been promoting the use of coal for curing tobacco instead of firewood. In an attempt to systematically promote efficient use of biomass and energy conservation measures, the Department of Energy Affairs is in the process of developing a Biomass Strategy.

8.6 Programme for Biomass Energy Conservation (ProBEC)

8.6.1 This is a SADC Regional Programme which aims at enhancing capacities and commitments of governments and development institutions to plan and integrate biomass energy conservation programmes. At the current phase, the Dutch Government through the GTZ funds the Project. Thus, the programme contributes to the improvement of quality of life for the poor rural and urban populations by enabling them to fulfil their energy needs in a socially and environmentally sustainable manner. During the past year, focus was put on promoting the use of a fuel saving stoves at household as well as institutional levels. The stove is known as the Rocket Stove, whose concept has been applied to develop an energy saving furnace for curing tobacco.

8.7 **New and Renewable Sources of Energy**

8.7.1 The National Sustainable and Renewable Energy Programme (NSREP) aims at promoting renewable energy technologies (RETs) in Malawi. These RETs include solar photovoltaic (PV) and photo-thermal systems, wind energy, biogas, biomass briquettes, ethanol and gel fuel. The programme is supported by UNDP, DANIDA, GEF and Government of Malawi. Major achievements include:

1) Increased number of certified companies from 6 to 17 companies. Most of these companies are solar PV installers and suppliers;
2) Seven training courses for solar PV technicians and engineers from certified and non-certified companies, individuals and government institutions. The courses focus on design, installation and maintenance of solar PV systems for lighting, water pumping and refrigeration;
3) Support to the Renewable Energy Industries Association of Malawi (REIAMA);
4) Installation of Solar PV systems for lighting, refrigeration, radio communication and water pumping in 19 health clinics across the country;
5) Establishment of three solar villages at Chikweo, Kamsonga and Eswazini in the Southern, Central and Northern Regions, respectively. Public facilities such as health centres, community day secondary schools (CDSSs), government offices, community halls, postal agencies, police units, among others, have been electrified. The programme also facilitates the utilisation of renewable energy initiatives from other government ministries and departments. The notable one is the establishment of three solar villages at Folopensi and Chimaliro in Thyolo District, Kazyozyo in Mchinji District and Chisala and Usisya in Nkhata Bay District under the Sustainable Socio-economic Empowerment Poverty Reduction Programme in the Ministry of Gender, Child Welfare and Community Services`;
6) Surtax and duty waiver on imports of renewable energy technologies (RETs) by certified companies;
7) Through Barrier Removal to Renewable Energy in Malawi (BARREM) Project, the programme has established the Test and Training Centre for Renewable Energy Technologies (TCRET) and introduced a degree programme in renewable energy at Mzuzu University;
8) Development of Standards and Codes of Practice for solar PV technologies. This was done in collaboration with Malawi Bureau of Standards (MBS); and
9) Increased public awareness of the efficacy of solar PV technologies and services.

8.8 **The Global Environmental Facility (GEF)**

8.8.1 The Department of Energy through the BARREM Project funded by the Global Environmental Facility (GEF) through the United Nations Development Program (UNDP) is promoting the use of solar photovoltaic (PV). Solar PV systems provide a lower cost solution to satisfy basic electricity needs of the rural communities and will allow them access, inter alia, to light the homes and schools, refrigerate the supplies and support productive businesses, thereby helping to improve education, employment opportunities and quality of life.

8.8.2 The Project is also piloting on the use of solar-powered fans with the Agricultural Research Extension Trust (ARET) to improve the efficiency of tobacco curing. This is being conducted in Kabwafu in Mzimba, Mwimba in Kasungu, Thondwe in Zomba and Namwera in Mangochi. The long-term objective is to reduce the use of fuel wood in tobacco curing.

Chapter 9

TOURISM AND WILDLIFE

9.1 Overview

9.1.1. This chapter reviews the performance and highlights some of the major activities of the tourism and wildlife sectors in Malawi between 2003 and 2005 as well as providing some prospects for 2006. It also gives trends in the industry for the period between 2003 and 2005 in terms of international arrivals from the major source markets.

9.2 Tourism Sector

9.2.1 World Tourism Outlook in 2005

9.2.1.1 In 2005 international tourist arrivals sustained the sharp upturn that begun in 2004 despite the various tragic events with which it had to contend. Some of the issues facing the tourism industry in 2005 were terrorism, natural disasters, health scares, oil price rises and economic and political uncertainties.

9.2.1.2 International tourist arrivals worldwide rose by 5.5 percent and exceeded 800 million for the first time ever. Results by region show that Africa led the way with growth estimated at 10 percent, followed by Asia and the Pacific, the Middle East, the Americas and Europe which recorded growth rates of 7 percent, 7 percent, 6 percent and 4 percent, respectively.

9.2.2 Trends in International Visitors

9.2.2.1 The number of international visitors to Malawi rose slightly by 11 percent from 382,687 in 2002 to 424,000 in 2003. In 2004, Malawi received 427,360 international visitors while 450,865 international visitors are estimated to have visited Malawi in 2005, representing a 5.5 percent increase.

TABLE 9.1: INTERNATIONAL VISITORS TO MALAWI, 2002-2005

	2002	2003	2004	2005*
Total Number of International Visitors	382, 600	424, 000	427, 360	450, 865
Percentage Growth (Percent)	-	11	1	5.5

Source: Department of Tourism, NSO and Department of Immigration

9.2.2.2 In 2004, the majority of international visitors to Malawi came for business ventures, accounting for 48 percent of total visitors while holiday makers represented 22 percent. Visitors who came to visit friends and relatives accounted for 29 percent.

* Estimate

9.2.2.3 The average length of stay for 2004 was 8.1 nights for all visitors. Holiday travellers spent 10 nights on average, while those who entered for business and visiting relatives or friends spent 6 and 9 nights, respectively. The visitors on conferences or conventions spent 4 nights while those who entered for other reasons spent 2 nights on average.

9.2.2.4 In 2004, most visitors to Malawi came from Mozambique (24 percent), followed by Zimbabwe and Tanzania (13 percent), then South Africa (12 percent) and Zambia (10 percent). Out of total visitors who came for holidays 37 percent stayed in Hotels/Inn/Lodge and 32 percent stayed in private houses.

TABLE 9.2: INTERNATIONAL VISITORS TO MALAWI BY COUNTRY OF PERMANENT RESIDENCE 2003 – 2005

Country Of Permanent Residence	**2003**	**2004**	**2005[1]**
	International Visitors		
Zambia	50, 540	45, 817	48,337
Zimbabwe	63, 910	57, 518	60, 681
Mozambique	92, 200	104, 698	110, 456
Tanzania	51, 710	57, 190	60, 335
South Africa	49, 200	54, 230	57, 213
Southern Africa[2]	4, 510	3, 821	4, 031
East Africa[3]	7, 210	10, 514	11, 092
Other Africa	5, 590	5, 687	6, 000
UK & Ireland	31, 220	17, 030	17, 967
Other Europe	36, 280	31, 899	33, 653
USA & Canada	17, 210	19, 431	20, 500
India	3, 620	4, 531	4, 780
Central & South America	860	1, 397	1, 474
Other Countries	9, 940	6, 815	7, 190
Total	**424, 000**	**427, 360**	**450, 865**

Source: Immigration Exit Cards

9.2.3 Utilization of Accommodation Units

9.2.3.1 The occupancy level of the majority-registered hotels experienced a negative growth rate between 2003 and 2004. In terms of segmentation on average, city and urban hotels have a slightly higher occupancy levels due to business and conference tourism. The national bed spaces and occupancy levels in 2005 are estimated to have increased by an average of 20 percent.

[1] Estimate
[2] Includes Botswana, Lesotho and Swaziland
[3] Includes Kenya and Uganda

TABLE 9.3: OCCUPANCY AND UTILIZATION OF TOURIST ACCOMMODATION UNITS NATIONAL AVERAGES

Year	Room Occupancy (Percent)	Bed Occupancy (Percent)
2002	74	54
2003	39	25
2004	35	26
2005*	42	31

Source: Department of Tourism

9.2.4 Tourist Expenditure

9.2.4.1 Earnings from tourism for 2004, as captured on visitors exit cards and records from accommodation occupancy statistics, continued to show upward trends over the period under review. Average tourist expenditure increased to K21,875.35 from K13,240.70 in 2003. This represents an increase of 65 percent. Holiday visitors continued to show higher levels of average expenditure followed by business visitors.

9.2.5 World Tourism Prospects in 2006

9.2.5.1 According to the United Nations World Tourism Organisation's Experts, the tourism industry can no longer expect a 'normal' year. Every year will bring new uncertainties and new challenges.

9.2.5.1 For 2006, the current pattern of slow growth is expected to continue. International tourist arrivals are expected to grow between 4 to 5 percent in 2006

9.2.6 Developments in the Tourism Sector

9.2.6.1 Notable developments that have been done in a bid to improve the country's tourism industry include the following:

1) Enforcement of new tourism regulations and there is intensified compliance to minimum standards in all accommodation units. All accommodation units were inspected by the Department of Tourism for licensing. Plans are underway to commence Star Grading System for all eligible accommodation units;
2) The construction of Mpale Cultural Village in Mangochi is at an advanced stage and will be finalized by June 2006. The operation of the cultural village will be concessioned out to an eligible management company;
3) Facilitation of upgrading access roads to bitumen standards in prime resort areas. Construction works have already began on the Mulunguzi Dam – Ku Chawe Inn Access Road; and

4) Facilitating the production of a bankable project for a New Airport in Mangochi. Consultants have been short listed to submit proposals for the Feasibility Study

* Estimate

and Advanced Preliminary Design of New Mangochi Airport Project.

9.2.7 Constraints to Development and Promotion of Tourism

9.2.7.1 Malawi possesses unique attributes that can make it one of the leading destinations in the region. However, the following constraints limit the full realization of this potential:

1) Perception of the country by tourists as an expensive destination compared to other destinations offering similar and better products especially in the accommodation units;
2) Poor access to accommodation and infrastructure in tourist attraction areas such as roads, power, telecommunication and other related amenities;
3) High air transport costs into the country compared to other destinations offering similar and better products. Lack of direct long-haul flights and promotional airfares and tariffs make it difficult for holiday travellers to access Malawi;
4) Poor macroeconomic environment and lack of clear investment incentives for the tourism sector have resulted in potential investors opting for neighbouring countries;
5) Poor and unreliable data-base for planning and monitoring tourism development;
6) Inadequate resources for destination marketing due to the removal of the Marketing Fund, which was the only source of funding for the programme; and
7) Poor standards of accommodation units especially in rest houses and lodges.

9.3 Wildlife Sub-Sector

9.3.1 Potential Use of Wildlife Resources

9.3.1.1 Tobacco has been a major foreign exchange earner for the country but due to global antismoking campaign which has negatively affected tobacco price on the market, tourism in Malawi is now being viewed as an alternative source of foreign exchange. national parks and wildlife reserves are an important component of eco-tourism. Malawi has five national parks, four wildlife reserves and three nature sanctuaries under the jurisdiction of the Department of National Parks and Wildlife.

9.3.1.2 The Department generates revenue through services it renders to tourists and utilisation of wildlife resources. Utilisation of wildlife resources is divided into two:

(a) Consumptive Use

9.3.1.3 This refers to direct utilisation of the wildlife resources, such as:

1) Sale of animal trophy**,** including sales of animal teeth, especially hippo teeth, and skins;

2) Sale of game meat that are made available when government hunters kill some animals during crop protection or problem animal control activities;

3) Sale of timber in the protected areas that have exotic tree plantations. Lake Malawi National Park is also involved in firewood sales, as it is the only source of firewood for the enclave villages; and
4) Sale of game license to those with firearms to allow them hunt specific animal species in specific areas.

TABLE 9.3: REVENUES FROM CONSUMPTIVE USE

Revenue source	2004/05 (Million Kwahcha)	2005/06 (Million Kwacha)
Trophy sales	0.05	-
firewood sales	0.01	0.01
Timber,	0.43	0.29
Game meat sales	0.28	0.26
Game Licenses	0.07	-
Totals	**0.84**	**0.56**

(b) Non consumptive use

9.3.1.4 This includes all eco-tourism activities done in the park and the Department generates revenue through the following ways:

1) Payment of park entry fee by all visitors entering the protected areas;
2) Payment of concession fee by private operators who run most of the accommodation facilities in the protected areas, although some are still run by the Department such as the Golden Sands in Cape Maclear; and
3) Hire of guides by the visitors during game viewing and for interpretation.

TABLE 9.5: REVENUES FROM NON-CONSUMPTIVE USE OF WILDLIFE RESOURCES

Revenue source	2004/05 (Million Kwahcha)	2005/06 (Million Kwacha)
Concession Fees	5.50	9.01
Park Entry Fees	3.40	7.83
Hire of Guards	0.27	0.23
Tuckshop/ Maize mill	0.11	0.16
Accommodation/ camping	0.01	0.01
Research fee	-	0.27
Horse safari fee	0.35	-
Others	0.08	0.16
Totals	**9.72**	**17.67**

9.3.1.5 From the monthly figures that were provided, there is an increase in revenue generated from park entry fees. This shows that visitation to some of the protected areas such as Nyika National Park has improved. However, it should be mentioned that some protected areas have potential to generate more revenue if Government upgrades access roads to all weather roads. In addition, Government should consider developing some protected areas like Nkhotakota Wildlife Reserve, which has no accommodation facility.

