Chapter 1

WORLD ECONOMIC OUTLOOK

1.1 The World Economy

1.1.1 According to the World Economic Outlook (WEO) of April 2009, the world economy has been hit by the most severe economic recession since the post war period. This followed a massive financial crisis and a slump in activity that started in 2007 peaked in 2008 with output growth declining to 3.2 per cent and this has spilled over into 2009. Both conventional and unorthodox efforts have been employed to resuscitate the global economy; but the results are slow in coming. Consequently, the global output is projected to decline by 1.3 per cent in 2009 due to acute loss of confidence. Accompanying the recession is the quick easing of inflationary pressures which has affected commodity prices leading to loss of income for most commodity exporters. On the policy front, there is need to enhance international policy coordination and collaboration and set up of early warning systems. On the financial side, there is need to broaden the horizon of regulation with the flexibility of covering all systemically relevant institutions. Of paramount importance is the rapid conclusion of the Doha Round of multilateral trade negotiations to help revitalize global growth prospects.

TABLE 1.1: WORLD OUTPUT: ANNUAL PERCENTAGE CHANGES

	2001	2002	2003	2004	2005	2006	2007	2008	2009
World output	*2.5*	*3.1*	*3.6*	*4.9*	*4.4*	*5.0*	*5.2*	*3.2*	*-1.3*
Advanced economies	*1.2*	*1.6*	*1.9*	*3.2*	*2.6*	*3.0*	*2.7*	*0.9*	*-3.8*
United States	*0.8*	*1.6*	*2.5*	*3.6*	*3.1*	*2.9*	*2.0*	*1.1*	*-2.8*
Euro area	*1.9*	*0.9*	*0.8*	*2.1*	*1.6*	*2.8*	*2.7*	*0.9*	*-4.2*
Japan	*0.2*	*0.3*	*1.4*	*2.7*	*1.9*	*2.4*	*2.4*	*-0.6*	*-6.2*
African	*4.4*	*3.7*	*5.3*	*6.5*	*5.7*	*5.9*	*6.2*	*5.2*	*2.0*
Developing Asia	*6.0*	*7.0*	*8.1*	*8.6*	*9.0*	*9.6*	*10.6*	*7.7*	*4.8*
Middle east	*3.0*	*3.9*	*6.9*	*5.9*	*5.7*	*5.8*	*6.3*	*5.9*	*2.5*

Source: IMF World Economic Outlook

1.2 Economic Outlook for Industrial Countries

1.2.1 Advanced economies continue to suffer unprecedented decline in real output. Put together, industrial countries GDP grew by about 1.0 per cent in 2008 and is projected to fall by 3.8 per cent in 2009. Japan has been the mostly affected country and its output is projected to fall by 6.2 per cent in 2009 following another decline of 0.6 per cent in 2008. Japan and many other advanced Asian countries have been hit hard by the collapse in global trade and rising financial problems of their own.

1.2.2 GDP growth rates for the Euro area and the United States are projected to contract in 2009 by 4.2 per cent and 2.8 per cent, respectively. Economic activity in advanced Europe was initially not expected to suffer the full impact of the recession due to healthy household balance sheets. However, the oil price increases of 2008 caused a financial blowout which was compounded by heavy exposure to the U.S. securities market. In addition, the slow reaction of macroeconomic policies, the larger and more sustained shock than expected, and the uncertainty about future prospects aggravated the situation.

1.2.3 In the United States, the economy suffered most from intensified financial strains and continued fall in the housing sector. Though the effects were severe at the beginning of the year, economic contraction is expected to moderate during the second half of the year as fiscal easing supports consumers demand.

1.3 Asia

1.3.1 The effects of the global recession in Asia have been surprisingly more significant than was earlier envisaged. Unlike Europe, Asia was not strongly exposed to the U.S. securities market, and most economies in Asia remained relatively resilient. The post September, 2008 period, however, saw dramatic contractions in Asia especially among the newly industrialized Asian economies. For instance, Hong Kong, Singapore and South Korea declined by between 4.0 per cent and 10.0 per cent during this period.

1.3.2 As for emerging Asian economies, growth has remained relatively resilient but is expected to slow down to 3.3 per cent in 2009 from 6.8 in 2008. China has the fastest GDP growth rate at 6.5 per cent followed by south Asian economies of India, Pakistan and Bangladesh averaging 4.3 per cent. These economies were negatively affected mostly by the collapse in demand for consumer and capital goods in advanced economies. Consequently, growth in Asian economies as a whole is projected to slowdown to 4.8 per cent in 2009 from 7.7 per cent in 2008.

1.4 Latin America and the Caribbean

1.4.1 The effects of the financial crisis in advanced countries have fast and negatively affected the Latin American and Caribbean economies by raising the cost of borrowing and reducing the levels of capital inflows across the region. The fall in commodity prices has hit the region's large economies of Brazil, Argentina, Chile, Mexico and Venezuela—the major exporters of primary products. The Caribbean countries have suffered mostly from low demand for their exports, weakened tourism and reduced workers' remittances—major support for the Caribbean. In view of this, growth is projected to contract slightly by 1.5 per cent in 2009 due to improvements in policy framework and balance sheet positions.

TABLE 1.2: PERCENTAGE CHANGES IN REAL OUTPUT AND CONSUMER PRICES IN DEVELOPING COUNTRIES

	Real GDP				Consumer prices			
	2006	2007	2008	2009	2006	2007	2008	2009
Africa	*5.7*	*6.2*	*5.2*	*2.0*	*9.5*	*6.3*	*10.1*	*9.0*
Oil importers	*4.6*	*5.4*	*4.7*	*2.1*	*11.1*	*6.8*	*10.6*	*8.5*
Oil exporters	*8.2*	*7.5*	*5.9*	*1.8*	*5.9*	*5.5*	*9.3*	*9.7*
Sub-Sahara	*5.8*	*6.9*	*5.5*	*1.7*	*11.5*	*7.2*	*11.7*	*10.4*
Middle East	*5.7*	*6.3*	*5.9*	*2.5*	*7.1*	*10.5*	*15.6*	*11.0*
Emerging Asia	*7.9*	*9.8*	*6.8*	*3.3*	*3.7*	*4.9*	*7.0*	*2.5*
China	*9.5*	*13.0*	*9.0*	*6.5*	*1.5*	*5.9*	*0.1*	*0.7*
South Asia	*7.1*	*8.7*	*7.0*	*4.3*	*6.4*	*6.9*	*9.0*	*7.7*
Asean-5	*5.1*	*6.3*	*4.9*	*0.0*	*8.2*	*4.3*	*9.2*	*3.6*
Newly Industrialized Asian Economies	*5.2*	*5.7*	*1.5*	*-5.6*	*1.6*	*2.2*	*4.5*	*0.4*

Source: IMF World Economic Outlook

1.5 Middle East and African Countries

1.5.1 As much as the Middle Eastern economies have suffered from the global financial crisis, their economies have also been heavily hit by the fall in oil prices. Tight external financing conditions and reversal of capital inflows have compounded the situation as many equity and capital markets suffered great losses. Growth in the region is projected to fall by 2.5 per cent in 2009 from 5.9 per cent in 2008. The growth rates are similar for both oil producing and non-producing countries though factors behind these growth rates are quite different.

1.5.2 In Africa, growth is projected to slow down to 2.0 per cent from 5.2 per cent in 2008. Despite weak financial linkages with advanced economies, Africa has suffered from among others the fall in commodity prices especially the resource rich countries, weakened external demand for African exports and deteriorating external financing conditions. Hardest hit are oil exporting countries such as Angola, Equatorial Guinea and Nigeria, and emerging frontier markets like Botswana, Mauritius and South Africa. These have suffered from all the three shocks. In Sub-Saharan Africa, growth is projected to slow down to 1.7 per cent in 2009 from 5.5 per cent in 2008 with the same factors that have affected the continent at large applying to the region.

Chapter 2

MALAWI MACROECONOMIC PERFORMANCE IN 2008/2009 AND PROSPECTS FOR 2009/2010

2.1 Overall Economic Performance

2.1.1 In 2008, the Malawi economy registered another tremendous growth of 9.7 per cent, an increase by one percentage point from a growth of 8.6 per cent registered in 2007. This was attributed to high production in the agricultural sector particularly tobacco production, which increased as a result of good prices offered at the auction floors in the previous marketing season. Furthermore, increased performance in other sectors such as mining and quarrying, manufacturing, wholesale and retail, information and communication, and electricity and water also contributed to this sound performance in 2008.

2.1.2 The economy is projected to grow by 7.9 per cent in 2009. This is mainly on account of expected improved performance of the mining sector due to the uranium exports from Kayelekera Uranium Mine. In addition, sectors like electricity, gas and water supply, wholesale and retail trade, and financial and insurance services are also projected to perform outstandingly well.

2.1.3 The country maintained a single digit inflation rate of 8.7 for 2008, rising by about 0.7 percentage points from the preceding year. This was largely due to general increase in fuel prices on world market starting from the last quarter of 2007 to the first half of 2008. Nonetheless, food prices did not significantly increase at local level albeit increases on international market. This was a result of adequate food supplies nationally and this is expected to go into 2009 following the continued implementation of the input subsidy programme. The stability of the Malawi Kwacha against its major trading currencies also played a role in containing inflation during the period under review. The average inflation rate for 2009 is expected to be at 8.5 per cent.

2.1.4 The first-round effects of the 2007/08 global financial crisis did not affect Malawi very much because of the country's relatively small and closed financial system. The pattern of the crisis was in such ways that developed countries were hit by systemic banking crises which later affected emerging markets through capital flows, stock markets and exchange rate links. However, since the Malawi financial system is not highly integrated with global markets, it was not affected. In particular, only two out of the nine banks in the financial system are owned by foreigners, and there are very few transactions in foreign financial instruments.