9.3.1.6 Apart from government generating revenue from the wildlife resources, communities around some of the protected areas do benefit from utilisation of the resources through Resource Use Programme (RUP). Under this programme, people in the communities are allowed to harvest some resources for their consumption and sale. Communities are also engaged in some income generating activities like bee-keeping inside the protected areas. For instance, the communities harvest fish, reeds, Honey and Uacapa fruits, among others. From Nyika National Park, resources harvested had an economic value of K1.393 million in 2004/05 fiscal year and K1.515 million is projected for this fiscal year.

9.3.2 Constraints To Generating More Revenue

1) Poaching is a major contributor to depletion of some of the protected animal species in the country's protected areas. As a result, the protected areas are unable to attract significant tourism. This has also made the country face stiff competition regionally as most of her neighbours have abundant wildlife in their protected areas;
2) Inadequate marketing of flora and fauna found in protected areas due to insufficient resources; and
3) Poor infrastructure development in the protected areas. For instance, not all protected areas have well-developed roads.

Chapter 10

EMPLOYMENT AND SOCIAL SERVICES

10.1 Introduction

10.1.1 This chapter reviews developments in the gender, child welfare and community services, labour and employment, health and education sectors.

10.2 Gender, Child Welfare And Community Services

10.2.1 The Ministry of Gender, Child Welfare and Community Services plays an important role in improving the livelihood of vulnerable people in the communities. The Ministry's mission statement is "*To facilitate the socio-economic empowerment of women, men, girls and boys; enable them to become self-reliant and active participants in the process of growth and development through community based approaches.*" The service delivery is done through the Community Development, Gender Affairs and Social Welfare Programmes.

10.2.1 Community Development

10.2.1.1 Economic Empowerment

10.2.1.1.1 In an effort to transform rural communities through economic empowerment a number of activities are being implemented with some support from the ADB, NAC, UNDP and others. Under Skills Development and Income Generation Project, which is funded by ADB, various economic empowerment activities are being implemented, focusing mainly on women as key beneficiaries. As way of encouraging entrepreneurial spirit, groups have been formed, trained in business management and production skills in various enterprises of their choice. The groups have been encouraged to make some savings which to some extent have been invested in the businesses. So far, 420 groups have accumulated over K40 million in savings through commercial banks countrywide. It should be noted that this is promoting a saving culture among the small-scale entrepreneurs and enhancing access to credit facilities since the savings are used as security in some cases.

10.2.1.1.2 The Ministry has established a K22 million support fund from HIPC funds for disadvantaged/traumatized women.

10.2.1.2 Adult Literacy Programme

10.2.1.2.1 This programme provides an opportunity to adults who did not have a chance of going to school while young to acquire literacy and numeric skills. It is a very important programme because it enables these adults to fully participate in growth and development of the nation and make informed decisions on matters of individual and national interest.

10.2.1.2.2 In 2005/06 Adult Literacy programme, 100,000 women and men were trained and in 2006/07 programme 4000 classes have been opened with a total enrolment of 84,000. The emphasis is to enable these people become functionally literate, and to access information and easily uptake new technologies relevant to their environment.

10.2.1.2.3 In addition, the Ministry is piloting literacy cycles approach with UNDP funding. So far, 360 literacy cycles in 12 districts have been opened where women, men and the youths are learning literacy and carrying out social sustainable livelihoods activities.

10.2.2 Social welfare

10.2.2.1 The Ministry provides care and psycho-social support to the needy and disadvantaged people in the communities. Under this programme, the Ministry targets and support orphans, destitute, abandoned children, juvenile delinquents and victims of abuse and drug addicts to make them productive members of the society. This is done to ensure that people's rights especially those of children and other vulnerable groups are respected and protected at all costs. It also provides safety nets to the sick, orphans and those that are taking care of them. This is a task that is even more important now because of the HIV/AIDS pandemic. The Ministry also provides services to rehabilitate juveniles in conflict with the law so as to re-integrate them into the society as productive citizens.

10.2.2.2 Support to the vulnerable groups for them to become self-reliant has been the major thrust. In this regard, the Ministry with the support from the National AIDS Commission, UNICEF, NORAD and other development partners is involved in various activities to support orphans and other vulnerable children (OVC). OVC are being trained and supported to become self reliant through provision of life skills, food security and income generating activities for orphans and guardians.

10.2.2.3 Protection of children especially from abuse, such as child labour practices, have been promoted and appropriate legislation supported jointly with the Ministry of Labour and Vocational Training and other stakeholders. In 2005/06, a number of achievements were recorded as follows:

1) Launch of the national plan of action on orphans and vulnerable children on 16th June 2005. This is a scaled up response to OVC Programme;
2) Donated funds to the tune of K20.016 million were made available to the community based organizations which support orphans and other vulnerable children;
3) Payment of school fees amounting to over K13.782 million for 1,500 orphans in secondary schools;
4) Purchase of uniforms worth K250,000 for 200 orphans in Chikwawa District;
5) Establishment of a drop-in counselling centre for abused women and children;
6) Establishment of 4,555 community based child care centres country-wide;
7) Development of the OVC care instruments, that is, guidelines on management of educational bursary, CBO establishment, rules and regulations for orphanages;
8) Recruitment of 400 child protection officers;

9) Launch of zero tolerance campaign against child abuse on 19th November 2005;
10) Training of 1,076 guardians of OVC and older orphans in IGAs and these were provided with start up capital to support 4,000 OVC; and
11) Rehabilitation of ATTIGA Centre to be used as an outlet for small-scale merchandise by women and men.

10.2.3 **Gender Affairs**

10.2.3.1 The Gender and Development Programme with an emphasis on equality and equity is being promoted to ensure sustainable development. The programme also supports women businesses, which are in line with government policy of economic empowerment of the people and turning the country into a predominantly producing and exporting country to spur economic growth.

10.2.3.2 The Ministry as gender machinery in liaisons with various stakeholders has and is continuing in the implementation of gender programmes. The following programmes were achieved in 2005/06:

1) Training on Gender Advocacy and Lobbying Skills for public, NGO and private sector;
2) Capacity building programmes for rural business groups, comprising men and women across the country;
3) A review of Constitution to mainstream gender in readiness of the constitutional conference;
4) Documentation centre;
5) Gender mainstreaming work plan;
6) Gender Budgeting guidelines and checklist;
7) Women, girls, HIV/AIDS programme and national plan of action;
8) Gender-mainstreaming guideline for management of human resources in the public sector; and
9) A social mobilization campaign for women, girls and HIV/AIDS programme.

10.3 Labour Market

10.3.1 Employment

10.3.1.1 The labour market continued to witness fundamental changes and challenges in 2005. The promotion of harmonious labour relations and the development of skilled human resources through the enhancement of social justice and peace, and the provision of technical and vocational training continued to be a priority during the year.

10.3.1.2 The average number of vacancies registered with the Ministry of Labour and Vocational Training per month between January 2005 and June 2005 was 288. Out of this, the Ministry managed to fill an average of 271 vacancies per month. The distribution of the vacancies in terms of region is detailed below.

TABLE 10.1: REPORTED MONTHLY AVERAGE NUMBER OF REGISTERED, FILLED VACANCIES PER MONTH, BY REGION, 2005

Quarter	North		Central		South	
	Notified	Filled	Notified	Filled	Notified	Filled
First …. …	64	64	80	80	144	142
Second … …	102	100	64	44	122	114

Source: Ministry of Labour and Vocational Training

10.3.2 Minimum Wages

10.3.2.1 Minimum wages are still a two-tier system comprising segmented wage structures for the rural and urban areas. The minimum wage has been adjusted from K37.00 to K66.50 per day for 26 working days in a month plus a housing allowance of K7.00 for each day of the month for the rural areas. The minimum wage for urban areas has been adjusted from K50.00 to K87.50 per day for 26 working days plus a housing allowance of MK9.00 for each day of the month.

10.3.3 Child Labour

10.3.3.1 In an effort to address the problem of child labour, the National Child Labour Study was conducted and this study comprised the Household Survey, Street Kids Survey and Child Prostitution Survey. The survey was funded by the International Labour Organization/International Program for the Elimination of Child Labour-Statistical Information Monitoring Program on Child Labour (ILO/IPEC-SIMPOC) in the ILO Office in Geneva. The final report has been compiled, launched and disseminated. The report documents that 3.2 million children were found working. Out of these, 1.4 million were classified to be child labourers and most of them (99 percent) were classified as unpaid family workers. The level of children in worst forms of child labour is at least 71 percent. In 2006, the ILO/IPEC has installed and launched a child labour control project worth an equivalent of US$2.00 million to combat child labour in the country. Emphasis will be on domestic child labour. This is a step toward a time bound for the elimination of child labour in the country.

10.3.4 Labour Relations

10.3.4.1 The Ministry continued to conduct labour inspections throughout the country as a way of enforcing labour legislations as well as monitoring the labour market dynamics. Table 10.2 below indicates the number of labour inspections conducted in the year 2005 while Table 10.3 gives details of labour complaints.

TABLE 10.2: LABOUR VISITS AND INSPECTIONS BY REGION UP TO JUNE 2005

Region	Routine Inspections	Follow-up Inspections	Labour Complaints	Workers Compensation	Special Visits by Headquarters	Other Visits
South	23	-	163	108	-	0
Central	35	-	29	29	-	19
North	54	-	53	53	-	26
Total	**112**	**-**	**245**	**190**	**-**	**45**

Source: Ministry of Labour and Vocational Training

10.3.4.2 In 2005, in its effort to promote industrial peace and justice, the Ministry settled a number of industrial strikes totalling 27, 2 and 16 for the South, North, and Centre, respectively.

TABLE 10.3 REGISTERED LABOUR COMPLAINTS AND AMOUNT CLAIMED BY REGION UP TO JUNE 2005

Region	Registered	Settled	Outstanding at year end	Amount claimed during year (MK'm)
South	766	672	94	529,519
Central	1034	757	255	6,846,428
North	362	216	146	3,032,773
Total	**2162**	**1645**	**495**	**10,408,721**

Source: Ministry of Labour and Vocational Training

10.3.4.3 In respect to the right to association and freedom to organize collective bargaining, 2 prospective unions applied for registration with the Ministry. One so far has been registered and the other rejected, bringing the number of registered unions to 28. In terms of Collective Bargaining Agreements (CBA), no union has signed a new CBA. The total number of collective bargaining agreements signed still remains at 47.

10.3.4 Vocational Training

10.3.5.1 The Ministry is implementing skills development programmes, which aim at enhancing human capital development and the improvement of the quality of life for marginalized and vulnerable groups under the Sector Wide Approach (SWAP). To achieve these strategic issues, the Ministry has identified priority areas of enrolment expansion and retention, improving the quality of technical teachers, optimisation of resource use and capacity building.

10.3.5.2 Rehabilitation and renovation of existing infrastructure in all the seven public technical colleges is on-going and construction of new structures under the same programme is underway. Significant progress has been achieved at Soche, Lilongwe, Chimwalira, Salima and Livingstonia Technical Colleges where a number of classroom blocks, hostels and workshops have been completed. Similar progress has also been achieved under the Norwegian Association for Disabilities Aid that adapted Soche Technical College to circumstances conducive to people with disabilities. Soche has now been able to maintain 15 disabled students.

10.3.5.3 An expanded technical education and training system requires a competent and qualified staff. In this respect, the Ministry has continued to support its teacher education programmes with the University of Malawi and Mzuzu University. So far, a total of 53 technical teachers are pursuing technical education degree programmes at the Polytechnic and Mzuzu Universitiy. Under the Enhancement of TEVETA Outcomes Project (ETO), the Ministry has so far trained additional technical teachers. The programme, which has a 5-year life span starting May 2004, is being run in partnership with TEVETA, Polytechnic and Red River College in Canada. Its objective is to equip teachers with pedagogical skills in teaching at diploma level. This year, the programme has graduated 17 lecturers and has enrolled an additional 13 undergraduates.

10.3.5.4 There is also significant progress in the development of plans to establish rural-based vocational centres in Rumphi, Ntcheu, and Chiradzulu. In these centres, building, garment, manufacturing and trade training sessions have commenced. The Ministry has also collaborated with the Ministry of Local Government and Rural Development to install the village polytechnics in a number of rural areas. It is envisaged that the establishment of these centres would further enhance provision of training to people living in the rural areas in an effort to complement outreach of rural-based vocational and technical programmes under MEDI. The programmes have been undertaken without any discrimination.

10.3.5.5 The Ministry in collaboration with TEVETA and the Saskatchewan Institute of Applied Scheme (SIAST) is reforming the management and governance of public technical colleges. In this respect, Soche and Salima Technical Colleges have been identified as pilot centres. The Ministry has sanctioned the development of strategic plans, beginning with one for the Directorate of Technical and Vocational Training, the pilot centers and the remaining colleges. In addition to this, Salima, Lilongwe and Soche Technical Colleges have also developed and launched their institutional strategic plans.

10.3.5.6 In terms of student recruitment for training in technical and vocational skills, a total of 11,500 students applied for technical and vocational training in the public technical colleges. Among those interviewed, 780 prospective students have been enrolled. Last year, 800 students were selected into the seven public technical colleges out of 10,000 applicants. Through Trade Testing Services, the Ministry has this year issued 1,789 trade test certificates while 1,059 certificates were issued in 18 different trades last year.