2.1.5 However, the second round effects of the crisis have started to be felt by many developing countries, including Malawi, mainly through international trade and aid, and through reduction in private remittances. The decline in global commodity prices has seen a decline in export prices for Malawi, especially tobacco and sugar. However, tea has not been affected much because this year there is a shortage of tea in other tea producing countries.

2.2 Fiscal Performance

2.2.1 In general, the fiscal performance of the central government budgetary operations worsened during the 2008/09 fiscal year compared to the previous fiscal year. The fiscal deficit including grants for the 2008/09 financial year is expected to widen by 1.5 percentage points to 4.2 per cent of GDP. This was largely on account of worsening terms of trade that affected the budget during implementation. Increase of the petroleum prices on the international market led to soaring of the fertilizer prices. Forward contracts continued to affect the budget even after global petroleum prices had stabilized at significantly low levels.

2.2.2 Total revenue and grants improved from 30.2 per cent of GDP registered in the 2007/08 financial year to 34.3 per cent of GDP in 2008/09 financial year. Domestic revenue improved by 1.4 per cent to stand at 20.8 per cent of GDP in 2008/09 fiscal year. Similarly, grants are expected to improve as a percentage of GDP to 13.5 per cent of GDP from 10.8 per cent in 2007/08 financial year. This impressive performance in revenue and grants owes to sound macroeconomic management which has led to the average growth of the economy by more than 7 per cent for three successive years.

2.2.3 Total expenditure is estimated to increase to 38.5 per cent of GDP in 2008/09 financial year from 27.6 per cent of GDP in 2007/08 financial year. This increase is as a result of an increase in expenditure on input subsidy programme, whose actual cost increased by 50 per cent from the budgeted amount. Expenditure was also blotted by the general elections on which about K6.5 billion was spent. In addition, the housing and population census had also increased pressure on the budget, as a result, recurrent expenditure increased to 29.6 per cent of GDP in 2008/09 financial year from 21.9 per cent of GDP in 2007/08 financial year. However, it is expected to decrease in the subsequent fiscal year as elections and census are one off expenditures.

2.2.4 Total development expenditure is projected to stand at 10.3 per cent of GDP in 2008/09 financial year, representing 3.5 percentage point decline from the previous financial year. The proportion is expected to slightly decrease to 10.2 per cent of GDP in the 2009/10 financial year.

2.3 Monetary Performance

2.3.1 Money supply rose by K34.8 billion to K139.6 billion in 2008 compared to an increase of K22.1 billion to K104.9 billion in 2007. Increases of 30.7 per cent to K70.6 billion and 35.7 per cent to K68.9 billion in narrow money and quasi money, respectively, explained this outcome. Currency outside banks rose by K5.7 billion to K25.3 billion, representing an increase of 29.1 per cent whilst demand deposits rose by K10.9 billion to K45.3 billion. The increase in the above components of narrow money reflected an increase in economic activity during the year under review.

2.3.2 The banking systems' net credit to government recorded an annual increase of K62.7 billion to K83.9 billion compared to an increase of K772.1 million in the preceding year. This increase was mainly explained by an increase of K33.3 billion in monetary authorities' holdings of Treasury bills and K29.8 billion holdings of local registered stocks following recapitalization of the central bank. In addition, commercial banks' net lending to government increased by K5.2 billion despite an increase of K1.7 billion in government deposits. The increase in borrowing from commercial banks emanated from increased uptake of Treasury bills.

2.4 Real Sector Performance in 2008 and Prospects for 2009

2.4.1 Agriculture

2.4.1.1 The agriculture sector recorded a real GDP growth of 11.3 per cent in 2008. This performance was mainly attributed to the bumper crop yields which resulted from the implementation of the input subsidy programme and favourable weather. Particularly, the tobacco sector performed extremely well in 2008 compared to the previous years. High volume of tobacco amounting to 195 million kilograms was sold at the auction floors at the value of US$472 million. In 2009, agriculture is expected to grow by 10.2 per cent. Bumper yields are also expected due to the continued input subsidy programme and good weather.

2.4.2 Mining and Quarrying

2.4.2.1 The mining sector registered a growth of 6.8 per cent in 2008. This growth was a result of a significant increase in cement production by Shayona and Lafarge Cement Companies. The growth in cement production was a result of growth in demand arising from increased construction activities and availability of good quality clinker. In addition, the increased performance of Mchenga Coal Mine also contributed to the growth. In 2009, the sector is expected to grow by 9.3 per cent. This is mainly on account of robust performance in cement sector . In addition, Kayerekera Uranium Mine will start producing and exporting in 2009 and this will have an impact on the sector's growth.

2.4.3 Manufacturing

2.4.3.1 The manufacturing sector grew by 12.2 per cent in 2008. This was a result of sound performance in the sugar, paint, tobacco processing, soap and detergents sub-sectors, among others. In 2009, the sector is expected to slow down to 7.1 per cent. This is mainly due to shortage of foreign exchange in the country and persistent power outage.

2.4.4 Electricity and Water

2.4.4.1 In 2008, the sector recorded a growth of 3.9 per cent and growth for 2009 is estimated to be at 7.5 per cent. This was attributed to the good performance in the water sector as a result of the support from World Bank loan under the National Water Development Programme II.

2.4.5 Construction

2.4.5.1 The sector's growth was 8.1 per cent in 2008 and this was mainly due to a lot of construction activities undertaken such as Masauko-Chipembere Highway in Blantyre and other roads and bridges, booming of housing sector in Lilongwe and Mzuzu cities and resumption of Karonga-Chitipa Road, among others. In 2009, the sector is expected to grow by 7.9 per cent due to expected completion of the New Parliament Building and other projects.

2.4.6 Wholesale and Retail

2.4.6.1 The performance of the sector for 2008 registered a growth of 8.2 per cent. This was mainly due to increase in disposable income emanating from the stable macroeconomic conditions in Malawi. For instance, sales of vehicles at Toyota Malawi and commodities at Peoples Trading Centre (PTC) increased significantly in the year. The sector's growth for 2009 is expected to be 6.2 per cent due to the projected increase in distribution of motor vehicle and petroleum products in the year.

2.4.7 Accommodation and Food Services

2.4.7.1 The growth for the sector was 7.4 per cent in 2008 and it is estimated to be at 3.7 per cent in 2009. While there was sound tourism business focusing on hotels in 2008, this is expected to slow down in 2009 due to an estimated reduction in foreign guests.

2.4.8 Transportation and Storage Services

2.4.8.1 The transport sector's growth for 2008 was 5.4 per cent. The growth is mainly supported by an influx of new buses in response to government's tax exemption policy on new buses, which in turn has led to an increase in passenger kilometers. For instance, AXA Bus Company achieved a growth of 100 per cent in 2008. The sector is expected to grow by 7.2 per cent in 2009 since new buses are still flocking into Malawi.

2.4.9 **Financial and Insurance Services**

2.4.9.1 In 2008, the sector achieved a growth of 11.7 per cent and this strong growth is attributed to increased new products in the financial sector and upsurge in premiums in the insurance sector due to the influx of second hand cars into the country. However, there were also bogus claims on insurance companies which slightly affected the performance of the sector. In 2009, the sector is expected to grow by 11.0 per cent due to expected increase in the domestic credit issuance to the private sector and increased growth in premium in insurance sub-sector.

2.4.10 **Information and Communication**

2.4.10.1 The sector registered a tremendous growth of 51.3 per cent in 2008. This was mainly on account of massive promotions by the two mobile phone companies, Zain Malawi and Telecom Networks Malawi Limited, which increased their coverage and customer base in the year. In 2009, the mobile companies will continue their promotions and have planned to put up new transmitters so as to increase the network coverage.This mainly follows the Government policy to remove import duty on new handsets. In addition, the communication sub-sector gained from broadcasting general election campaign materials. As such, the sector is expected to grow by 18.5 per cent in 2009.

2.4.11 **Public Administration and Defense**

2.4.11.1 In 2008, the growth rate of the sector was 9.5 per cent. This was mainly due to increase in the employment figures, which had increased over 2007. In 2009, the sector is expected to grow by 4.2 per cent as government is still on the drive to fill important vacant posts in order to improve service delivery in the public sector.