10.3.6 Employment of Expatriates

10.3.6.1 Malawi continued to experience inflow of manpower from other countries due to growing demand for skilled manpower amid local shortages. The number of expatriates issued with employment permits in 2004 was 695, a decline from 825 registered in 2003.

10.3.7 Occupational Safety and Health

10.3.7.1 There has been an increase in the number of industrial accidents that have been reported and investigated on occupational safety from 7 in 2005 to 23 in 2006. In terms of workplace registration, there has been an increase in the number of workplaces that have registered for occupational safety and health to 197 workplaces in 2006 from 174 workplaces that registered in 2005. The number of inspections and pressure vessels examined trebled in 2006.

TABLE 10.4: REGISTERED WORKPLACES AND NUMBER OF INSPECTIONS CONDUCTED, 2003 – 2006

Activity	2003	2004	2005	2006
Inspections conducted	102	51	139	321
Pressure vessels examined	327	77	233	764
Industrial accidents reported and investigated	31	8	7	23
Registration of workplaces	381	70	174	197

NOTE: The figures for 2006 are for 2005/06 fiscal year.
Source: Ministry of Labour and Vocational Training

10.3.7.2 In terms of facilitating payment of workers' compensation for occupational injuries or diseases, Table 10.5 below, provides details for the year 2005.

TABLE 10.5: WORKERS' COMPENSATION FOR THE YEAR 2005/06

No of cases registered	Cases Paid	Amount claimed (K'000)	Amount Paid (K'000)	Outstanding Cases	Amount outstanding (K'000)
2,242	395	146,032	28,580	1817	117,452

Source: Ministry of Labour and Vocational Training, statistics unit/workers compensation department

10.3.7.3 The Ministry has also embarked on registration of employers in its efforts to establish workers' compensation fund.

10.4 Health Sector

10.4.1 Overview

10.4.1.1 The policy goal of the health sector is to raise the level of health status of all Malawians through the development of a delivery system capable of promoting health, preventing, reducing and curing disease and reducing the occurrence of premature death in the population. The overall objective and desire of the Ministry of Health is to develop a health delivery system that is pro-active and responsive to the prevailing needs and problems of the population. This is to be achieved by focusing on an Essential Health

Package of cost-effective interventions provided free of charge at the point of delivery with emphasis on the poor, women, and children. In the past year, the Ministry continued to implement various programmes and reforms in pursuit of the policy goal and objectives.

10.4.1.2 According to the Malawi Demographic Health Survey (2004), the country continues to register significant declines in childhood mortality and morbidity. The infant mortality rate has declined in the last five years from 104 deaths per 1000 live births to 76 deaths per 1000 live births. The under five mortality rate has declined from 189 deaths per 1000 live births to 133 deaths per 1000 live births. However, there still remains need to intensify interventions since the decline is not yet significant enough to meet the Millennium Development Goals (MGDs).

10.4.1.2. It is also a concern to note that the immunization coverage has experienced slippages in the past three years with only 64 percent of the children in the age group 12-23 months being fully immunised. A further concern is that 32 deaths from measles were registered during the 2004/05 plan period. However, investigations reveal that these may have been cross-border cases from Zambia and Mozambique where immunisation coverage is very low. According to the 2004 Malawi Demographic Health Survey, the Maternal Mortality Ratio (MMR) was estimated at 984, which is a decline from 1,120 registered in 2000.

10.4.1.3. The country faces serious deficits in physical and information infrastructure, constraining people's access to health services and information especially in rural areas. The country’s health infrastructure needs a lot of rehabilitation and upgrading in order to be able to deliver the full Essential Health Package (EHP). Implementation of the infrastructure programme continued through the past year, with some projects coming to completion. These included rehabilitation of a district hospital in Chitipa and some six health centres in the district and construction of a district hospital in Nkhotakota. The rehabilitation of the Central Hospital in Zomba is also nearing completion.

10.4.2 Human Resources

10.4.2.1 Human resource constraints continue to present a major challenge to the implementation of SWAp Programme of Work. The human resource problem is a complex issue and will be difficult to resolve despite the achievement in topping up of the salaries of health workers by 52 percent since April 2005. The training colleges are at present constrained in achieving the objectives of the Six Year Emergency Human Resources Training Plan and thus remain unable to produce the adequate number of trainees to fulfil the requirement of the sector. The working conditions will take some time and a lot of investment to improve.

10.4.2.2. The Ministry (MOH) and its partners have embarked on a programme to increase the intake in all training institutions for the health professionals by providing additional resources for student fees, increasing the number of tutors and improving their conditions of service as well as upgrading the infrastructure at these colleges. The private sector is being encouraged to invest by opening colleges and training health professionals provided they conform to the requirements of the MOH and professional regulatory bodies.

10.4.3. Major Achievements

10.4.3.1 The scale up of HIV/AIDS programme in the health sector, especially the ART programme is notable. Free ART are provided in 99 government facilities and the number of patients that started by 31st March, 2006 was 46,417. This represents a 65 percent increase in the number of facilities providing ART from 60 to 99 in the previous year. However, provision of ART exerts an extra pressure on the already limited staffing levels available. Procurement of malaria drugs was at US$330,598.85; mosquito nets and tablets was at US$4.11 million; and 56 microscopes at US$49,941.71. The Ministry also procured 54 ambulances worth US$2.26 million and 54 motorcycle ambulances worth 2.16 million South African Rand.

10.4.3.2. The Ministry established five zone offices to provide a link between the districts and the central level. Four are already established and operational, and the recruitment process for the remaining one is in progress. In the light of the Essential Health Package, the Ministry also embarked on a health facility improvement programme as a means of improving the quality of facility based health services. Following a countrywide assessment of the state of health facilities, the Ministry developed a Capital Investment Plan, which will guide the allocation of resources towards the improvement of health facilities. Such improvements would initially focus on the provision of running water, electricity and communication facilities to health centres, besides general rehabilitation.

10.4.3.3. A road map for reducing maternal mortality was developed and incorporated in District Implementation Plans (DIPs). A Procurement unit was set up within the Ministry and a procurement plan was produced and is being implemented. The Health Management Information Unit was also able to produce and circulate the Health Management report.

10.4.4 Challenges

10.4.4.1 In spite of the efforts made by the Ministry to achieve its goals, it still continues to face serious challenges. The prevailing high maternal mortality rate implies that many underlying factors relating to quality and availability of services on the ground are yet to be addressed. The Ministry also faces budgetary pressure due to increased demand for services brought about by the increase in HIV/AIDS prevalence and the increased demand for referral cases abroad. Malawi’s health facilities are relatively close to households but most of them are not able to provide full Essential Health Package (EHP).

10.4.4.2 According to the 2002 Core Welfare Indicators Questionnaire Survey, only 16.8 percent of households used health services during the weeks preceding the survey and an even smaller percentage reported being satisfied with services provided. The low utilization of health services and the low satisfaction expressed by households who used them is due primarily to lack of health staff, drug stock-outs, and poor treatment. The shortage of human resources is the major contributing factor. The growth in global demand for health human resources, coupled with the free flow of human capital across borders in recent years is working to the disadvantage of Malawi. Health professionals migrate to the developed world in search of better living conditions. The availability of drugs is seriously affected by logistical problems and high levels of pilferage.

10.4.4.3 Capacity constraints at training institutions due to lack of adequate teaching space and hostel accommodation continue to negatively affect intake and quality of output. Physical access to health facilities remains another challenge to the nation, disproportionately affecting women, children and the poor. This is aggravated by referral by-pass caused by unavailability of drugs and equipment in primary health facilities. Funding problems continue to affect the timely completion of some facilities**.**

10.5 Education

10.5.1. Introduction

10.5.1.1 The Ministry of Education provides formal education at primary and secondary levels. It also maintains responsibility for training teachers, and works closely alongside the public universities (University of Malawi and Mzuzu University) in the provision of tertiary education. Adult education and pre-primary education fall under the responsibility of the Ministry of Gender, Child Welfare and Community Services whilst technical, vocational and entrepreneurial training fall under the Ministry of Labour and Vocational Training. Education remains fundamentally important for Malawi given its direct influence on economic, social, cultural and political development of the nation.

10.5.2 Major Achievements during the 2005/06 Financial Year

10.5.2.1 Primary Education

10.5.2.1.1 Currently, there are 3.2 million pupils enrolled at 5,159 primary schools. The girls make up 49.8 percent of the total primary school age population. Within the primary sector, over 500 primary schools were inspected during the 2005/06 financial year.

10.5.2.1.2 With assistance from the World Bank, the newly launched Education Sector Support Programme 1 (ESSUP) has 3 components which directly benefit the primary school sector. Firstly, there is *'Direct Support to Schools'*, which is essentially meant to supply basic learning materials directly to schools, whilst strengthening the participation of communities in school management. This is through the provision of grants directly to all primary schools twice every school year. Secondly, there is the *'School Health and Nutrition'* component, which concentrates on provision of a school health and nutrition package to all primary schools. This includes the following cost-effective interventions: Distribution of Vitamin A and iron-folic acid to school children under 10 years old, de-worming, treatment of malaria and fever, and promotion of good health and nutrition practices. The third component is *'Construction of a Primary Teachers College'*, which is essentially construction of a teachers training college specifically intended for primary school teachers.

10.5.2.2 Secondary Education

10.5.2.2.1 Currently, there are 183,564 students enrolled at 978 secondary schools. Girls make up 42.5 percent of the total secondary school population. As part of the ongoing ADF IV project, additional facilities were constructed for 24 Community Day Secondary Schools. A further important development in the secondary education sector has been the decentralization of 99 Conventional Secondary Schools. These have become cost centres of their own, and they are now responsible for their own respective budgets and are financially accountable for the use of disbursed funds. Aligned with this development, the Ministry of Education also trained 225 Secondary School head teachers in the proper procedure concerning financial management in August 2005. Within the secondary sector, over 250 secondary schools were inspected. As a consequence of the K80 million devoted to the National Bursary in the 2005/06 budget, 3,264 students benefited.

10.5.2.2.2 Support to the secondary education sector continues in the form of assistance from the ADF IV Project, specifically concerning the Community Day Secondary Schools (CDSS). The project stipulations involve the construction of 40 CDSS; provision of instructional materials; in-service training of CDSS teachers and training for CDSS school managers and Department for Teacher Education Development (DTED) and Education Methods and Advisory (EMAS) staff. This is a positive development in terms of CDSS, which has roughly 50 percent of the secondary school population. The World Bank, also completed the Secondary Education Project (SEP) in December 2005. This led to the construction of 20 secondary schools, provision of teaching and learning materials, training of school based managers and the provision of HIV/AIDs materials.

10.5.2.2.3 The recently launched ESSUP 1 Project has 2 components which directly benefit the secondary sub-sector. Firstly, there is '*Quality Improvements and Inputs'*, which essentially involves refurbishing 4 government secondary schools, namely: Lilongwe Girls, Mzuzu Government, Dedza and Blantyre Secondary Schools. Besides, the component also provides additional textbooks for graduating CDSS teachers (this is complementary to the Canadian International Development Agency (CIDA) Project financed by Support to Secondary Teachers Education Programme (SSTEP). Secondly, there is *'Capacity Building and Policy Development'* which involves the consolidation of national education policy and capacity building and supporting the implementation of the government decentralization policy in education.

10.5.2.3 Tertiary Education

10.5.2.3.1 In 2005/06, as part of the 1+1 Teacher Training Programme, 2,645 teacher trainees enrolled and should hopefully graduate in 2006/07. 662 teachers have completed their training and become teachers in other programmes that the Ministry administers.

10.5.2.3.2 In the World Bank ESSUP 1 Project, there is 1 component which directly benefits tertiary education. This is the *'Rehabilitation and Expansion of Teacher Education Facilities'* and this involves the refurbishment of educational facilities at

Chancellor College and the Polytechnic. New works will also begin at Mzuzu University in order to meet the additional needs of secondary teacher education.

10.5.2.4 Progress with the donor community in 2005/06

10.5.2.4.1 There have been different inputs from all development partners to the education sector; but most of these have been in project form, addressing different needs as identified by the Government of Malawi. However, on development partner harmonization the following has been achieved:

1) Within the framework of the Sector-Wide Approach (SWAp) process, the Education Sector Strategic Plan and Terms of Reference for the SWAp secretariat have been developed and agreed between the Ministry and development partners. A joint financing agreement among CIDA, Department for International Development (DFID) and German Government (KfW/GTZ) has been drafted to support basket funding in the primary education sector; and
2) Implementation of core reform processes of Primary Curriculum, Teacher Education and Development, Sector Devolution and SWAp has been delayed due to delayed policy decisions by Ministry of Education, structural problems of the education system and the system being too supply-driven instead of demand-driven

10.5.2.5 Challenges

10.5.2.5.1 Despite the above achievements, the Ministry of Education continues to face a number of challenges in its efforts to improve access, quality, relevance, equity and efficiency throughout the education system in Malawi. Some of these challenges include:

1) High level of staff turnover, which directly impedes policies to be carried through to the end of their life-span. Given the unpredictability in direction and leadership preferences, attempts must be made to reduce the staffing gaps that currently exist;
2) Lack of donor harmonization. Despite recent efforts, more needs to be done to improve donor harmonization and alignment to the Paris Declaration. This would also mean a great reduction in transaction costs for the Ministry of Education;
3) Currently, five line ministries are heavily involved in Education activities across Malawi. However, the absence of effective co-ordination and communication is prevalent among the institutions executing education activities. There are likely duplications/gaps in certain policies and this inevitably leads to widespread wastage of resources and/or inefficiencies across the Education Sector in Malawi;
4) Data collection and research capacity building needs to be strengthened across the sector. Donors that are heavily involved in the education sector in Malawi have undertaken some analytical work to support investment in the sector;
5) Official policy documents drafted by the Ministry fail to exuberate the sort of expected impact. In view of this, there is need for wider participation of key stakeholders in the Education Sector, dissemination of reports across the sub-

sectors of the Ministry and a medium-term framework in terms of priority activities; and

6) Consistently low funding from Treasury for consecutive financial years. The trend manifests a declining share of budgetary support to education sector as a percentage of the national budget. Unlike other SADC countries, the education sector in Malawi is quite far from achieving the 26 percent of the national budget as stipulated under the Education for All (EFA) Declaration to which Malawi is a signatory.