TABLE 2.1: GROSS DOMESTIC PRODUCT (GDP) BY SECTOR OF ORIGIN AT 2005 FACTOR COST: 2007-2010

GDP BY ACTIVITY IN 2005 CONSTANT PRICES (IN MK' MILLION)

Sector	2006	2007*	2008*	2009*
Agriculture, forestry and fishing	100,209	122,632	136,432	150,345
Mining and quarrying	3,211	3,362	3,589	3,922
Manufacturing	28,486	29,508	33,095	35,431
Electricity, gas and water supply	5,638	5,944	6,178	6,640
Construction	15,950	17,425	18,833	20,312
Wholesale and retail trade	51,248	53,616	58,018	61,617
Transportation and storage	12,700	13,396	14,122	15,139
Accommodation and food service activities	6,346	6,709	7,207	7,472
Information and communication	8,868	9,412	14,243	16,878
Financial and insurance activities	21,924	23,862	26,643	29,576
Real estate activities	15,795	16,385	16,907	17,443
Public administration and defense	11,933	12,311	13,478	14,047
GDP in constant 2005 prices	***347,950***	***377,730***	***414,240***	***446,941***
	Annual percentage growth rates			
Agriculture, forestry and fishing	*12.7*	*12.3*	*11.3*	*10.2*
Mining and quarrying	*(20.5)*	*4.7*	*6.8*	*9.3*
Manufacturing	*4.5*	*3.6*	*12.2*	*7.1*
Electricity, gas and water supply	*5.2*	*5.4*	*3.9*	*7.5*
Construction	*14.7*	*9.2*	*8.1*	*7.9*
Wholesale and retail trade	*6.2*	*4.6*	*8.2*	*6.2*
Transportation and storage	*7.0*	*5.5*	*5.4*	*7.2*
Accommodation and food service activities	*5.3*	*5.7*	*7.4*	*3.7*
Information and communication	*9.1*	*6.1*	*51.3*	*18.5*
Financial and insurance activities	*14.5*	*8.8*	*11.7*	*11.0*
Real estate activities	*2.7*	*3.7*	*3.2*	*3.2*
Public administration and defense	*1.8*	*3.2*	*9.5*	*4.2*
GDP in constant 2005 prices	***6.7***	***8.6***	***9.7***	***7.9***

Source: NoBP Technical Committee.
*indicates preliminary figures

2.5 External Sector

2.5.1 In 2007, the trade balance deficit worsened from K42.2 billion to K66.0 billion in 2008 and the trend is projected to continue to worsen to K70.7 billion in 2009. The overall current account balance also worsened from K65.4 billion in 2007 to 86.8 billion in 2008 and is projected to be K110.2 billion in 2009. Owing to high cost of petroleum fuels and fertilizers, the overall current account registered an increase in trade deficit of 31 per cent from MK 69 billion in 2007 to MK90.4 billion in 2008.

2.5.2 An average export price of tobacco increased from K372.35 per kg in 2007 to K579.62 per kg in 2008 but is projected to decline to K425.82 in 2009. This decline is mainly due to the global financial crisis which is mainly affecting the developed countries which, happen to be the major buyers of tobacco.

TABLE 2.2: BALANCE OF PAYMENTS IN MILLIONS OF KWACHA, 2004-2009

K' Million

	2004	2005	2006	2007	2008	2009*
Trade balance - . .	33,888	-58,850.5	-69,733.7	-42,150.8	-68,924.7	-2,719.7
Exports of Goods, fob . .	54,419.6	60,251.3	73,803.7	111,370.0	113,918.5	212,486.8
Imports of Goods, fob . .	88,308.4	119,101.8	143,537.4	153,520.8	182,843.3	215,206.5
Non-factor Services (net) . .	-18,238.	-24,560.2	-28,120.2	-30,969.9	-38,965.9	-49,184.0
Receipts	4,494.7	5,919.2	7,903.6	10,286.4	11,617.2	13,679.8
Payments	22,733.2	30,479.4	36,023.9	41,256.2	50,583.1	2,863.8
Factor Services (net) . .	-4,992.8	-5,008.6	-4,847.3	-3,155.2	-3,343.9	-3,412.1
Receipts	504.4	463.8	561.4	563.7	587.9	603.3
Payments	5,497.2	5,472.4	5,408.7	3,718.9	3,931.8	4,015.4
Private Transfers (net) . .	7,459.2	9,226.7	10,599.7	10,908.3	11,226.0	11,552.8
Receipts	8,723.4	10,606.3	12,184.7	12,539.5	12,904.6	13,280.4
Payments	1,264.2	1,379.7	1,585.0	1,631.2	1,678.7	1,727.5
Current account balance . .	49,660.9	-79,192.6	-92,101.5	-65,367.6	-100,008.6	-43,763.0
Capital account balance . .	36,189.0	41,873.5	38,768.3	64,590.7	117,602.9	93,109.9
Long-term Capital balance . .	36,124.0	41,802.9	38,687.2	64,507.2	117,517.0	93,021.5
Government Transfers (net). .	24,186.2	23,361.7	20,634.5	37,506.7	78,707.2	52,469.9
Receipts	24,266.2	23,448.6	20,734.3	37,609.4	78,812.9	52,578.7
Payments	80.0	86.9	99.8	102.7	105.7	108.8
Government Drawings (net). .	3,625.7	10,499.4	6,112.3	12,042.9	22,639.3	24,213.8
Receipts	11,567.4	21,117.5	14,171.4	13,165.5	23,475.0	25,793.0
Payments	7,941.7	10,618.1	8,059.1	1,122.6	835.7	1,579.2
Foreign Direct Investment . .	6,747.1	6,196.6	9,819.2	12,883.8	13,998.0	14,100.0
Public Enterprises (net) . .	1,173.1	1,319.4	1,632.0	1,570.5	1,654.5	1,704.7
Receipts	1,321.3	1,435.2	1,648.8	1,696.8	1,746.2	1,797.1
Payments	148.2	115.9	16.8	126.3	91.8	92.4
Private Sector (net) . .	391.9	425.7	489.1	503.3	518.0	533.1
Receipts	737.5	801.1	920.4	947.2	974.7	1,003.1
Payments	345.6	375.4	431.3	443.8	456.8	470.1
Short-term Capital (net) . .	65.0	70.6	81.1	83.5	85.9	88.4
Receipts	2,520.0	2,737.3	3,144.7	3,236.2	3,330.5	3,427.4
Payments	2,455.0	2,666.7	3,063.6	3,152.8	3,244.6	3,339.0
Errors and Omissions . .	6,697.9	24,836.1	30,626.5	-3,757.9	-7,231.0	-49,346.9
Balance before debt relief . .	-6,774.0	-12,483.0	-22,706.7	-4,534.8	10,363.3	0.0
Debt Relief	5,125.2	7,079.1	14,925.4	155.4	-	-
Overall balance after debt relief	-1,648.8	-5,403.9	-7,781.3	-4,379.4	10,363.3	0.0
Change in NFA . .	1,648.8	5,403.9	7,781.3	4,379.4	-10,363.3	0.0
Memorandum items:						
Current account deficit/GDP (per cent)						
Excluding official transfers . .	*-17.4*	*-24.3*	*-23.2*	*-14.0*	*-18.2*	*-6.9*
Including official transfers . .	*-8.9*	*-17.1*	*-18.0*	*-6.0*	*-3.9*	*1.4*

NOTE: *Projections

Source: National Accounts and BOP Technical Committee

2.6 CONCLUSION

2.6.1 Malawi recorded buoyant growth in 2008 due to improved performance in a number of sectors. This was largely because of the stable macroeconomic conditions which have led the business community to increase its economic activities in the country. This is to continue in 2009 with a projected growth of 7.9 per cent.

Chapter 3

AGRICULTURE AND NATURAL RESOURCES

3.1 Agricultural Sector

3.1.1 National Food Security

3.1.1.1 During the 2008/09 financial year, Malawi experienced a food surplus due to high food production from the 2007/08 season. This was attributed to the good weather conditions and the Farm Input Subsidy Programme (FISP) implemented by Government which improved the input availability and uptake by farmers in the country during this season.

3.1.1.2 The percentage of total farm families in the country without food from own production from July 2008 to June 2009 varied from 6 per cent to 18 per cent which was higher when compared 2 per cent to 15 per cent recorded the same period of the previous season. The changes are mainly due to farmers running out of maize stock due to selling most of it or losses through pest infestation mainly due to large grain borer. However, the increase in households with no food from own production usually increases during the lean months from October through March every season.

3.1.2 Malawi's Food Production, Requirement and Expected Food Gap

3.1.2.1 The 2007/08 Final National Agricultural Production Estimates released in June 2008 indicated a maize production estimate of 2,777,438 metric tons. This represents a 19.4 per cent decrease from the previous season's (2006/07) final production of 3,444,655 metric tons.

3.1.2.2 In 2008/2009, Malawi produced 3,767,408 metric tons of maize according to final National Agriculture Production Estimates realised in June, 2009. For this marketing year, Malawi required 2.35 million metric tons of maize constituting 2.2 million metric tons of maize for food; 42,047 metric tons for seed, 60,000 metric tons for the Strategic Grain Reserve and 20,000 metric tons for feed and industrial use. This leaves the country with a food surplus of over 1.3 million metric tons.

3.1.2.3 The Malawi Vulnerability Assessment report of November, 2008 indicated that the country has adequate food with ADMARC having a stock of over 60,000 metric tons and an SGR stock of 80,000 metric tons.

3.1.3 Fertilizer Subsidy Programme

3.1.3.1 The Government of Malawi through the Ministry of Agriculture and Food Security (MoAFS) implemented the Farm Input Subsidy Programme for the fourth season running on maize and tobacco fertilizers and maize seed in 2008/2009 crop season. This was aimed at making seeds and fertilizers available to all smallholder farmers at affordable prices as one way of improving crop productivity, hence increasing food security at both household and national levels in Malawi. In addition, the Government subsidized the price of cotton seed and chemical, tea and coffee to assist farmers to improve their income base.

3.1.3.2 During the 2008/2009 Input Subsidy Programme, 170,000 metric tons of fertilizers were planned to be sold at subsidized price through ADMARC, Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM). The planned quantity of fertilizer constituted 75,000 metric tons of NPK; 75,000 metric tons of Urea; 10,000 metric tons of D-Compound and 10,000 metric tons of CAN. It was also planned that approximately 200,000 households would benefit from cotton chemical subsidy. The maize seed subsidy was 750 metric tons and constituted both hybrid and OPV.

3.1.3.3 Through this system, the programmed has to date distributed approximately 216,000 metric tons through ADMARC and SFFRFM unit markets. This has largely been due to increased demand for the subsidized inputs among the farming communities.

3.1.4 **2008/2009 Weather Forecast**

3.1.4.1 The 2008/09 Weather Forecast as forecasted by the Department of Meteorological Services (DoMS) in September 2008 indicated that a greater part of Malawi was expected to experience normal total rainfall amounts. However, just like in any El Nino Southern Oscillation (ENSO)-neutral season, extreme weather events like floods and prolonged dry spells were expected in prone areas.

3.1.4.2 In general, the start of the rainfall season slightly delayed over some parts of the country especially over lower Shire districts of Chikwawa and Nsanje where rains started mid December 2008, about one month late. Otherwise, sufficient rains supporting planting, germination and establishment of various crops started in most areas from end of November to mid December 2008. Some areas experienced heavy rains with hail storms and strong winds causing damages to crops and infrastructure. Floods were experienced in lower Shire districts early January 2009. There was also over one month dry spell in Lower Shire from February 2009 to March 2009. This greatly affected the agricultural production in the area.

3.1.4.3 Generally, the crop stand in the fields in the 2008/2009 season was in good condition. This was reflected in the Final Agricultural Production Estimates for the 2008/2009 released in June, 2009 which estimated that Malawi produced 3,767,408 metric tons of maize.

3.2 The Forestry Sector

3.2.1 Overview

3.2.1.1 This section reviews the performance and contribution of the forestry sector to the economy during the 2008/09 FY. The section reviews and assesses the economic contribution of the forestry sector in line with the provisions of Forest Policy and Forestry Act and the interventions proposed in the Malawi Growth and Development Strategy (MGDS). The section focuses on Conservation and development of natural woodlands and plantations, forest utilisation and marketing, Budget allocation and revenue collection, tree planting and rehabilitation of plantations and various programmes and projects being implemented in the sector.

3.2.2 Forest Resources

3.2.2.1 Forest resources in Malawi cover an estimated 27 per cent of the 9.4 million hectares. About 11 per cent of this area is National Parks and Wildlife Reserves, 10 per cent is in Forest Reserves and 7 per cent is on customary estate. Plantation forests constitute about 1 per cent of the total land area under forest cover.

3.2.2.2 However, the country continues to suffer from forest degradation largely because of poverty, population growth, agricultural expansion, infrastructural development and over dependency on wood fuel for energy. Over 93 per cent of the population depends on biomass energy for heating and lighting. It is estimated that forest resources in Malawi are declining at a very alarming rate of 2.6 per cent per annum. The decline in the resource is attributed to deforestation.

3.2.2.3 In Malawi, biomass satisfies about 83.4 per cent of household energy demand. The remaining 16.6 per cent comes from electricity (for lighting and to a lesser extent for cooking) paraffin and candles (for lighting). The biomass is principally firewood (80 per cent), charcoal (8.8 per cent) and crop and industrial residues (11.2 per cent). However, since it takes 9 tons of firewood to produce 1 tonne of charcoal, the use of wood is significantly greater in the charcoal burning households than in the firewood households. This, therefore, leaves the country reliant on wood fuels. The continued destruction of forests has resulted in reduced capacities for forests to provide the desired goods and services in the country.

3.2.2.4 Household firewood and charcoal consumption, currently estimated at 7.5million tons per annum exceeds sustainable supply by 3.7 million tons, leading to an annual destruction of 50,000 to 75,000 hectares of natural forests. In the past 25 years, forest reserves have declined from 47 per cent to 28 per cent of which 21 per cent are in protected reserves. The resultant deforestation damages catchment areas leading to siltation and seasonal dry-up of streams. The subsequent siltation of Lake Malawi and the Shire River interferes with the hydropower generation. Sedimentation in lakes and rivers has caused a loss in fish biodiversity and production. Flash floods, in addition to threatening lives of people each year, wreak havoc on Malawi roads and bridge infrastructure. In addition, women have to walk long distances to fetch clean water. This added labour detracts time from productive economic activities and other household chores. On the other hand, high population growth and poverty is contributing to escalating pressures on the already dwindling indigenous forest reserves and associated biodiversity.

3.2.2.5 The demand for forest resources for livelihoods, infrastructure development and energy is increasing very rapidly. This has resulted into the development of interventions in the Malawi Growth and Development Strategy (MGDS) that aim at addressing the current challenges in the forestry sector. The MGDS recognizes the role of the forest sector in Theme One "Sustainable Economic Growth."

3.2.2.6 Although forestry is not mentioned as one of the key priority areas in the MGDS, it is directly linked to the attainment of key areas of Agriculture and Food Security, Irrigation and Water Development, Transport and Infrastructure Development, Energy Generation and Supply, Integrated Rural Development and Prevention and Management of Nutritional Disorders, HIV and AIDs. Forestry has been a driver of economic growth in all sectors of the economy

TABLE 3.1: THE CONTRIBUTION OF FORESTRY TO THE MGDS PRIORITY AREAS

MGDS Priority Area	Contribution of Forestry Sector
Agriculture and Food Security	Increases forest cover that controls soil erosion and improves soil fertility, hence contributing to agricultural productivity. It acts as safety nets during the times of droughts and natural calamities.
Irrigation and Water Development	Supply of water from protected catchments for irrigation, domestic and commercial consumption.
Transport and Infrastructure Development	Supply of industrial timber for construction of bridges and buildings and provision of electric poles, control of floods for the protection of roads and bridges.
Energy Generation and Supply	Supply of biomass energy, protection of water catchments that provide water for hydroelectric power generation, and supply of transmission poles.

Integrated Rural Development	Supply of poles and timber for construction of houses, schools and clinics. It improves the water table and retention for borehole construction.
Prevention and Management of Nutritional disorders, HIV/AIDs	Supply of medicinal plants and foods like fruits, mushrooms, caterpillars for nutrition, source of income for the affected and infected persons.

3.2.3 **Forest Policy and Legislation Implementation**

3.2.3.1 Forestry in Malawi has in the recent past undergone a process of devolution that is the transferring of power to the people who live with and depend on trees and forest resources for the day to day household and economic needs. This has been achieved through forestry policies and legislation that both recognise and encourage greater involvement of rural communities in the conservation and management of trees and forests, and sharing the resources and environmental benefits that they provide.

3.2.3.2 The Department of Forestry recognises the role of non-governmental organizations, the private sector, faith-based organizations and other civil society groups in supporting rural communities with natural resource management activities as a means of improving the livelihoods of individuals, households and communities through sustainable management of trees and forests.

3.2.3.3 In 2005 the Department of Forestry produced ‘Standards and Guidelines for Participatory Forestry in Malawi’ to guide the practice of promoting community based management of forest resources both on customary estate and in Forest Reserves. This also establishes standards for forestry extension delivery and improved forest management.

3.2.4 **Employment.**

3.2.4.1 It is estimated that the forestry sector employs more than 9,000 in the formal sector (government, private and non-governmental organizations) and further 20,000 in the informal sector mainly in carpentry and pit sawing. A recent study found that the charcoal industry provides significant employment in the various activities. It is estimated that 92,800 people owe their livelihoods to charcoal. This figure includes 46,500 producers, 12,500 bicycle transporters, 300 other transporters and 33,500 traders. There are about 338 large-scale charcoal producers, who are fully fledged businesses producing up to 500 bags per month and accounting for 38 per cent of the total charcoal coming onto the market in Malawi. Small scale charcoal producers account for 35 per cent while the medium-scale account for 27 per cent of the total charcoal.

3.2.5 **Impacts of HIV/ AIDS in the forestry sector**

3.2.5.1 Economically the HIV/AIDS pandemic has affected the forestry sector in the following ways:—

1. Drastic decline in resources (human and financial) for long term investments;
2. Increased dependence on forest products especially those that are easy to collect;
3. Loss of traditional knowledge;
4. Shortage of skilled and unskilled labour is undermining forestry activities thereby affecting all key sectors such as wood industries, research, education, training, extension and forest administration;
5. Increased cost to industry on account of absenteeism and high bills for treatment; and
6. Reduced public sector investment in forestry as government devotes more of its budget to health care and combating HIV and AIDS.

3.2.6 **Conservation and Development of Natural Woodlands and Plantations**

3.2.6.1 The Department of Forestry manages 90,000 hectares of forest plantations. Industrial forest plantations comprising pine species cover 74,000 hectares whilst fuel wood and poles plantation mainly of eucalyptus species make up 23,000 hectares. The bulk of the industrial plantations (53,000 hectares) are in the Viphya in the Northern Region of the country.

3.2.6.2 During the year under review 330 hectares were replanted in the major plantations of Viphya, Zomba Mountain, Dedza Mountain and Chongoni . In line with the forestry policy, the private sector especially wood processing industries such as Wood Industries Corporation (WICO), Leopard Match Company Limited and Raiply also participated in the replanting. Other small and medium scale enterprises (pit sawyers and mobile saw millers) were also involved in the replanting of the plantations. A total area of 1,300 hectares has been planted by the Private Sector especially the major wood processing industries.

3.2.7 **Forest Utilisation and Marketing**

3.2.7.1 Mobile saw milling, pit sawing and extraction by large operators continued on the Viphya, Dedza Mountain, Zomba Mountain, Dzonzi-Mvai and Dzalanyama timber plantations. Mobile saw millers and pit sawyers extracted an estimated 83,520.17 cubic metres of wood valued at MK91,872,182. Firewood users collected 52,841.64 cubic metres of firewood totaling MK26,420,822 million. This has contributed to effective running of companies and creating more employment for Malawians. The majority of wood traders have been selling timber within and outside the country attracting foreign exchange.

3.2.8 **Forest Fires**

3.2.8.1 In the 2008/09 financial year, fire damaged 13,577.23 hectares of industrial wood plantations in the country. The ninety per cent of the affected area was in the Viphya Plantations where 17 fires lasted close to two months and damaged wood estimated at MK65,213.500. In the area under concession to Raiply, 23 fires damaged 3,147.21 hectares estimated at MK53,058,600.