10.5.2.6 The Way Forward for 2006/07

10.5.2.6.1 The Ministry has many projects in the pipeline, which aim at improving the state of the education at all levels. Attempts will be made to meet the objectives of the Ministry through widening access; improving the quality of education, equity, the relevance of the curriculum, the quality and quantity of teachers through the development of policies for effective teacher development and management, and educational financing; strengthening educational planning; and fighting the HIV/AIDS pandemic and reducing its impact on school and society.

10.5.2.6.2 Government remains committed to continuing with the rehabilitation of secondary schools to provide a conducive learning environment. Whist rehabilitation work on 4 secondary schools was started last year, the Ministry intends to increase this to 8 should it receive sufficient funding from the Treasury. To improve the gender parity of student intake for secondary education, the sub-sector also intends to construct 7 girls hostels. The 2006/07 financial year will precede the actual construction by considering the actual designs for the hostels. Also being considered is the construction of a special needs institute to help support greater participation of special needs children into the education system. Preliminary plans involve considering the designs for the institute. The amount dedicated to teaching and learning materials needs to increase substantially in order to meet the objectives of the Ministry in terms of textbook to pupil or textbook to teacher ratios. In line with the process of decentralization, some approved community day secondary schools (CDSS) are joining conventional secondary schools to become cost centres. This will be a gradual process until eventually all CDSS become cost centres and responsible for their own financial management.

10.5.2.6.3 Donor commitment from the Malawi traditional development partners ensures continued financial support in 2006/07. The World Bank ESSUP Project will continue with its implementation of all components. The African Development Bank will continue with its support of the CDSS by launching ADF V, which is expected to last for 4 years from 2006 to 2010. This will involve the new construction of 30 CDSS, provision of instructional materials to forms I, II and III CDSS students, training of CDSS mathematics and science teachers and CDSS head teachers, support for policy development and review of post primary education. Necessary procedures will be undertaken to form a viable SWAp partnership between the Ministry of Education and its donor partners.

Chapter 11

POVERTY REDUCTION PROGRAMME

11.1 Introduction

11.1.1 Government and its development partners formulated the Malawi Poverty Reduction Strategy (MPRS) in 2002 with the aim of reducing poverty through sustainable economic growth and empowerment of the poor. The first part of this chapter endeavours to review progress made in the implementation of programme under the MPRS and the second part outlines the implementation of the Public Sector Investment Programme (PSIP), which continues to be the Government's instrument for coordinating the implementation of Malawi's development priorities, as espoused in its national development framework, the Malawi Growth and Development Strategy. This is a medium-term rolling plan for programming public investment and coordinating project/programme related external and internal development assistance.

11.2 Annual Review of the MPRS

11.2.1 Government completed implementation of the MPRS, which was designed to last for three years from 2002 to 2005. In 2005, Government completed the comprehensive review of the Strategy and the findings have served to be a useful input in the designing of the Malawi Growth and Development Strategy (MGDS). Government also completed the 2005 annual review of MPRS through a consultative process. This was the last annual review of the MPRS covering the period from July 2004 to June 2005.

11.2.2 The 2005 MPRS annual review focused on assessing inputs, outputs and, to some extent, outcomes of the last year of the implementation of the Strategy. In terms of inputs, the review analysed the protected pro-poor activities and government expenditure patterns on the functional classification basis. Outputs and outcomes were presented by comparing the planned activities and their targets as outlined in the Strategy to the actual progress and targets achieved.

11.2.3 Several challenges emerged during the implementation period. In the macroeconomic sector, inflation rate was relatively high, real GDP manifested negligible growth, and the Malawi Kwacha continued to depreciate. The review also noted that lead institutions in the implementation of the MPRS continued facing critical challenges in the area of financial and human resource availability, HIV/AIDS, prioritisation of activities, and monitoring and evaluation.

11.2.1 MPRS As An Overall Policy Framework

11.2.1.1 The 2005 MPRS Annual Review noted that many institutions implemented policies that were outside the MPRS framework. The review also noted that funding would remain a key challenge in the implementation of the MPRS. Almost all government sectors indicated constraints in funding levels and timing of disbursements. The Review, therefore, proposed that the limited funds that were made available should be channelled towards activities that have direct impact in stimulating growth and poverty reduction.

11.2.2 Funding Allocations

11.2.2.1 The Review noted that in 2004/05, funding for pro-poor expenditures (PPEs), as a percentage of total expenditures declined. The MPRS and the 2004/05 Budget projected that PPEs would be 27.38 percent and 21.43 percent of total expenditure, respectively. However, the actual outturn of 2004/05 showed that there was a decline in PPEs by 7.18 percent and 1.73 percent of the projected MPRS and budgetary targets, respectively. The analysis of government expenditure by sector indicated that social and community services received 23.5 percent of total expenditure, which was less than the planned 38.8 percent. The largest recipient of government funding during 2004/05 was general administration that was allocated 29.7 percent of total expenditure, followed by economic services at 25.6 percent and debt amortization was last at 19.0 percent. It was noted that during this year, debt repayment declined by 1 percent point from 21.4 percent in the budget to the actual level of 20.4 percent.

11.2.3 MPRS Performance by Pillars

(a) Pillar One

11.2.3.1 This focused on sustainable pro-poor growth and dealt with sources of economic growth. The role of the private sector was recognized as the driving force for economic growth while the government, NGO's and donors were mainly seen as creators of an enabling environment for growth. The pillar recognized the agriculture sector as the dominant sector to facilitate this economic growth.

11.2.3.2 A number of activities were carried out under this Pillar in 2004/05 year. The major activities were to do with expanding and strengthening access to agricultural inputs, promotion of small scale irrigation, sustainable utilization of natural resources, development of tourism products, construction and rehabilitation of water facilities, promoting small-scale mining, increasing access to energy, private provision of tele-communication services, and improve access to domestic and international markets. The following were noted under this Pillar:

1) Crops like maize, cotton, groundnuts and soy beans were unable to reach MPRS targets. Maize production actually fell by 29.3 percent compared to the previous year due to drought;
2) Cattle production moved closer to the MPRS targets of 868,373;
3) Very little movement on irrigation. The distribution of treadle pumps, canals excavated, motorized pumps, and sprinklers were below 50 percent of MPRS targets;
4) Fish farming registered slow movements due to inadequate fingerlings and funding;
5) The forestry month programme was launched and more that 50 million trees were planted;

6) Construction of tourism village at Mpale, Mangochi District, and development of the tourism investment plan;
7) 200 small-scale miners were trained;
8) Mobilization of communities to operate and maintain water supply systems; and
9) Training of 530 local entrepreneurs in business management and technical skills.

11.2.3.3 The main constraints under this Pillar were the drought and inadequate funding. The fisheries and forestry sectors were mainly affected by inadequate funding.

(b) Pillar Two

11.2.3.4 This Pillar focused on human capital development. A number of achievements were recorded in this sector. Some of them include the following:

1) The launch of 869 new adult literacy classes;
2) Training of 3,000 new primary school teachers was done to assist in reducing the teacher: pupil ratio;
3) Construction of 22 new secondary schools;
4) University student intake of 7,400 in 2005 exceeded MPRS target of 6,824;
5) The proportion of girls in tertiary education slightly exceeded the MPRS target of 30 percent by 1 percent to 31 percent;
6) Payment of salary top-ups (52 percent) to health personnel started;
7) Drug expenditure per capita was $1.00, 25 cents below the MPRS target; and
8) Finalization of the food security and nutrition policy.

11.2.3.5 There were a number of problems encountered. Human capital, in terms of health and teaching personnel is quite low at all levels. Higher education particularly tertiary education continued to suffer from inadequate funding.

(c) Pillar Three

11.2.3.6 This pillar was concerned with improving the life of the most vulnerable in society through the provision of safety nets and social welfare. There were some notable achievements such as:

1) The targeted inputs programme (TIP) benefited 2 million farm families, reflecting an increase by 0.3 million on the previous year level;
2) A total of about 35,000 people benefited from the MASAF public works programme;
3) The food for work scheme benefited 128,109 individuals and 1,337 km of roads were built by communities; and
4) The Government/EU public works programme registered about 210 beneficiaries and 2,481 km of roads were rehabilitated.

11.2.3.7 The main constraints encountered under this Pillar were the problems of targeting the right beneficiaries (where communities played a role in identifying them), the poor coordination of stakeholders involved in disaster management activities and duplication of activities so that some communities were over targeted.

(d) Pillar Four

11.2.3.8 This focused on good governance and its overall objective was to ensure that institutions and systems protect and benefit the poor and the vulnerable groups. A number of notable activities were undertaken and these include:

1) Construction of more courtrooms in all districts;
2) Ensuring adequate judicial staff and support;
3) Recruitment of 80 new detectives in the Malawi Police Services;
4) Training of various police officers at different levels in finger printing, prosecution and paralegals;
5) Creation of the Office of the Director of Public Procurement;
6) A number of corruption related investigations were carried out;
7) Computerisation of primary school teachers payroll under decentralitsation programme in all districts;
8) Members of Parliament were trained in democratisation; and
9) 50 public servants and 90 secondary school teachers were trained in human rights.

11.2.3.9 Some notable constraints under this Pillar included inadequate funding, lack of capacity in the Police in the areas of forensic science and preservation of evidence, inadequate capacity for government expenditure monitoring, low staffing levels in institutions like the Anti-Corruption Bureau (ACB), and lack of capacity at district level to take over devolved functions.

(e) Pillar Five

11.2.3.10 This pillar centred on crosscutting issues in the MPRS and these were gender and empowerment, HIV/AIDS, science and technology, and environment. A number of activities were undertaken in these areas and the main ones are listed below:

1) Community based groups, totalling 8,000 men and women, were oriented on gender based violence;
2) 302 community leaders (men and women) were trained on gender sensitive formal and informal legal environment;
3) Nearly 12,000 youths, their club leaders and peer educators, were trained in coordination of HIV/AIDS activities;
4) Life skills text books have been printed and are being used in primary schools;
5) The national ICT Policy has been finalized and awaiting Cabinet approval; and
6) The environmental strategy action plan for 2006-11 was launched.

11.2.3.11 The other issues on crosscutting have to do with monitoring and evaluation. The Ministry of Economic Planning and Development, with financial assistance from donors, completed arrangements for the Joint Support Programme to develop and support M & E systems at all levels of government from communities, the district assemblies, and the sector/ministry levels. This will help to address the problems of data unavailability and delays in producing M & E reports on the progress of development programmes and activities. The programme will also address problems of coordination in monitoring and evaluation between government, donors and the civil society.

11.3 Review of 2005-06 Development Programme (PSIP)

11.3.1 An appropriation of K34.663 billion was made for the implementation of the 2005/06 Development Programme. Of this amount MK31.1 billion was to be funded with resources from the cooperating partners while K3.56 billion was funded from domestic resources. At the end of the third quarter, K3.49 billion and K21.708 billion were disbursed from domestic resources and foreign finances, representing 98 percent and 70 percent, respectively. This means a total of around K25 billion had been used up leaving a balance of K6 billion, representing 73 percent disbursement for the total programme estimate.

11.3.2 A number of problems affecting project disbursements were identified and found to be common to most of the projects and programmes. These include inadequate part two funding, delays in opening holding and operating accounts; lengthy donor procedures and slow response; delays in recruitment of staff for project implementation units (PIUs); and delays in getting bank statements from the Citibank.

11.3.3 Since there are many projects and programmes, only a few were selected for review and the key findings are as presented below.

11.3.1 Education

11.3.1.1 The education sector was allocated K2.6 million in the 2005/06 PSIP, representing 7.4 percent of the development budget. Some of the key projects that Government committed to undertake this sector include rehabilitation of old secondary schools and the construction of 40 new community day secondary schools.

11.3.1.2 A consultant was engaged to undertake an assessment of the extent of renovations that are required at Dedza Government, Mzuzu Government, Blantyre and Lilongwe Girls Secondary Schools. Depending on the extent and cost of the renovations, some structures may be recommended for rehabilitation while others may have to be demolished all together and put up new ones. The evaluation exercise was expected to be completed in March 2006 and the contactor will have to prepare tender documents. This is an ongoing exercise and rehabilitation may start in earnest in this financial year.

11.3.1.3 On the 40 community day secondary schools, 24 schools are under construction and tenders have just been evaluated to award contracts for the construction of the remaining 16 schools. Some of the schools under construction include Mphuzi in Dedza, Kwalilanji in Mchinji, Njolomole and Sharp Valley in Ntcheu and Msambanjati in Thyolo and Chang'ambika in Chikwawa. Construction of all the remaining 16 community day secondary schools is expected to commence within the 2006/07 financial year.

11.3.2 Roads

11.3.2.1 Government undertook to construct a number of roads across the country in the 2005/06 fiscal year. Construction of the Nkhoma-Kamphata Road, Ntchisi-Mponela Road started as planned and the contractor is on schedule. The contractor has completed 6.2 km of surfacing and a decision has been made to surface 2km spur to Nkhoma Mission Hospital and the supervising contractor is working on the designs for the spur. Progress for Nkhoma-Kamphata and Mponela-Ntchisi Roads is rated at 66 percent. 48 percent, respectively. The contractor for Mponela-Ntchisi Road has so far surfaced 7.8 km and construction of box culverts is in progress. These projects are funded by Government of Malawi. The contract for the Zomba-Jali-Phalombe-Chitakale Road has already been awarded and the contractor is setting up camp and construction of diversions is underway. This road is jointly funded by the Kuwait Fund, OPEC Fund and the BADEA.

11.3.2.2 Construction of Karonga- Chitipa Road is expected to start this financial year and the Thyolo-Makwasa-Muona-Bangula Road is also expected to start as soon as the tendering process is completed.

11.3.4 Shire-Zambezi Waterway Development Programme

11.3.4.1 Government is still commitment to the development of the Shire-Zambezi Waterway Development Programme. The Programme was submitted and endorsed by New Partnership for African Development (NEPAD) in October 2005. In addition, the programme proposal was sent to a number of development partners for funding consideration. However, the majority has not responded as they are waiting for the feasibility study to be carried out. The European Union (EU) has already provided 300,000 Euros (K47 million) and a company has already been identified to undertake pre feasibility studies of the Waterway.

11.3.4.2 Using Government's own resources, some work has already started. For instance, construction of the Port at Nsanje started in September 2005. The Port has been gravelled and raised to 3 metres above the normal level and Berth pits have been constructed. Compacting of the Nsanje Airport has also been undertaken and it is able to handle ATR42 range of aircrafts. Additional resources for the project are being mobilized and the Kuwait Fund will finance the feasibility study.

11.3.5 Health

11.3.5.1 Construction of first phase of Blantyre District Hospital at Kameza has been completed with a fence erected around the premises. The Blantyre City Assembly has approved the designs of the main hospital structure and bills of quantities have been prepared for contractors to bid for the construction of the main hospital complex. Civil works for the upgrading and rehabilitation of 200 health centres are also underway across the country and they will be completed as scheduled.

11.3.5.2 In the 2006/07 fiscal year, Government will start the construction of Nkhata Bay District Hospitals with funding from the OPEC Fund and continue with the rehabilitation and expansion of central hospitals with funding from the Health SWAP Programme and the Scottish Government.

11.3.6 Irrigation Development

11.3.6.1 Government planned to develop an irrigation system to irrigate 42,320 hectares (ha) of land in Lower Shire. A consultant was engaged to review the designs of the irrigation system for phase one which covers 17,320 ha of land. The consultant has come up with detailed designs of the system, bills of quantities and tender documents for actual construction of the systems. Construction work is expected to start in the 2006/07 financial year in which Government intends to intensify irrigation farming.

11.3.7 Agriculture

11.3.7.1 The Ministry of Agriculture and Food Security (MoAFS) was allocated K2.4billion in the 2005/06 PSIP, representing 7.6 percent of the development budget. The agricultural sector registered great success in the 2005/06 fiscal year due to combined factors of increased investment in the sector and good weather. The implementation of the Irrigation, Rural livelihoods and Agricultural Development Project is expected to improve the performance of the agricultural sector in 2006/07 fiscal year through the rehabilitation of various irrigation schemes in the 11 districts across the country.

11.3.7.2 The country has signed a K2.4 billion agreement with the EU to implement the Farm Income Diversification Programme to assist rural farmers to increase farm incomes through investment in high-income agricultural enterprises.

11.4 Development Programme For The 2006/07 Fiscal Year

11.4.1 The 2006/07 PSIP has been developed on the basis of the national development framework, the Malawi Growth and Development Strategy (MGDS). In responding to the ideals of the MGDS, the PSIP has been framed along the five thematic areas of the MGDS, which are sustainable economic growth, social development, infrastructure development, social protection and good governance.

11.4.1 Sustainable Economic Growth

11.4.1.1 Government has allocated K10.8 billion towards sustainable economic growth sectors, representing 19.3 percent of total development programme. In this case, Government will continue to undertake deliberate measures aimed at improving the quality of life of the most vulnerable people who may not benefit from the mainstream of economic growth and development.

11.4.2 Social Protection

11.4.2.1 Government will continue with programmes such as the Public Works Programme (PWP) under the Malawi Social Action Fund (MASAF) III, the Income Generation and Public Works Programme and conditional cash transfers to protect the vulnerable people though to a lesser extent because of the bumper yield this year. A total of K1.4billion, representing 2.5 percent of the available PSIP resources have been allocated to this programme under various sub-programmes to ensure that in times of crises, peoples' capacity to attain prosperity, create wealth and contribute to economic growth and development is restored.

11.4.3 Social Development

11.4.3.1 The 2006/07 development programme has accorded social development all the recognition it deserves by allocating adequate resources towards programmes in education, health, HIV and AIDS, nutrition and gender. The social development programme thematic area in the MGDS has been allocated a total of K22.13 billion, representing 39.6 percent of the total development programme.

11.4.4 Infrastructure Development

11.4.4.1 A key component of the enabling environment for private sector driven growth and provision of timely and quality social services is the quality and availability of adequate infrastructure. Further, provision of a package of infrastructure in the areas of transport (road, rail, air and water), electricity, telecommunications and information technologies contributes to creation of an appropriate environment for enhanced productivity of business establishments in any country.

11.4.4.2 Government has completed the preparation of the Integrated Infrastructure Services Project. This Project aims at increasing access to basic infrastructure such as water, electricity and communication services. Under the project, Government has undertaken the following activities:

1) Initial Assessment Study that aimed at assisting in identification and prioritisation of the project sites based on their economic potential. The study identified five priority project areas; namely: Rumphi-Nyika-Chitipa; Ntcheu-Tsangano-Mwanza; Mangochi-Cape McLear; Zomba-Phalombe-Mulanje; and Bangula-Tengani-Nsanje-Makoko;
2) Environmental and Social Management Framework (ESMF) to provide project

implementers with an environmental and social screening process that will enable them to identify, assess and mitigate potential negative environmental and social impacts of priority infrastructure investments at the planning stage;

3) Resettlement Policy Framework (RPF) aimed at outlining the policies and procedures to be applied in the event that priority infrastructure investments require land acquisition;
4) Development of Monitoring and Evaluation (M & E) framework aimed at coming up with an initial baseline situation in the project areas; and
5) Feasibility study to establish the economic and technical feasibility of improving and expanding water and sanitation, telecommunications, electricity and feeder/rural road transport sectors for enhanced economic growth and productivity in the five selected project areas.

11.4.4.3 The World Bank has for so far conducted the appraisal of the project and this involved review and validation of the project design and scope, costs & financing, institutional and implementation arrangements. The proposed project will provide a package of four infrastructure services of roads, electricity, water and sanitation, and telecommunication in the five project areas. The IDA Board is expected to approve the Project on 27th June 2006 and project implementation is planned to start in September 2006 for a five-year period and it is estimated to cost US$40 million, which the World Bank will provide as a grant.

11.4.4.4 A total of K14.3billion has been allocated to the basic economic infrastructure services development with the bulk of it going towards road infrastructure. The infrastructure development is meant to support all other themes under the MGDS such as provision of good governance, delivery of social services under the social development and economic services under the sustainable economic growth thematic areas. Overall, infrastructure development accounts for 25.6 percent of the total resources available for the 2006/07 development programme (PSIP).

11.4.5 Good Governance

11.4.5.1 The success of the strategies suggested in the first four themes owes much to the prevalence of good governance. The main tenets of good governance are issues to deal with good public sector management, absence of corruption and fraud, decentralization, justice and rule of law, security, good corporate governance, democratisation, information communication and technology and human rights. In addition, the need for political will and change of mindset within a democratic political environment is also envisaged to contribute positively towards the attainment of economic prosperity and poverty reduction.

11.4.5.2 The need to address concerns in all these sub themes cannot be over emphasized, as it is evident that the achievement of long-term national goals is dependent on good governance from all angles within the Malawian economy. As such, it is imperative that good governance creates a conducive environment for the implementation of both economic and social activities. However, the deliverance of good governance calls for collaborative efforts from all stakeholders because of the cross cutting nature of the issues at hand. Again, political will and change of mindset within a democratic political environment is also crucial if anything is to be achieved.

11.4.5.3 A number of programmes have been identified in the PSIP to implement issues related to good governance. Major programmes under the governance theme fall under all three arms of Government, which include: the Executive, the Legislature and the Judiciary. Included in this category are constitutional bodies such as the Ombudsman, Anti-Corruption Bureau and the media institutions. A total of K7.2 billion has been allocated to good governance sector under the governance programmes, representing 12.9 percent of the development budget.

TABLE 11.1 : SUMMARY OF FINANCIAL ALLOCATION BY MGDS THEME IN THE 2006-07 DEVELOPMENT PROGRAMME

Theme	**Total Allocation (million Kwacha)**	**Total (Percent)**
Social Development	22,129	39.60
Infrastructure	14,316	25.60
Sustainable Economic Growth	10,783	19.30
Governance	7,189	12.90
Social Protection	1,405	2.50
Total	**55,822**	**100**

11.4.5.4 Table 11.2 below shows total project allocation for projects that have got financial commitment from both Government and the donors. The donors and Government of Malawi have committed a total of K49.7 billion and K6.1billion, respectively. Government resources will come in the form of either counterpart funding or own Government funding to support projects that are fully funded by Government. Of the total development budget, K29.7 billion, K20.0 billion and MK6.1billion are in the form of grants, loans and government funding, respectively.

TABLE 11.2: BREAKDOWN OF TYPE OF FUNDING.

Funding Type	**Billion Kwacha**	**Total (Percent)**
Grants	29.7	53.2
Loans	20.0	35.8
Government	6.1	10.9
Total	**55.8**	**100**

11.4.6 Conclusion

11.4.6.1 An analysis of the overall development programme reveals that more resources have been allocated to projects and programmes in the social development and infrastructure services. The Public Infrastructure Services Sector has been allocated considerable amount of resources in 2006/07 due to the facilitative role which roads, energy, water and sanitation and telecommunication play in promoting private sector business and delivery of public services in the social development, social protection and good governance sectors. However, construction of roads has dominated the infrastructure services development budget with resources amounting to K11.52 billion (76 percent) and this is because it is the most widely used transport infrastructure in the country. This is in line with Government policy to invest more in sectors, which would facilitate the development of both social and productive sectors so as to create more wealth and reduce poverty. In the social development, the bulk of resources are allocated to HIV and AIDS, health and education sub-sectors.

11.4.6.2 On funded on-going and new priority programmes, the largest share of funds, K22.129 billion (39.6 percent) has been allocated to social development. This is in recognition that there is need for high quality in human capital. Sustainable economic growth has also been given due recognition in the 2006/07 PSIP and this theme has an allocation of K10.783 billion, representing 19.3 percent of the total resources available for development programme. A combination of sustainable economic growth and infrastructure development gives a total resource envelope of K25.1 billion, representing 45 percent of the development budget, thereby providing a fair balance with social development oriented investment.

Chapter 12

BANKING AND FINANCE

12.1 The Banking System

12.1.1 Monetary developments in 2005 were expansionary mainly due to liquidity injection emanating from the extension of credit to the private sector by the banking system. During the year, efforts by the central bank to mop up excess liquidity and contain growth of broad money (M2) were stifled by increases in gross credit to private sector. In addition, pressure on money supply arose from an increase in net foreign assets of the banking system as donor inflows resumed following the International Monetary Fund's approval of the new Poverty Reduction and Growth Facility (PRGF). The above developments, therefore, resulted in money supply expanding by 14.3 percent to K52.2 billion in 2005. At that level, money supply grew at a slower pace compared to a growth of 29.8 percent in 2004.

12.2 Money and Quasi-Money

12.2.1 Money supply rose by 14.3 percent and totalled K52.2 billion in 2005 compared to an increase of 29.8 percent recorded in 2004. From the demand side, the expansion was explained by both components of money supply. Narrow money contributed 10.4 percent to the growth in M2 while quasi money explained 3.9 percent of the increase.

12.2.3 Narrow money, which comprises currency outside banks and demand deposits and the most liquid component of broad money, rose by 18.7 percent to K30.2 billion. The increase in narrow money emanated largely from demand deposits, which rose by 26.3 percent. Currency outside banks rose by 8.7 percent and amounted to K11.9 billion. The increase in these balances was seasonal and reflected increased economic activity particularly towards the end of the year.

12.2.4 Quasi-money also registered a growth of 8.8 percent to K22.0 billion compared to a growth rate of 14.1 percent recorded in 2004. Time and savings deposits were largely responsible for the increase as they rose by 18.5 percent. However, foreign currency deposits (FCDs) recorded a decline of 9.1 percent as FCD account holders depleted their balances to meet their financial requirements.