3.2.9 **Natural Woodlands**

3.2.9.1 The Department continued to manage an estimated 1,100,000 hectares of natural forest reserves. The reserves continue to provide the protective functions of the water catchments for some of the major rivers that are also sources of water for the major urban areas in addition to reducing soil erosion, conserving biodiversity that contributes to ecotourism.

3.2.9.2 Natural forests continued to be used as safety nets by the rural people. In addition, most of the rural people derived their livelihoods from the forests through sales of timber, poles, firewood, honey, mushrooms, wild fruits, thatch grass, brooms, reeds and medicinal plants. Forests have also provided employment to the rural population. Forests continued to be used as sources of medicines, nutrition and income for people infected or affected by HIV and AIDS.

3.2.9.3 The major problems associated with the management of forest reserves are illegal charcoal production, theft of valuable timber trees, encroachment for human settlement and opening up of gardens. Charcoal production is rampant in forest reserves close to the major urban areas of the country.

3.2.9.4 Due to inadequate resources and mismanagement of forest reserves, the Department is promoting participatory forest management. The communities are required to enter into a co-management agreement with the Department of Forestry which has resulted in increased productivity of forests and supply of forest goods and services.

3.2.10 **Budget Allocation and Revenue Collection**

3.2.10.1 Though forestry is closely linked to key priority areas as reflected in the MGDS, it continues to receive inadequate resources as compared to its programme requirements. This has led to failure in undertaking most of the activities that can assist in enhancing sustainable management of forest resources and contributing effectively to the MGDS and Millennium Development Goals (MDGs).

3.2.10.2 During the last six financial years, the budget allocation on Other Recurrent Expenditures (ORT) has not substantially increased. On average the Department has been getting around K54,780,063 per annum, although the Department requires over MK250 million per annum to effectively undertake its activities.

TABLE 3.2: ORT ALLOCATION TO THE DEPARTMENT OF FORESTRY THE LAST FIVE YEARS

Financial Year	Amount in Malawi kwacha
2004/05	53,865,000
2005/06	48,230,875
2006/07	53,406,467
2007/08	57,197,139
2008/09	61,200,939

3.2.10.2 The major sources of revenue in the forestry sector are royalties on forestry products, sales of logs and firewood to wood industries, sale of forest products on customary estate and administration fees, licenses and miscellaneous, and concessions. The revenue on customary estate is dependent on the patrols undertaken by forest staff and the volume of confiscated illegally obtained forest products. As of March 2009, the Department collected MK163,157,205.92.

TABLE 3.3: REVENUE COLLECTION AGAINST THE ESTIMATE

Financial year	Estimate (MK)	Revenue Collected (MK)
2005/06	170,260,000	154,025,917
2006/07	170,260,000	150,190,261.48
2007/08	200,000,000	202,936,642
2008/09*	221,158,000	163,157,205.92

* Revenue collection as at March 2009.

3..2.11 **Small and Medium Forest Based Enterprises (SMFBEs)**

3.2.11.1 Major SMFBEs are involved in the production of timber, charcoal, firewood, curios and edible plants. Although some of the enterprises have not been evaluated, a recent study showed that charcoal is a multi-billion dollar industry and the third largest after tobacco and tea. The total annual production of timber and firewood in Malawi has been estimated at 160,000 cubic metres and 3.1 million cubic metres, respectively. While the demand for timber can be fully met by the industrial plantations, there is a gap between demand for and production of firewood. This calls for exerted effort in tree planning at local and national levels in order to close the gap in the long run. Besides, there is need to further diversity sources of energy as this will reduce pressure on the need for firewood in future

TABLE 3.4: ANNUAL ALLOWABLE SUPPLY OF WOOD BY FOREST TYPE

Types	*Sub-type*	*Area*	*Mean annual increment (m3/ha)*	*Allowable cut (million m3/yr)*
Natural forests	Forest reserves	870,052	1.2	1.0
	Forests on customary land	1,988,255	0.8	1.4
Plantations	Viphya	53,000	17.0	0.9
	Other Government plantations	37,000	11.0	0.4
	Estate plantations	20,000	11.0	0.2
	Woodlot	15,000	10.0	0.2
Total		**2,983,307**		**4.1**

3.2.11.2 The cane furniture industry was set up with an aim of benefiting all people along the chain, including the suppliers of raw materials, unskilled and skilled labourers and the manufactures and/or sellers. In recent years, the number of cane manufacturers has increased, thereby increasing competition.

3.2.11.3 The forestry sector has great potential to collect revenue, increase its contribution to GDP and reduce poverty which is the main agenda of the MGDS.

3.2.12 Tree Planting and Plantation Rehabilitation

3.2.12.1 Wood fuel (firewood and charcoal) remains the main source of energy accounting for about 93 per cent of the total energy consumption in the country. The gap between demand for wood fuel and the available sustainable supply is continuously increasing every year.

3.2.12.2 In order to overcome the deficit between demand and supply of wood fuel, the sector has embarked on a tree planting and plantation rehabilitation programme. In 2008/09 financial year, 54,658,480 tree seedlings were raised by different stakeholders (Smallholder farmers, communities, private sector, Village Natural Resources Management Committees, Non-Governmental Organizations, etc.) and 55,405,255 trees were planted. The difference between seedling produced and trees planted is due to the seedlings that were not planted in 2007/08 planting season and the use of wildlings. This translated into a total area of 22,162 hectares planted with trees. In total, 330 hectares of industrial forest plantations were rehabilitated. The total area replanted with trees is far less than an annual estimated deforestation of 50,000 hectares. Consequently, there is need for government and other stakeholders to embark on vigorous reforestation and afforestation programmes.

3.2.13 Forestry Programmes and Projects

The Department is currently implementing the following programmes/projects:

3.2.13.1 **Improved Forest Management for Sustainable Livelihoods Programme (IFMSLP)**: The programme is supported by the European Union and is aimed at improving the livelihoods of local communities in twelve districts through the provision of forest goods and services and development of forest based enterprises. The programme is addressing poverty and forest degradation through promoting greater community involvement in forest management. The IFMSLP has developed interventions that aim at contributing towards increased household income and food security. The interventions range from tree planting and forest conservation to the promotion of forest based income generating activities such as honey and mushroom production. The programme focuses on improving the management of tree and forest resources, and access to income generating opportunities and enhancing rural livelihoods through sustainable management of forest areas in the country.

3.2.13.2 **Forestry Replanting and Tree Nursery Project (FOREP):** FOREP is supported by government using its local resources. The project is aimed at rehabilitating the degraded industrial forest plantations to ensure sustainable supply of timber to both the wood processing and the construction industries. The project encourages planting and management of trees in selected industrial timber plantations. During the year under review, the Department planted 300 hectares in different industrial softwood plantations. In addition, the project assisted in the management and protection of the old plantations.

3.2.13.3 **Tree Planting and Management for Carbon Sequestration and Other Ecosystems Services (TPMCSOES):** This is supported by government through local resources. The project promotes tree planting and management by giving financial support to the farmers. The farmers are financially compensated for the land that they put aside for tree growing and subsequently paid for trees that survive. In the 2007/08 financial year 148 constituents participated in the programme with 1 farmer registered per constituency. Five hundred eighty thousand seedlings worth MK2.4 million were purchased and distributed to farmers. A total of 242 hectares were planted by 148 farmers. As a result, MK4.8 million was paid to farmers as compensation for the area planted. The programme also includes a research component which has:

1. Trained farmers on issues of climate change/global warming, carbon sequestration and data collection;
2. Conducted baseline surveys to determine area for planting; and
3. Collected soil samples and litter for the assessment of existing vegetation to determine baseline carbon existing at each site.

3.2.13.4 **Community Vitalization and Afforestation in Middle Shire (COVAMS)**: The project is supported by the Government of Japan through Japan

International Cooperation Agency (JICA). The objective of the project is to rehabilitate the watershed of the middle shire through tree planting and promotion of income generating activities.

3.2.13.5 **Lake Malawi Artisanal Fisheries Development Project (Watershed Component):** The project is supported by the African Development Bank and is housed in the Department of Fisheries in the Ministry of Agriculture and Food Security. The aim of the Watershed Component is to protect and manage the lakes catchment areas through tree planting and indigenous forest management in order to reduce siltation of the lake as well as sustainably supply firewood for curing fish for the lake dependent rural communities.

3.2.13.6 **Research and Development of Traditional Medicines of Malawi:** The project is being implemented by the Forestry Research Institute of Malawi (FRIM) through the National Research Council of Malawi (NRCM). It is being funded by the National Aids Commission (NAC). The overall objective of the project is to promote research and development in traditional medicine with particular reference to HIV and AIDS and related opportunistic infections. The specific objectives include to identify and prioritize traditional medicinal plants with potential use for HIV and AIDS management, ensure safe and more efficient herbal perceptions available to the population, promote conservation and sustainable use of medicinal plants in Malawi and to establish long-term partnerships in traditional medicine research and development.

3.2.13.7 **Millennium Seed Bank Project:** The project is supported by KEW Botanical Gardens in the United Kingdom. The objectives of the project are to come up with checklists of indigenous, wild, endemic and/or economically important wild flowering plants for Malawi, collect seeds of those wild plants and preserve them in long term storage facilities so that they can be restored into the environment when need arises in future and to build human and institutional capacities locally in biodiversity conservation.

3.2.13.8 **Agro-forestry Food Security Project (AFSP):** The project is supported by Irish Aid of the Republic of Ireland. The purpose of the project is to combine sound science, effective partnership and responsive scaling up of approaches with informed policies that will help increase food security and income, and improve livelihood opportunities for rural communities in Malawi through accelerated adoption of fertilizer trees and fruit tree portfolios.

3.2.13.9 **The National Forestry Programme (NFP) Facility:** The facility is supported by the Food and Agriculture Organization (FAO). The facility supports policy formulation in the sector. However, its main objectives are to integrate sustainable forest management into poverty reduction strategies and broad inter-sectoral processes, develop a consensus on how to address issues relevant to forests at national level and translate commitments at the international level into national forest policy and planning.

3.3 The Fisheries Sector

3.3.1 Fish landings in 2008 had a beach value of MK9.4 billion and contributed about 4 per cent to GDP. It employs about 60,000 fishers and out of 350,000 people some are involved in fish processing, fish marketing, boat building and engine repair and nearly 1.6 million people along the lakeshore communities are being supported by the industry.

3.3.2 Status of the Fisheries Sector - Main Fish Resources

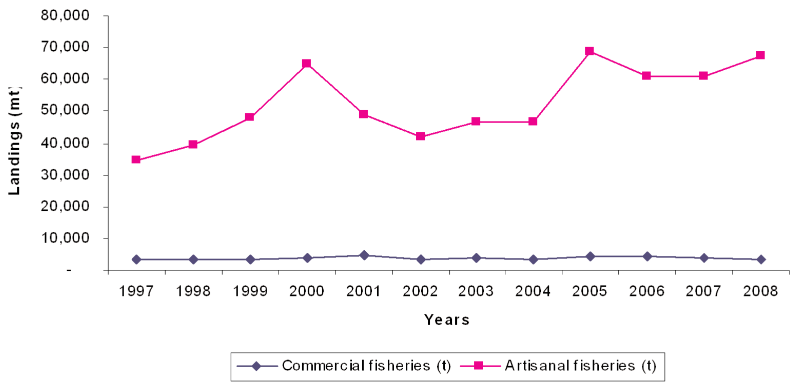
3.3.2.1 Major Fishery Resource User Groups in Malawi

3.3.2.1.1 The Malawi fisheries are conventionally divided into three sectors, that is, 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.

3.3.2.2 The State of Commercial and Artisanal Fisheries in Malawi

3.3.2.2.1 For the past ten years, catches for the artisanal fishers have fluctuated with the highest peak in 2000 and 2005. On the other hand, commercial landings have shown a uniform trend over the years implying that there have not been large investments by the large scale fishers. The sector is still under-exploited by the commercial fishers. Catches will only pick up when new and powerful vessels are introduced into the fishery sector.

FIGURE 3.1: TRENDS IN CATCHES FOR COMMERCIAL AND ARTISANAL FISHERIES (1997—2008)



3.3.2.3 Trends in Contribution of Catches by Water Body

3.3.2.3.1 National catch statistics from Fisheries Research Unit show that total catches for 2008 were 71,266 tons and about 83.7 per cent of this originated from Lake Malawi, 9.1 per cent from Lake Chilwa whilst Lakes Malombe and Chiuta contributed 0.8 per cent and 1.6 per cent, respectively, and lastly lower and middle Shire River contributed 5.6 per cent.

TABLE 3.5: FISH CATCH BY WATER BODY AND LANDED VALUE OF ALL FISH STOCKS

Year	*Lake Malawi Artisanal (tons)*	*Lake Malawi Commercial (tons)*	*Lake Malombe tons*	*Lake Chilwa tons*	*Lake Chiuta tons*	*Lower and Middle Shire tons*	*Total tons*	*Value (MK '000)*	*Beach price (MK/kg)*
2000	44775	3698	620	14,945	1,575	3,495	68489	1,814,070	26.49
2001	37603	4928	512	7,913	1,059	2,141	53643	1,517,483	28.29
2002	32038	3767	693	6,288	1,275	2,173	45369	1,175,815	25.92
2003	36730	5600	553	6,773	1,148	2,024	50382	2,661,210	52.82
2004	36610	3391	510	7,155	791	2,292	50240	4,876,300	97.06
2005	58859	4225	649	5,822	975	3,032	72913	7,145,474	98.00
2006	51796	4413	780	4,350	1,085	3,840	65484	6,810,336	104.00
2007	50527	4102	530	5,904	1,024	3,643	65200	7,563,200	116.00
2008	56846	3597	671	6,006	1,018	3,128	71266	9,478,378	133.00

Source: Fisheries Department, 2009

3.3.2.4 **Catch Composition**

3.3.2.4.1 In terms of catch composition, the traditional catch is composed of 18 main species or groups of species, of which usipa and utaka are the two dominant species groups with an average total contribution of 32.5 per cent and 16.8 per cent respectively. *Tilapiines* catches have declined over the years yielding an average of 5 per cent to the total while Kambuzi contribute about 12 per cent of the annual catch.

TABLE 3.6: ANNUAL AVERAGE CATCH PERCENTAGE FOR MAJOR FISH SPECIES OF MALAWI

Local Name (species)	Scientific Name	Baseline 2002-06 (metric tons)	Catch 2008 (metric tons)	% catch composition
CHAMBO	Oreochromis spp.	4,294	3,586	5.03
KAMBUZI	Lethrinops spp. & Allied genera	4,533	8,904	12.49
CHISAWA.	Lethrinops spp. & Allied genera	540	1,307	1.83
KASAWALA	Juvenile Oreochromis spp.	277	409	0.57
KAMPANGO	Bagrus meridionalis	1,321	1,214	1.70
MBABA	Buccochromis spp. & Allied genera	2,097	2,553	3.58
MCHENI	Rhamphochromis spp.	1,583	2,037	2.86
MLAMBA	Bathyclarias & Clarias spp.	3,877	4,086	5.73
MPASA	Opsaridium microlepis	114	27	0.04
NTCHILA	Labeo mesops	11	17	0.02
SANJIKA	Labeo cylindricus	12	23	0.03
USIPA	Engraulicypris sardella	12,184	23,207	32.56
UTAKA	Copadichromis virginalis & relatives	9,639	12,023	16.87
O. TILAPIA	Tilapia rendalli & others	420	868	1.22
MAKUMBA	Oreochromis shiranus & relatives.	2,703	2,359	3.31
MATEMBA	Barbus paludinosus & relatives	3,332	2,110	2.96
MPHENDE	Oreochromsi placidus	1,268	901	1.26
CHIKANO	Clarias ngamensis	63	65	0.09
OTHER	Various spp	3,637	5,572	7.82
TOTAL CATCH		**51,904**	**71,266**	**100.00**

Source: Fisheries Department, 2009

3.3.2.5 Status of Fishing Fleet (Craft) And Fishers

3.4.2.5.1 Many different gears are employed in the small-scale fisheries. The main gear types are beach seines (chambo, kambuzi and mosquito nets), chilimira, fish traps, gillnets, handlines and longlines. Dugout canoes and plankboats, with or without outboard engines, are the main fishing vessels. The fisheries statistics for the various water bodies indicate that the number of fishermen, fishing gears and fishing crafts have steadily increased by 27 per cent, 124 per cent and 30 per cent, respectively in the last decade.

TABLE 3.7: FRAME SURVEY COUNTS OF FISHING CRAFT, GEAR OWNERS, CREWMEMBERS AND FISHING GEARS OF MALAWIAN WATERS FOR 1991-2007

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2003	2007
Boat + engine	372	397	449	393	441	461	502	578	534	493	586
Boat—engine	2,367	2,425	2,164	2,551	1,361	2,273	2,787	3,240	3,088	2,999	3,502
Dugout canoes	9,716	9,858	9,111	10,068	10,487	11,158	11,821	14,306	11,457	11,824	11,215
Fishermen (Gear owners)	10,193	11,181	9,517	10,602	10,982	11,310	13,546	14,471	13,503	15,542	13,305
Assistants-Crewmember	26,866	30,090	28,152	32,625	30,001	30,961	37,310	37,488	35,347	42,312	41,993
Gillnets	16,624	20,410	17,443	19,996	23,213	30,906	37,987	32,941	43,430	77,668	67,552
Longlines	2,698	2,752	2,112	2,806	3,177	4,196	2,176	2,753	3,954	2,884	3,902
Kambuzi seines	609	732	1,124	1,277	880	538	718	546	345	385	438
Chilimira nets	1,229	1,627	1,632	1,893	2,001	2,226	2,416	2,584	2,568	3,079	2,588
Fish traps	21,488	3,5890	26,779	19,407	28,571	25,428	32,350	38,255	40,078	27,071	20,460
Handlines	1,323	2,383	2,899	4,642	6,193	4,104	4,245	4,400	3,084	1,383	2,414
Mosquito nets	260	270	183	439	502	571	637	461	602	362	588
Scoop nets	159	110	79	208	181	85	118	21	79	83	14
Cast nets	352	314	263	339	261	347	472	37	47	766	535
Chambo seines	113	134	90	121	135	116	102	106	62	71	70
Nkacha nets	237	281	263	311	348	282	278	204	258	309	279
Psyailo	7	14	5	10	6	6	9	6	6	0	0
Seine nets	0	0	0	31	24	35	32	0	0	0	0
Matemba seine	327	340	0	549	191	93	396	498	422	276	853
Others (chomanga)	5	2	0	56	3	7	491	35,579	23,298	24,350	13,371

Source: Fisheries Department, 2009
Note: Frame surveys were not conducted for the years 2000, 2001, 2002 and 2004

3.3.2.5.2 Further analysis of the numbers, type and distribution of small-scale fishing craft in Malawi indicates that:

1. Of all the 15,303 vessels[1] that are distributed countrywide, only 3.8 per cent are motorized;
2. 73.3 per cent of all the vessels are dugout canoes, which typifies the investment level of the operations and hence the small scale nature of the sector;
3. The number of gear owners decreased by 14.4 per cent from 15,542 fishers in 2003 to 13,303 fishers in 2005 while that of crew members also decreased by 0.75 per cent from 42,312 crew members in 2005 to 41,993 in 2007; and

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

4. The most important fishing gears in the Malawian waters are gillnets and fish traps. According to Bulirani (1999), the later is being used in Lake Chilwa. The number of gillnets increased markedly from 1995 to 2005 from 20 thousand gillnet units (1 unit = 100 metre net length) to 67 thousand gillnet units. The number of fish traps fluctuated considerably with the minimum number of 19,407 being recorded in 1994 and highest number of 40,078 recorded in 1999.