TABLE 12.1: MONETARY SURVEY (K'MN)

	End Month Balances			Changes During Periods		
	2003	2004	2005	2003	2004	2005
A. Net Domestic Credit						
1. Credit to government (i+ii)	18,693.9	22,322.1	23,334.5	2,977.5	3,628.2	1,012.4
i. Monetary Authorities.	8,154.5	12,045.6	11,393.3	-1,511.4	3,800.2	-652.3
ii. Commercial Banks.	10,448.5	10,276.5	11,941.2	4,488.8	-172.1	1,664.7
2. Credit to statutory bodies	-351.8	-482.9	-1,479.4	-231.3	-131.0	-996.5
3. Credit to private sector (gross)	9,808.7	13,926.3	17,500.3	2,445.3	4,117.6	3,574.0
B. Narrow Money (M1)						
4. Currency outside banks	7,838.3	10,992.8	11,946.0	1,874.3	3,154.5	953.2
5. Private sector demand deposits	9,625.9	14,450.7	18,257.0	2,149.8	4,824.8	3,806.3
C. Quasi-money.	17,718.5	20,222.5	22,004.0	3,948.1	2,504.0	1,781.5
D. Money Supply (M2)[1] (B+C)	35,182.7	45,666.0	52,207.0	7,972.2	10,483.3	6,541.0
E. Net Foreign Assets						
6. Monetary Authorities	1,455.1	2,919.0	6,914.8	757.4	1,463.9	3,995.8
7. Commercial banks	4,010.6	4,673.9	2,981.6	832.2	663.3	-1,692.3

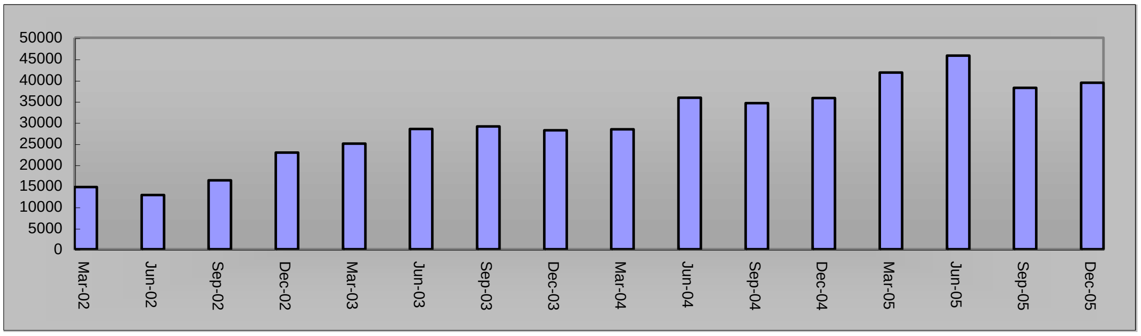
Source: Reserve Bank of Malawi

[1]Time, savings and foreign currency deposits of the private sector with commercial banks
Note: From December 2001, monetary survey encompasses data on the central bank and four commercial banks

12.3 Net Domestic Credit

12.3.1 The major contribution to monetary expansion came from an increase in net domestic assets reflecting large credit extension to the private and public sectors. Total net domestic credit extended by the banking system expanded annually by K3.6 billion to K23.3 billion. This followed another increase of K7.6 billion during the preceding year. Gross credit to private sector and net domestic credit to government recorded respective increases of K3.6 billion and K1.0 billion.

CHART 12.1: BANKING SYSTEM: NET DOMESTIC CREDIT (K'MN) (QUARTERLY BALANCES)



12.3.2 The increase in gross credit to private sector was largely due to increased demand for funds by the agricultural sector to purchase farm inputs coupled with an increase in business confidence following the resumption of donor inflows.

12.3.3 Increased budget deficit, with large shortfalls in donor inflows, especially during the first half of the year resulted in government borrowing of K1.0 billion from the banking system. Government borrowing was largely in form of issuance of Treasury bills to commercial banks. Net credit to government from the commercial banks rose by K1.7 billion against a decrease of K172.1 million in 2004. Net credit to government from the monetary authorities declined by K652.3 million due to an increase of K4.4 billion in deposits following donor inflows in the latter months of the year. This outpaced claims on government, which rose by K3.8 billion during the review period.

12.3.4 Total net credit to the parastatal sector declined by K996.5 million to minus K1.5 billion following another decrease of K131.1 million in 2005. This outturn was largely due to increase in deposits on account of income realized during the year coupled with government's drive for prudent and efficient management of the parastatals.

12.4 Commercial Banks: Sources and Uses of Funds

12.4.1 Total resources available to commercial banks increased during the year by K7.9 billion to K58.0 billion compared to an increase of K8.8 billion in 2004. Private sector deposits were the major source of funds for the domestic money banks when they rose by K5.6 billion during the year. Balance in capital accounts rose by K1.4 billion compared to an increase of K882.5 million in 2004, reflecting profits made by some banks during the year. Deposits of the official sector rose by K991.9 million as the statutory bodies increased their deposits with the banks. Deposits of the government with the commercial banks, however, dropped by K12.3 million.

12.4.2 Liabilities to non-residents also contributed to sources of funds to the commercial banks when they grew by K133.0 million compared to an increase of K489.1million percent during the preceding year. This outcome reflected an increase in the banks liabilities to banks abroad. Meanwhile, other liabilities of the commercial banks dropped by K228.3 million against an increase of K513.8 million in 2004.

12.4.3 The private sector was the major user of commercial bank funds as the sector absorbed 45.3 percent of total resources of the commercial banks. The banks increased lending to the private sector by K3.6 billion to K17.5 billion mainly due to the reduction in lending rates by the commercial banks in 2004. Commercial banks increased the investment in government security as the banks holding of Treasury bills rose by K1.7 billion, reflecting expansion in government financing requirement from the sector. All other assets of the commercial banks rose by K2.7 billion on account of investment in repurchase agreements (REPOs). Domestic reserves of the commercial banks at the central bank and vault cash also rose by K827.0 million, on account of an improvement in the deposit base of the commercial banks.

12.4.4 Foreign assets of the banks went down by K917.5 million to K4.8 billion as private customers FCDs dropped by K645.0 million. This was partly due to higher demand than supply of foreign exchange in the market, which resulted in the holders depleting their accounts.

TABLE 12.2: COMMERCIAL BANKS: SOURCES AND USES OF FUNDS (K'MN)

	End Period Balances		Changes During Period					
	2004	2005	2004			2005		
			1st half	2nd half	Year	1st half	2nd half	Year
A Sources of Funds								
1. Private sector	34,673.2	40,261.0	4,324.8	3,004.0	7,328.8	2,901.7	2,686.1	5,587.8
2. Official Sector Deposits[1]	1,216.9	2,208.8	407.5	-338.8	68.7	358.5	633.4	991.9
3. Borrowing from the RBM			-	-	-	-	-	-
4. Foreign Borrowing	1,699.2	1,832.2	635.5	-539.2	96.3	-356.0	489.1	133.0
5. Capital Accounts	7,317.1	8,722.7	363.0	390.2	753.2	523.1	882.5	1,405.6
6. All other liabilities[2]	5,186.1	4,957.8	366.3	147.5	513.8	-421.2	192.9	-228.3
7. Total (1+2+3+4+5+6)	50,092.5	57,982.5	6097.1	2,663.7	8,760.8	3,006.1	4,883.9	7,890.0
B. Uses of Funds								
I. Domestic credit to:								
8. Private sector (gross)	13,926.3	17,500.3	650.7	3,466.9	4,117.6	2,570.5	1,003.5	3,574.0
9. Statutory bodies (gross)	299.5	307.2	-25.4	47.5	22.1	53.0	-45.3	7.7
10. Central Government (gross)	10,711.0	12,363.5	-574.4	317.9	-256.5	-2,363.4	4,015.9	1,652.5
11. Sub-total (8+9+10)	24,936.8	30,170.9	50.9	3,832.3	3,883.2	260.1	4,974.1	5,234.1
II. Deposits with Reserve Bank plus currency in banks	7,033.9	7,860.9	1,558.4	125.3	1,683.7	-131.2	958.1	827.0
III. Foreign assets	6,373.2	4,813.8	3,217.8	-3,100.0	759.7	605.5	-1,523.0	-917.5
IV. All other assets[2]	11,748.7	15,136.9	1,270.0	1,806.0	2,434.4	2,271.8	474.8	2,746.6
V. Total (I+II+III+IV)	50,092.5	57,982.5	6,097.0	2,663.6	8,760.6	3,006.3	4,883.9	7,890.2

Source: Reserve Bank of Malawi

[1]Statutory bodies and local authorities

[2]Including inter-bank accounts

12.5 Reserve Bank of Malawi: Sources and Uses of Funds

12.5.1 Total resources of the central bank increased by K8.9 billion to K52.2 billion compared to an increase of K5.3 billion recorded in 2004. The government sector was the largest contributor to the central banks resources, as its deposits at the central bank rose by K4.3 billion. This outturn was largely due to increased donor inflows especially during the second half of the year after the resumption of the PRGF program with the IMF.

12.5.2 Commercial banks also contributed significantly to central bank resources on account of repurchase agreements (REPOs) reflected by an increase of K2.7 billion in all other liabilities of the RBM. Demand for the Kwacha by the private sector for transactional purposes also contributed significantly towards availability of resources to the central bank. Currency outside banks rose by K953.2 million to K11.9 billion. In order to meet the increased demand for the Kwacha by the public, commercial banks increased the holdings of the local currency in vaults by K470.2 million, following another increase of K411.6 million in 2004. Commercial banks contributed K1.2 billion to the increase in the resources of the central bank and this led to an increase in the statutory reserve requirement that had to be maintained with the central bank.

12.5.3 The central bank used most of its funds to investment in the foreign sector, reflected by an increase of K5.6 billion in gross foreign assets. This outturn was due to increased donor inflows in the later part of the year. Government usage of central banks funds rose when gross credit to government increased by K3.8 billion compared to an increase of K4.3 billion in 2004. This outturn was largely due to extension of Ways and Means advances to the government coupled with increased holdings of government paper by the central bank.

12.5.4 All others assets, however, decreased during the year by K440.9 million to K10.2 billion against an increase of K1.2 billion during the preceding year. The decrease in these balances was mainly due to improvement in the clearing system, which was reflected by a decline in uncleared transactions.

TABLE 12.3: RESERVE BANK OF MALAWI: SOURCES AND USES OF FUNDS (K'MN)

	End period balance		Changes during period					
	2004	2005	2004			2005		
			1st half	2nd half	Year	1st half	2nd half	Year
A. Sources of Funds								
i. Private sector:								
1. Currency outside banks	10,992.8	11,946.0	3,233.3	-78.8	3,154.5	2,057.2	-1,104.0	953.2
ii. Official sector deposits:								
2. Statutory bodies	-	-	-	-	-	-	-	-
3. Central Government	6,614.1	10,933.9	275.8	206.8	482.6	-922.9	5,242.6	4,319.8
4. Sub-total (1+2+3)	17,606.9	22,879.9	3,509.1	128.0	3,637.1	1,134.3	4,138.6	5,272.9
iii. Banks:								
5. Currency in banks	1,861.0	2,331.1	-31.0	442.6	411.6	5.2	465.0	470.2
6. Deposits in Reserve Bank	5,113.7	6,332.5	1,777.8	-1,119.3	658.5	-449.4	1,668.2	1,218.8
7. Capital reserves and all other liabilities[1]	18,708.7	20,668.5	677.9	-51.9	626.0	11,389.4	-,9429.4	1,960.1
iv. Total (4+5+6+7)	43,290.0	52,212.0	5,934.1	-600.9	5,333.2	12,079.6	-3,157.6	8,922.0
B. Uses of Funds								
i. Domestic credit (gross):								
1. Statutory bodies	-		-	-	-			
Central Government[2]	18,990.0	22,761.3	9,318.2	-5,035.1	4,283.0	9,323.2	-5,551.9	3,771.3
3. Commercial Banks	1.7	2.1	-0.7	-0.5	-1.2	0.0	0.4	0.4
ii. Foreign assets (gross)	13,678.7	19,269.9	-3,703.4	3,583.9	700.2	504.5	5,086.6	5,591.2
iii. All other uses	10,619.8	10,178.7	320.0	850.8	1,170.8	2,251.8	-2,692.7	-440.9
iv. Total	43,290.0	52,212.0	5,934.1	-600.9	5,333.2	12,079.6	-3,157.6	8,922.0

Source: Reserve Bank of Malawi

[1] Including allocation of special drawing rights in the IMF, international agencies and other foreign banks

[2] Ways and Means Advances plus holding of Local Registered Stocks and Treasury Bills

12.6 Other Financial Institutions

12.6.1 During the year 2005, total resources of all other financial institutions (OFIs) amounted to K12.7 billion, an increase of K3.3 billion. This development was solely due to an increase in domestic currency deposits. These deposits were mainly time and savings deposits, which rose by K1.1 billion and K1.0 billion, to K4.9 billion and K4.5 billion, respectively. Foreign liabilities decreased by K972.3 million to K537.4 million during the review period partly owing to the depreciation of the Kwacha, which made foreign borrowing more expensive. On the other hand, other liabilities increased by K1.5 billion to K2.0 billion, and this largely emanated from borrowed funds, which increased by K59.0 million to K120.9 million. Liabilities to other banks, however, decreased from K1.7 million to K0.1 million, a reflection of decreased activity among OFIs**.** As a response to sufficient liquidity in the system, OFIs' recourse to central bank was nil during the whole year except for the period between May to July, 2005. Equity capital holdings also went down by K58.4 million to K1.4 billion.

12.6.2 The funds mobilized by other financial institutions were mostly used for credit purposes. Total domestic credit increased by K2.0 billion to K8.5 billion. Much of the total credit went to the private sector amounting to K5.7 billion and this more than doubled compared to that recorded during the previous year. On the other hand, credit to the government significantly declined to K2.8 billion from K4.2 billion recorded last year**.** The decline in credit to the official sector is a reflection of prudent fiscal policies pursued during the course of the year. Lending to statutory corporations also declined markedly. Statutory organizations resorted to run down deposits as opposed to bank borrowing, since lending rates though lower than those in 2004 were still high. Foreign assets increased from K116.6 million to K369.6 million, and this was solely due to an increase in foreign currency deposits.

TABLE 12.4: OTHER FINANCIAL INSTITUTIONS: SOURCES AND USES OF FUNDS (K'MN)

	End-Month Balances		Changes during the period		
	2004	2005		2005	
	December	December	Ist half	2nd half	Year
A. Sources of Funds					
1.1 Domestic currency deposits	7,312.0	10,067.4	1,420.1	1,335.2	2,755.4
1.2 Foreign liabilities	1,509.7	537.4	207.7	-1,180.0	-972.3
1.3 Other liabilities\3	573.2	2,048.5	163.0	1,312.3	1,475.3
1.4 Total sources	9,394.9	12,653.3	1,790.8	1,467.6	3,258.4
B. Uses of Funds					
1.5 Cash	130.3	498.5	299.3	68.9	368.2
1.6 Deposits with banks	491.5	16.4	879.9	-1,355.0	-475.1
1.7 Foreign assets	116.6	369.6	-104.6	357.5	252.9
1.8 Domestic credit	6,539.9	8,515.9	383.4	1,592.6	1,976.0
1.8.1 Government	4,186.4	2,827.4	-1,606.5	247.5	-1,359.0
1.8.2 Statutory bodies	5.7	0.0	-4.8	-0.9	-5.7
1.8.3 Private sector	2,347.8	5,688.5	1,994.7	1,346.0	3,340.7
1.9 Other assets\4	2,116.5	3,253.0	332.9	803.6	1,136.6
2.0 Total uses	9,394.9	12,653.3	1,790.8	1,467.6	3,258.4

Source: Reserve Bank of Malawi

12.7 Money Markets

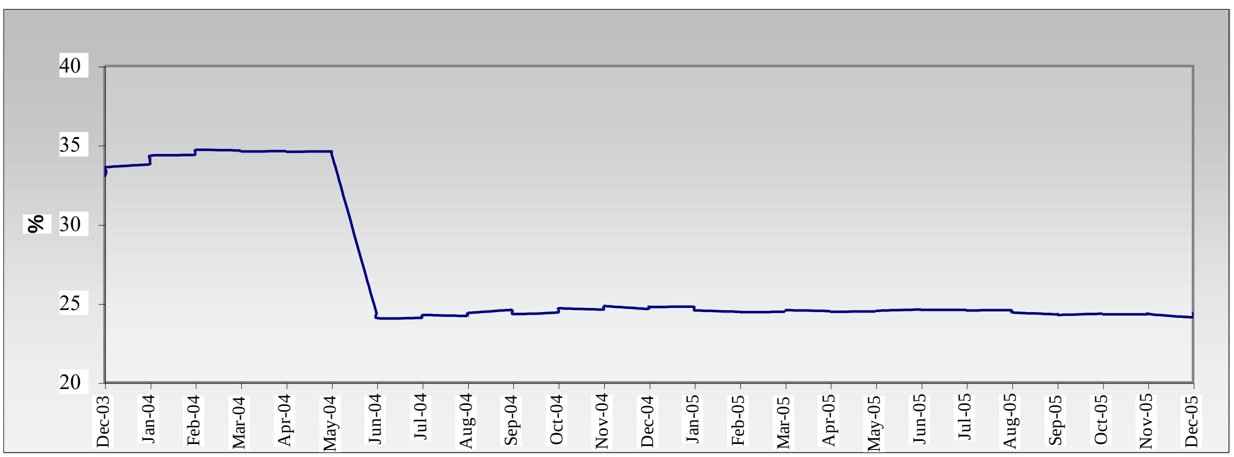
12.7.1 Treasury bill subscriptions increased by K16.1 billion to K92.5 billion whereas maturities increased by K28.6 billion to K108.6 billion in 2005. A total of K81.9 billion was accepted, representing K11.4 billion more than in the preceding year, but still fell short of maturities by K26.7 billion. This exerted pressure on the level of Ways and Means advances, which led Government to convert a total of K32.5 billion into Treasury bills. The total amount of Treasury bills issued during 2005 therefore increased to K114.3 billion from K87.5 billion in the preceding year. The increase in domestic borrowing was necessitated by external budgetary support shortfalls which had to be financed domestically following the continued withholding of donor support prior to the approval of the PRGF program.

TABLE 12.5: TREASURY BILLS PRIMARY MARKET IN BILLION KWACHA

	2004	QTR 1 2005	QTR 2 2005	QTR 3 2005	QTR 4 2005	2005
Total Subscription	76.40	18.80	18.90	28.80	26.00	92.50
Issues	70.50	18.27	16.42	24.27	22.92	81.88
Maturities	79.94	26.13	29.70	21.95	30.78	108.56
OMO Portfolio	29.18	5.23	11.00	5.84	8.20	30.27
Normal	48.76	20.90	18.70	19.91	22.58	82.09
Net Issues$^{(+)}$/Maturities $^{(-)}$	(9.44)	(7.86)	(13.28)	2.32	(7.86)	(26.68)
Memorandum Items:						
Ways & Means Advances $^{(end\text{-}period)}$	10.16	6.41	9.58	7.89	13.94	13.94
Conversions $^{(period\ total)}$	17.00	15.65	11.29	0.00	5.52	32.46
Treasury Bill Debt Stock$^{(end\text{-}period)}$	46.35	56.13	54.27	55.50	55.69	55.69

12.7.2 Yields on Treasury bills, however, eased during the year as liquidity in the domestic money market increased due to lack of alternative avenues of lending. As such, the all-type Treasury bill yield dropped year-on-year by 37 basis points to 24.41 percent as of end December 2005. Individually, the 91-day, 182-day and 273-day tenors lost 7, 40 and 64 basis points to 24.44 percent, 24.49 percent and 24.30 percent, respectively.

CHART 12.2: TREASURY BILL YIELDS



12.7.3 Owing to the conversions, the end December 2005 stock of Treasury bills increased to K55.7 billion, some 20.3 percent higher than the preceding year. However, Treasury bill holdings by the Reserve Bank dropped by 3.2 percent to K9.1 billion, reflecting more open market operations portfolio maturities than conversions. On the other hand, holdings by banks, discount houses and the non-bank sector registered annual increases of 25.2 percent, 55.7 percent and 12.8 percent to K16.3 billion, K10.9 billion and K19.4 billion, respectively.

12.7.4 Daily average excess reserves of the banking system increased to K740.0 million in 2005 from K410.0 million in 2004, mainly reflecting net Treasury bill maturities. In response to the increase in the supply of inter-bank market funds, the volume of daily average inter-bank market activity increased to K470.0 million in the year under review from K310.0 million in the preceding year. This notwithstanding, the banking system borrowed an extra K730.0 million from the discount window during the same period, an indication that demand for inter-bank funds outmatched supply. Consequently, the spread between the inter-bank market rate and bank rate widened in 2005 as the average inter-bank market rate lost 3.04 percentage points year-on-year to 21.96 percent as at end-December 2005.

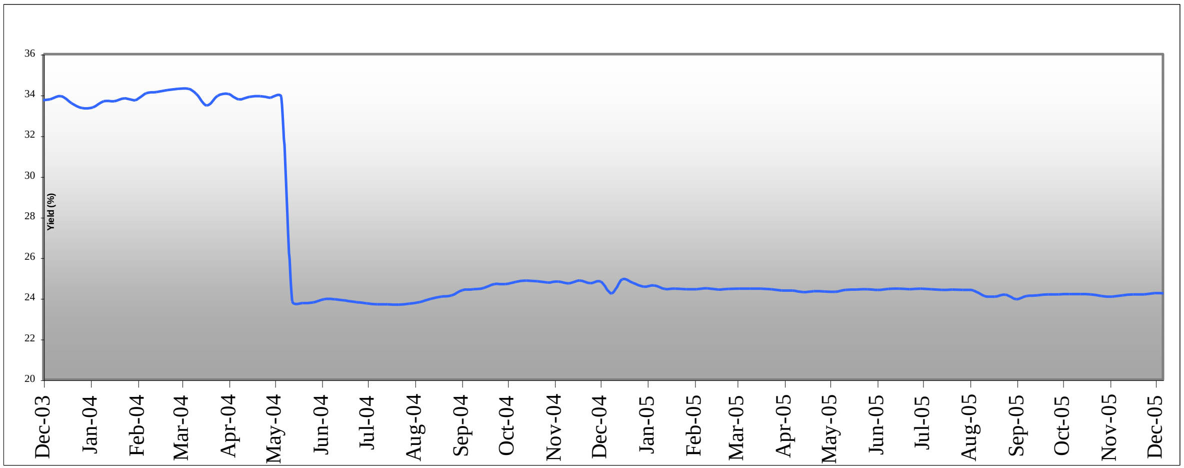
TABLE 12.6: BANKING SYSTEM LIQUIDITY IN BILLION KWACHA

	2004	**QTR 1 2005**	**QTR 2 2005**	**QTR 3 2005**	**QTR 4 2005**	**2005**
Daily Average Total Reserves	7.97	9.27	7.74	9.93	10.85	9.45
Daily Average Required Reserves	7.63	8.60	7.22	9.19	9.82	8.71
Daily Average Excess Reserves	0.41	0.67	0.52	0.74	1.03	0.74
Daily Average Inter-bank Borrowing	0.31	0.58	0.71	0.45	0.15	0.47
Daily Average Discount Window Borrowing	0.23	0.24	0.45	1.36	0.87	0.73
Average Inter-bank Market Rate (End Period)	25.00	24.19	24.55	25.27	21.96	21.96

12.7.5 A total of K11.48 billion was withdrawn from the financial system during 2005, compared to a withdrawal of K7.45 billion in 2004. The monetary contraction in 2005 was mainly on account of foreign exchange operations, which withdrew K15.2 billion, representing an almost five-fold increase on the preceding year. The surge in foreign exchange activity reflected increased imports of maize and fertilizer. During the same period, open market operations withdrew K3.0 billion against K5.2 billion injected during 2004. This was due to a 6.8 billion increase in net repo sales during the year under review. On the Government front, K6.7 billion was injected into the system in 2005 following a withdrawal of K10.0 billion in the preceding year, reflecting respective increases of 33.1 percent and 35.8 percent in other expenditure and Treasury bill maturities.

12.7.5 On a year-to-year basis, the all-type RBM bill yield declined by 68 basis points to 24.22 percent following respective drops of 50 and 60 basis points to 24.25 percent and 24.24 percent for the 63-day and 91-day tenors. This reflected the improvement in banking system liquidity during the review year.

CHART 12.3: ALL TYPE RBM BILL YIELDS



12.8 Capital Market

12.8.1 There was no issue in the period under review. There were, however, a conversion in the amount of K500.0 million and a redemption of K18.0 million in 2005 compared to K1.6 billion and K20.0 million respectively in 2004. The outstanding stock of LRS, therefore, stood at K3.71 billion compared to K3.73 billion in the preceding year.

12.8.2 There was no secondary trading during the period compared to K289.2 million worth of LRS traded in the secondary market in the previous review period. Generally, investors continued to prefer short-term Treasury bills and RBM bills to long-term instruments.

12.8.3 There was one new listing in the name of The National Investment Trust Limited, with 135.0 million shares in issue on the local bourse during the period under review. The number of listed companies on the Stock Exchange, therefore, closed off at ten (10) compared to nine (9) as recorded in the previous period.

12.8.4 During the year under review, a total of 61.7 million shares exchanged hands for a consideration of K914.8 million compared to 110.4 million shares for a turnover of K653.3 million recorded in the preceding year.

12.8.5 The Malawi All Share Index (MASI) opened at 583.48 points before rising to close off at 906.85 points at the end of the year. The increase in MASI was at the back of the rise in Domestic Share Index (DSI) and Foreign Share Index (FSI) from 426.01 and 238.80 points to 687.00 and 358.20 points, respectively. In the same period last year, the MASI closed off the period at 583.48 points while the DSI and FSI closed off at 426.01 and 238.80 points, respectively. Market capitalisation closed off at K1,120.4 billion compared to K745.3 billion in the preceding year.

Chapter 13

PARASTATAL ORGANIZATION

13.1 Overall Performance

13.1.1 Statutory Bodies provide an array of goods and services to households and industry in areas of marketing agricultural produce and inputs, financial services, housing, physical communication, passenger transportation, telecommunications and water. These companies were created not only to provide goods and services, but also to meet other national objectives, which include the development of the necessary economic and social infrastructure, re-distribution of income and wealth, creation of employment and promotion of self-sufficiency.

13.1.2 The performance of most of these companies in 2005/06 has been largely characterized by low productivity, high operational costs, and declining profitability, although others are showing signs of recovery. Government has already initiated measures to re-organise the companies using a particular framework for efficient and effective service delivery. The key measures involve performance benchmarking and measurement that is based on setting clear objectives, granting managerial autonomy and regular performance monitoring.