3.3.3 Fish Markets and Fish Processing Methods

3.3.3.1 Present Fish Processing and Marketing Trends

3.3.3.1.1 Fish processing in Malawi is practised in various forms and undertaken by different institutions. Processing methods include sun drying, which is most common for fish species like kambuzi and matemba; smoking which is used on chambo and mlamba; para-boiling for usipa and pan roasting for utaka (*Copadichromis spp*.) Filleting is mostly done on chambo for hotel consumption. In some cases, fish is frozen or iced to enable fish traders to transport the fish to distant rural and urban markets as is the case with the MALDECO Fisheries Limited. MALDECO is the largest fishing company on Lake Malawi and this has shore based facilities such as ice plants and chill storage facilities. There is a fish marketing and distribution network throughout the country, supplying fish to both rural and urban markets. MALDECO, the only commercial fishing company in Malawi stopped exporting fish to other countries in 1991. National demand for fish has been increasing.

3.3.3.1.2 Fish processing is mainly undertaken by either full-time or part-time beach processors. who do the processing during the dry season. Both groups, however, serve a very important function to the fishermen as they constitute a permanent market outlet for fishers.

3.3.3.2 Major Fish Markets

3.3.3.2.1 The major markets of fish in Malawi include the urban centers such as Blantyre, Zomba, Lilongwe and Mzuzu and other districts. Fish from Lake Malawi in Nkhotakota is sold in Mzuzu, Mzimba and Kasungu. Likewise, fish from Likoma and Chizumulu Islands is also sold at Mzuzu market in addition to Rumphi and Mzimba. Lilongwe market gets fish from Lake Malawi from Salima and Nkhotakota, and sometimes from Mangochi especially Malembo area. Zomba market is dominated by fish from Lake Chilwa, Lake Chiuta, Lake Malombe and Lake Malawi. In Blantyre and Limbe markets, there is plenty of fish from Lakes Malawi, Lake Chilwa, Lake Chiuta and Lower Shire River.

3.3.3.2.2 Over the past decade, there has been a high proportion of imported dried fish (*Tilapia and Barbus spp*) from Tanzania which has dominated markets in Mzuzu, Kasungu, Lilongwe and Limbe. Dried kapenta from Zambia and frozen marine fish species like mackerel are also sold in supermarkets or departmental stores and open markets in Limbe, Lilongwe and Mchinji. From Mozambique, dried ‘tchenga’ fish is common at Limbe market.

3.3.3.3 Fish Market Prices

3.3.3.3.1 Public retail markets exist in all principal urban centers of Malawi including Lilongwe, Blantyre/Limbe, Zomba and Mzuzu. In most public retail markets fresh fish is sold on separate stalls, by size and piece, but not usually displayed on ice. Only in some supermarkets (PTC, Kandodo, ACT, Kwiksave), fresh fish is sold on price per kg basis. Dried/smoked fish is sold on public markets by piece or in small heaps at specific prices and not by weight.

TABLE 3.8: RETAIL PRICES OF MAJOR FRESH FISH SPECIES IN 2005-2008 (MK/KG)

Species (when sold fresh)	2005 (MK/kg)	2006 (MK/kg)	2007 (MK/kg)	2008 (MK/kg)
Oreochromis Karongae (chambo/tilapia)	199.0	244.9	410.0	455.0
Clarius gariepinus (mlamba/African catfish)	108.2	126.5	251.0	276.0
Copadichromis species (mbaba)	115.0	143.0	186.0	200.0
Copadichromis species (utaka)	111.1	132.0	139.0	153.0
Diplotaxodon limnothrissa (ndunduma)	93.5	110.4	142.0	156.0

Source: MALDECO official price (2008)

3.3.3.3.2 The general upward trend in fish retail prices seems to have been caused by a number of different factors, such as increased landing and transportation costs, supply and demand fluctuations and seasonality.

3.3.3.4 Trends in Fish Supply per Capita

3.4.3.4.1 In the past, quantitative estimates of the importance of fish were made and in 1980 fish comprised 40 per cent of the total protein intake and 70 per cent of animal protein (Campbell and Townsley, 1996). The supply of fish per person has, however, steadily fallen due to population growth at a rate of 3.2 per cent. In 1976 per capita annual supply was 12.9 kg, and this had fallen to 9.4 kg in 1990 and 5.4 kg in 2008.

TABLE 3.9: TRENDS IN PER CAPITA FISH CONSUMPTION IN RELATION TO POPULATION GROWTH FOR 1987-2007

Year	Population	Total catch (kg)	Fish supply/kg/ person/yr
2000	10,300,000	68,488,000	6.6
2001	10,500,000	53,643,000	5.1
2002	10,700,000	45,368,000	4.2
2003	10,900,000	50,382,000	4.6
2004	11,100,000	50,239,000	4.5
2005	11,300,000	72,913,000	6.5
2006	11,500,000	65,484,000	5.7
2007	11,700,000	65,200,000	5.6
2008	13,100,000	71,266,000	5.4

2008 are actual NSO survey years. The population increased at an annual rate of 3.8% until 1987 and subsequently decreased to around 2% between 1988 and 1998 (NSO, 2000). Incremental growth rate was projected based on NSO 2000 data.

3.3.3.4.2 The average per capita consumption of 5.4 kg per year is by far less than the recommended per capita consumption of 13 kg to 15 kg per year by the World Health Organization (WHO). Despite this, fish continues to contribute significantly to food security and nutrition within the country. Almost all fish caught in Malawian waters is used for direct human consumption. Fish is often consumed in small amounts during daily meals. Much of the fish is consumed in rural areas and thus this contributes a lot to the nutritional needs of the poorest people in the country since this is easily accessible and affordable, and available throughout the year. Fish, therefore, guarantees a nutritionally balanced diet to a population suffering from high levels of malnutrition. Horn (1987) noted that fish forms a very important component in the daily diet in Malawi, constituting the cheapest source of animal protein compared with chicken, beef, lamb and other sources of animal protein.

3.3.3.4.3 In terms of distribution pattern of fish among different consumer groups, Banda (2003) highlighted that though not yet well known, the quality and quantity of fish in the diet is likely to decrease with increased distance from water bodies and remoteness of the population centres due to inadequate infrastructures. Even if fish was available, accessibility to it is governed by social and economic factors. Poverty is one of the most important socio-economic factors that may affect the per capita consumption of fish.

3.3.4 **Status of Aquaculture in Malawi**

3.3.4.1 The goal of fish farming 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. Aquaculture in Malawi consists of two sub-sectors, namely: A long established "low input—low output" rural aquaculture and a nascent commercial sector.

3.3.4.2 Distribution, Number and Size of Farms in Rural Aquaculture

3.3.4.2.1 In Malawi a typical smallholder fish farmer has one or two small ponds of about 200 m^2 or less and these are usually located in close proximity to a seasonal wetland (dambo). The number of the smallholder farmers has increased recently and the National Aquaculture Centre at Domasi estimated that there were approximately 4,050 fish farms in 2002 and that the numbers had increased to 6,000 farmers with 10,000 ponds in 2008 .

TABLE 3.10: TOTAL NUMBER OF SMALL-HOLDER FARMERS AND PONDS BY REGION IN 2002-2008

Region	No. of farmers			No. of ponds		
	2002	2003	2008	2002	2003	2008
South	1,500	1,972	2,400	3,278	3,500	3,750
Central	1,200	922	1,550	2,056	2,900	3,100
Northern	1,350	1,517	2,050	3,100	3,100	3,150
Total	**4,050**	**4,411**	**6,000**	**8,434**	**9,500**	**10,000**

3.3.4.2.2 In the Northern Region, smallholder aquaculture is being practiced in the upland areas of Chisenga, Mphompha, Nchenachena, Mzuzu, Chikwina and the low lying areas of Limphasa. Within the Central Region, rural aquaculture is undertaken along the lakeshore areas of Salima and Nkhotakota besides in other areas such as Mchinji, Lilongwe, Kasungu, Dedza and Ntcheu. In the Southern Region, the system is being practised along the lakeshore areas of Mangochi, along the Shire River in Mwanza, Blantyre, Neno, Zomba, and Lower Shire districts and Mulanje, Phalombe and Thyolo. Thus, although there are distinct regional biophysical, political and economic differences among the various categories of farmers, their distribution is relatively even across the country. It is apparent that household factors such as access to labour, availability of pond inputs and the level of agricultural diversification have a stronger influence than the geographic and political variables on their distribution.

3.3.4.3 Production Trends From Small Holder Fish Farmers

3.3.4.3.1 Fish production from smallholder farmers has steadily increased from 800 tonnes in the 2003 to 1,200 tonnes in 2008. This production comprises 93 per cent tilapia (*Oreochromis shiranus*-makumba, *Tilapia rendalli*—chilunguni, *Oreochromis mossambicus* and *Oreochromis karongae*-Chambo), 5 per cent catfish (*Clarias gariepinus*-mlamba) and 2 per cent exotic species such as common carp (*Carpio cyprinus*) and rainbow trout (*Onchorhynchus mykiss*).