13.1.3 Key parastatals covered in this performance review are Agricultural Development and Marketing Corporation (ADMARC) Air Malawi, Electricity Supply Corporation of Malawi (ESCOM), Malawi Housing Corporation (MHC), Malawi Telecommunications Limited, Malawi Posts Corporation, Blantyre Water Board, Central Region Water Board, Northern Region Water Board, Lilongwe Water Board and Southern Region Water Board.

13.2 Agricultural Development and Marketing Corporation

13.2.1 Government has embarked on the re-organisation of ADMARC so that it can revert to its original mandate of supplying agricultural inputs to, and purchasing farm produce from smallholder farmers. The ancillary activities will be removed from ADMARC and commercialised, privatised or wound-up. There is consensus that improved access to farm inputs as well as the establishment of readily available market for farm produce would improve food security at both household and national levels. Hence, there is need for efficient and effective players in the marketing system. Loss making enterprises are necessarily not efficient in resource mobilisation and utilization. Therefore, the re-organisation of ADMARC becomes even more imperative in view of the trend of heavy financial losses as summarised in Table13.1 below.

TABLE 13.1: ADMARC'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1995/96	646,912	80,126	12,660	33,363	67,367
1996/97	1,026,467	166,700	15,662	-144,204	27,323
1997/98	951,684	101,759	17,497	2,103	33,109
1998/99	1,536,228	123,336	26,887	133,793	45,842
1999/00	3,062,802	323,204	46,998	-350,943	40,756
2000/01	2,137,727	232,270	49,266	-210,418	112,754
2001/02	1,624,786	220,495	55,722	-582,230	124,970
2002/03	1,094,842	328,840	62,294	-180,449	19,799
2003/04	1,494,042	19,629	52,850	-188,649	-
2004/05	379,000	17,812	51,435	-572,110	-

Source: Ministry of Finance

13.2.2 The trends of financial performance reveal that ADMARC has been largely loss-making and this calls for significant financial injection from Government to save the company from collapsing. Therefore, the re-organisation is aimed at reviving the finances and operations of ADMARC so that it can eventually meet operational costs from internally generated revenues. In the interim, Government will continue to support ADMARC as was the case in the 2005/06 Budget where nearly K800 million was set aside for ADMARC's operations to distribute and sell nearly 93,000 metric tonnes of commercial maize and 95,000 metric tonnes of fertilizers. A similar budgetary provision has been made in the 2006/07 Budget.

13.3 Air Malawi

13.3.1 Air Malawi has gone through a very turbulent year. The financial results as at March 2006 show a net loss before tax of K625 million. Table 13.2 highlights the performance trends since 2000.

TABLE 13.2: AIR MALAWI'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest charges	Depreciation	Net Profit	Gross Fixed Investment
2000/01	1,405,277	32,896	126,692	-177,852	3,253,449
2001/02	1,488,193	25,868	257,388	-210,847	2,630,630
2002/03	1,725,459	47,323	196,233	10,790	2,824,688
2003/04	2,155,127	48,053	206,123	15,421	3,230,290
2004/05	2,409,134	40,211	239,894	-28,630	90,396

13.3.2 Poor performance in recent months has been largely attributed to managerial inefficiencies and weak governance. The airline embarked on an ambitious fleet and route expansion programme without regard to its ability to pay for the increasing cost of acquisition and leasing. These slippages have resulted into heavy loss to the company in the magnitude of K600 million by March 2006. The loss will reach about K720 million by the end of June 2006.

13.3.3 Government has instituted a forensic audit to identify the causes of this drastic drop in the finances of the company and recommended action-oriented measures to re-dress the deteriorating situation. At the same time, Government has instructed the Board to institute parallel measures to restructure the company by reducing the costs at all levels of the its operations so that it can break-even by September 2006.

13.4 Electricity Supply Corporation of Malawi

13.4.1 ESCOM generates, transmits, distributes and retails electricity throughout the country. The projected financial results for the year show a marked improvement compared to last year. The company forecasts a profit after tax of K800 million.

TABLE 13.3: ESCOM'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
2000/01	2,619,207	418,197	219,259	-378,227	473,147
2001/02	3,378,421	869,714	404,001	879,593	11,635,334
2002/03	3,337,038	422,862	623,089	-2,223,069	718,125
2003/04	3,723,435	978,527	690,050	-2,831,215	1,156,085
2004/05	5,770,000	170,000	812,000	880,000	-

Source: Ministry of Finance

13.4.2 Despite an improvement in the financial performance, the company faces the challenge of eliminating frequent black-outs. This will partly be addressed by restoring nearly 60 MW of generation capacity at Tedzani I, Tedzani II and Nkula B. Rehabilitation of Nkula B, and Tedzani I and II will restore about 20 MW by June 2006 and an additional 60 MW by April 2007, respectively.

13.5 Malawi Housing Corporation (MHC)

13.5.1 The MHC was established to provide good quality and affordable housing and serviced plots. The performance of the company during period under review was satisfactory and it forecasts a profit of K30 million for the period ending June 2006. The company will adopt a new business model that is geared towards satisfying customers' needs.

TABLE 13.4: MBC'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1995/96	59,362	8,335	15,580	-1,375	6,010
1996/97	67,264	7,927	15,564	12,121	95,500
1997/98	125,416	5,039	57,528	30,230	91,156
1998/99	162,821	4,359	26,933	33,862	152,309
1999/00	221,804	2,742	72,775	12,416	--
2000/01	253,801	2,827	62,675	-47,628	253,666
2001/02	214,242	1,831	54,387	-119,349	39,573
2002/03	295,249	636	55,175	49,549	32,884
2003/04	399,154	204	52,572	80,475	31,686
2004/05	631,000	2,492	32,718	24,117	27,342

Source: Ministry of Finance

13.6 **Malawi Posts Corporation (MPC)**

13.6.1 The Malawi Posts Corporation was established under the Communications Act No. 41 of 1998 to provide mail services. The company's financial base was weak right from the start. It has now been re-organised with the result that the first surplus of K34 million was registered in 2004/05. The company forecasts another surplus of K37 million for the 2005/06 as shown below.

TABLE13.5: MPC'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
2000/01	273,334	11,204	16,114	-136,570	3,630
2001/02	295,897	9,311	16,831	-184,597	6,397
2002/03	323,576	13,811	23,379	-53,334	62,361
2003/04	397,335	13,380	20,424	-6,363	-
2004/05	558,000	1,500	35,955	34,000	100,000

Source: Ministry of Finance

13.7 **Malawi Telecommunication Limited (MTL)**

13.7.1 The Malawi Telecommunications Limited (MTL) was another off-shoot of the reforms in the telecommunications sector contained in the Communications Act No. 41 of 1998. It is the sole provider of fixed line telephone services. The company has now been privatised after a lead time of almost nine years following the initial decision to privatise the company. The gross proceeds from both the sale and subscription amounted to USD30.7 million. Government has retained a stake of 20 percent in the company while the private sector holds balance of 80 percent.

TABLE13.6: EQUITY HOLDING IN MTL

Institution	Percent
Press Corporation Limited	50.10
Old Mutual Society	16.08
NICO Holdings	5.00
Detecon	2.60
Press Trust	6.22
Malawi Government	20.00
Total	**100.00**

The company performed was quite well up to the point of privatisation as can be shown in Table 13.6 below:

TABLE 13.7: MTL HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
2000/01	2,443,082	199,485	211,264	-15,958	3,281,759
2001/02	2,718,985	150,467	273,305	415,469	687,788
2002/03	3,985,032	73,957	361,975	225,111	1,996,501
2003/04	5,782,259	209,684	596,550	444,396	352,228
2004/05	5,621,895	178,487	687,883	1,209,940	355,038

Source: Ministry of Finance

13.8 **Water Boards**

13.8.1 The water boards were established to provide water in the cities, towns and peri-urban areas taking into account that water is both an economic and social good. The water boards have generally not operated profitably since their inception and continue to face chronic liquidity problems and profitability challenges. In most cases, profitability has been affected by delays in approving price adjustments and high cost structure of the companies, while liquidity constraints stem from non-payment of bills mainly by public sector consumers and interest charges on short-term borrowing. In order to improve the balance sheet structure of the companies, Government has arranged to convert the loans that were procured by Government and further on-lent to the water boards upon fulfilment by each water board of certain conditions into equity. Government is also considering other innovative and financially tradable instruments that could be used to retire some of the public sector's indebtedness to the water boards. The results of the financial performance of each water boards are discussed separately in the subsequent sections.

13.8.2 **Blantyre Water Board**

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13.8.2.1 The Board is projecting profit of K8 million for the year ending June 2006 despite the fact that the physical situation is a cause of great concern. The Board's operations have continued to suffer due to internal inefficiencies and cash flow constraints. The company has the highest un-accounted for water estimated at around 40 percent and disruptions in the water supply within the city are quite frequent. This is not desirable in the hub of industrial and commercial activities. The company will need a significant cash injection to rehabilitate its water distribution network and acquire an integrated management information system that would link operational and financial data. Table13.7 highlights the gravity of financial problems facing BWB.

TABLE 13.7: BWB'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1995/96	105,536	3,901	23,360	6,119	139,191
1996/97	135,419	3,846	25,854	19,419	136,207
1997/98	208,514	5,196	43,229	18,213	80,015
1998/99	346,742	5,936	72,207	36,243	118,416
1999/00	504,511	87,535	79,091	5,006	84,418
2000/01	662,867	92,955	81,479	20,351	61,193
2001/02	910,376	84,876	114,451	-21,301	118,216
2002/03	962,401	98,150	170,016	-258,799	56,120
2003/04	324,319	109,198	173,936	-283,547	36,411
2004/05	1,035,372	6,196	29,000	-262,734	

Source: Ministry of Finance

13.9 **Central Region Water Board**

13.9.1 The CRWB projects nominal profit of K6 million by June, 2006 from a situation whereby the Board made a loss of K217.92 million in 2004/05. However, like any other Water Board, the gearing is quite high and the liquidity is quite light. The financial results are summarised in Table 13.8 below.

TABLE 13.8: CRWB'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1997/98	23,794	796	4,114	-5,452	8,192
1998/99	49,023	4,632	6,512	-17,747	9,746
1999/00	68,588	7,161	4,888	-27,737	12,392
2000/01	83,795	10,677	5,478	-33,447	27,817
2001/02	115,871	12,215	5,599	-7,716	288,908
2002/03	178,706	11,997	47,796	2,655	24,359
2003/04	210,800	22,221	6,199	-5,905	670,623
2004/05	267,945	220,489	33,773	-217,916	32,289

Source: Ministry of Finance

13.10 Lilongwe Water Board

13.10.1 The LWB provides water to residents of Lilongwe City. The company projects a loss of K237 million by June, 2006. This is a contiuation of the chronic financial as the Board has been making losses for past two years from 2003/ to 2004 financial year. The company is faced with a tight liquidity position due to the nature of its operations.

TABLE 13.9: LWB'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1995/96	27,060	16,130	10,976	-102,549	-
1996/97	48,834	17,290	16,609	-22,822	4,075
1997/98	91,069	13,959	17,967	-27,270	-
1998/99	111,939	21,215	21,827	-56,879	10,275
1999/00	126,898	27,072	42,694	-147,733	21,514
2000/01	260,975	28,734	46,804	26,137	16,699
2001/02	348,411	29,387	53,027	109,071	48,238
2002/03	440,402	70,597	71,494	19,525	884,771
2003/04	507,263	62,432	77,597	-233,311	63,528
2004/05	252,294	75,217	98,376	-232,354	75,253

Source: Ministry of Finance

13.11 Northern Region Water Board

13.11.1 The NRWB continues to face liquidity and profitability challenges and the Board projects a loss of K382 million by June, 2006. The loss is largely attributed to the interest charge of nearly K380 million on foreign loans that were sourced to fund the infrastructure.

TABLE 13.10: NRWB'S HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1995/96	N/A	N/A	N/A	N/A	N/A
1996/97	N/A	N/A	N/A	N/A	N/A
1997/98	25,735	1,390	3,974	-5,520	-
1998/99	45,208	4,746	5,976	-9,118	61,697
1999/00	78,564	11,529	5,342	13,852	4,356
2000/01	109,209	25,353	5,585	14,764	669,126
2001/02	188,196	28,225	6,446	12,876	18,586
2002/03	167,443	8,963	6,742	-3,823	23,648
2003/04	165,676	8,521	13,162	-31,024	1,458,438
2004/05	243,032	384,934	48,311	-395,147	169,939

Source: Ministry of Finance

13.12 **Southern Region Water Board (SRWB)**

13.12.1 The SRWB financial position continues to worsen with a projected loss of K500 billion for the period ending June 2006. The loss is largely attributed to the interest charges on the K1.3 billion loan for the construction of the dam in Zomba. However, the operational results show a surplus of K101,000.00.

TABLE 13.11: SRWB HISTORICAL TRENDS OF FINANCIAL PERFORMANCE (K'000)

Year	Revenue	Interest Charges	Depreciation	Net Profit	Gross Fixed Investment
1997/98	36,528	96	3,728	1,290	50,791
1998/99	54,813	2,001	4,953	-2,599	416,273
1999/00	109,316	1,498	8,386	7,505	700,883
2000/01	148,125	1,052	8,423	29,736	330,627
2001/02	189,901	272	59,887	-60,590	229,255
2002/03	261,727	398	62,816	12,484	69,755
2003/04	282,197	1,783	58,975	-1,057	16,681
2004/05	306,176	509,167	90,350	- 492,609	

Source: Ministry of Finance