TABLE 3.11: ESTIMATED PRODUCTION LEVELS (TONS) AND VALUE (US$) OF THE MAJOR CULTURED FISH SPECIES

Species	Estimated units	1997	1998	1999	2000	2001	2002	2003	2008
Cyprinus carpio	Production (t)	25	10	8	10	10	8	4	30
	Value (US$)	15 000	10 000	8 000	10 000	10 000	8 960	5 600	42,000
Oreochromis shiranus/mossambicus	Production (t)	190	270	565	500	600	670	680	850
	Value (US$)	309 100	309 100	565 000	550 000	575 000	649 600	696 000	869,550
Tilapia rendalli	Production (t)	0	0	-	-	12	70	85	230
	Value (US$)	0	0	-	-	13 800	11 200	42 000	113,647
Clarias gariepinus	Production (t)	47	30	12	15	18	10	17	42
	Value (US$)	7 700	12 000	14 400	18 000	18 000	11 200	17 000	42 000
Oncorhynchus mykiss	Production (t)	-	-	5	5	8	4	15	48
	Value (US$)	-	-	20 000	17 500	57 200	24 800	96 000	307,200
Total major species (t)		262	310	590	530	648	752	801	1200
Total value (US$)		331800	331100	607400	595500	674000	705760	856600	1374397

3.3.4.4 *Commercial Aquaculture in Malawi*

3.3.4.4.1 Since the onset of fish farming in Malawi a lot of initiatives have been taken to promote commercial aquaculture. At its peak, the "commercial" sector produced a maximum of around 100 tons per year. However, from the mid 1990s to around 2001/02, the sector virtually collapsed. Over the last 5 years, increase in price of fish has led to the re-emergence of the commercial aquaculture sector in Malawi. Two planned commercial aquaculture operations were established in 2003/2004. One is a large-scale cage culture operation that producing 1,040 tons of *Oreochromis karongae* in circular floating cages on Lake Malawi. The operation consists of 64 cage units and a pond based fingerling production unit. The other is a medium scale pond culture operation in the Lower Shire Valley at Kasinthula and this consists of 10 ponds with a total surface area of 8 hectares. The main species farmed include *Oreochromis mossambicus* and *Cyprinus carpio*. Thus the success of these ventures will provide the impetus for the development of the sector in Malawi.

3.3.4.5 **Fisheries Development and Need for Investment**

3.3.4.5.1 National Fisheries Development Strategies

3.3.4.5.1.1 The Malawi Growth and Development Strategy (MGDS) is the main instrument guiding the national strategic goal of economic and social development in the country. Under this strategy various instruments and tools aimed at maximizing the contribution of the fisheries sector to this goal have been developed. These instruments are (i) the National Fisheries and Aquaculture Policy (ii) the Fisheries Conservation and Management Act and its subsidiary legislation (iii) the Chambo Restoration Strategy, (iv) the National Aquaculture Strategic Plan and (v) the Presidential Initiative on Aquaculture Development.

These instruments and tools are aimed at managing and enhancing the fisheries sector in Malawi so as to maximize its contribution to national development goals.

3.3.4.5.1.2 Research studies indicate that substantial deepwater offshore fish stocks estimated at a maximum sustainable yield of about 33,000 tons per year exist in Lake Malawi, and these are the target of an African Development Bank funded Project whose core aim is credit delivery for fishers to acquire appropriate equipment. The Icelandic International Development Agency is also funding a project aimed at developing appropriate fishing gears and crafts that will enable small-sale fishers to effectively exploit these fish stocks.

3.3.4.5.1.3 Aquaculture development is vigorously pursued as the most promising window for increasing fish production in Malawi. A huge potential lies in both pond aquaculture and cage culture due to the vast water resources in rivers and lakes. This is why the National Strategic Plan was developed, out of which the Presidential Initiative on Aquaculture Development (PIAD) was launched in February 2006. The PIAD aims at promoting economic development through increased fish production from fish farming. This has raised private sector interest in commercial aquaculture, and the first establishments are now in production phase, notably, MALDECO Aquaculture limited is undertaking cage culture of Chambo fish in Lake Malawi.

3.3.4.5.1.4 In conclusion there exists a huge potential for increasing fish production through capture fisheries and aquaculture in Malawi. This will contribute towards food security, generation of income and creation of employment. The increase in the production will necessitate exporting of the surplus fish for Malawi to earn foreign exchange. To achieve this goal, projects need to be initiated to eliminate constraints in fish production. These will include (i) development and promotion of adoption of fish production technologies (ii) fisheries resource management and monitoring (iii) fish quality management and law enforcement (iv) capacity building and institutional strengthening and (v) establishing viable financing mechanisms.

Chapter 4

TRANSPORT AND PUBLIC WORKS

4.1 Overview

4.1.1 This chapter reviews the performance and highlights some of the major activities carried out in the Transport and Public Works Sector from July 2008 to June 2009 of the 2008/9 fiscal year. Being one of the key priority areas for the economic growth, transport infrastructure has the overall objective of reducing the cost of transport. The report particularly focuses on road transport, marine, air and some development projects implemented by the Road Traffic and Safety, Plant and Vehicle Hire Organization (PVHO), and the Public Works Programme.

4.2 Road Transport

The road transport particularly focuses on road maintenance and development projects implemented by the Road Authority (RA) over the reporting period.

4.2.1 Roads and Bridges Construction

4.2.1.1 The Roads Authority with funding from the Roads Fund, the Government of Malawi and donors has carried out several transport infrastructure projects during the period under review. Some of the projects were completed while others are ongoing. The projects were carried out mainly to facilitate agriculture output, industrial production, mining, tourism and employment, among others, and this has contributed positively to the country's overarching goal of poverty reduction through economic growth and development.

4.2.1.2 Under the Recurrent Programme the RA has carried out road maintenance programmes as detailed in the following sections:

4.2.1.3 **Routine Maintenance:** This programme incorporated maintenance activities required on a continuous basis and included cleaning of drains, culverts and bridge maintenance works, edge break repairs, crack sealing, line marking, reinstatement of road furniture, and on unpaved roads, grading and reshaping. This programme targeted the entire road network. However, due to limited funding, it was not possible to address all the maintenance needs on the ground. Total approved budget for road maintenance for 2008/2009 was MK2.882 billion to carry out routine maintenance over the entire 15,311 kilometres of national road network, rehabilitate 15 kilometres of paved roads and construct/replace 351 metres of reinforced concrete deck bridges. Physical progress achieved was about 35 per cent of the planned activities covering the period from July to December 2008.

4.2.1.4 **Periodic maintenance and spot rehabilitation:** This programme catered on preventive maintenance, that is, maintenance done at intervals of several years. Periodic maintenance included resealing works (chip seal, slurry and premix overlays), and shoulder reconditioning. Rehabilitation works included total reconstruction and upgrading of some roads, shoulder repairs, reinstatement of some washed away sections, reshaping and spot gravelling of some earth/gravel roads, and drainage, among others.

4.2.1.5 **Grass and Shrub Cutting:** This programme was formulated to clear the road sides within the road reserve of grass and shrubs which normally grow to heights that obscure visibility on the roads.

4.2.1.6 P**othole Patching:** This programme was formulated with a view of patching potholes on both rural paved roads and selected city roads. A budget of MK106 million was approved to cater for this programme. This was later revised to MK143.90 million. Due to the old age of most of the roads, more potholes than expected continued to develop after the wet period from January to April 2008. Three additional contracts for pothole patching were formulated and funded under the revised routine maintenance budget.

4.2.2 Development Programmes

4.2.2.1 In the 2008/09 financial year, the Roads Authority's total development budget is MK11,004,940.00. This budget is for the funding of feasibility studies, design, periodic maintenance, rehabilitation, and upgrading/construction of priority roads in Malawi. The development projects comprising, periodic maintenance, rehabilitation and upgrading/construction of roads in this financial year has a budget of MK10,955,280.00 to cover 126 km of periodic maintenance at an estimated cost of MK906,610,000.00,75 km of rehabilitation at an estimated cost of MK1,410,582,000.00,281 km of upgrading/construction at an estimated cost of MK7,065,450,000.00 and supervision costs estimated at MK 1,572,638,000.00. The scope of works covered and respective estimated budgets are presented in the Table 1.0 below.

TABLE 4.1: ROAD PROGRAMME BUDGET AND SCOPE OF WORK

Road Programme Type	Budget - MK	Scope of Road Coverage-Km	Componet Budget Percentage of Annual Budget %
Supervision	1,572,638,000	All roads	*14.30*
Periodic Maintenance	906,610,000	126.00	*8.30*
Rehabilitation	1,410,582,000	75.00	*12.90*
Upgrading / Construction	7,065,450,000	281.00	*64.50*
Total	**10,955,280,000**	**482.00**	***100.00***

Note: Most of these programmes and projects are carried out with funding from donors such as the European Union, the Kuwait Fund, the Arab Bank for Economic Development in Africa (BADEA), the OPEC Development Fund, the Republic of China and the Malawi Government.

4.2.2.2 Under EU funding, periodic and spot rehabilitation of selected urban road in the City of Lilongwe were carried out. These include Msokera Road, Chendawaka Road, Kenyatta Drive, Youth Drive, African Union Drive, Kaunda Road, Ufulu Road Capital Hill Road, Independence Drive, Robert Mugabe Crescent, ADL Road and Ned Bank Road. Other projects with funding from EU start up works are the completion of the Masasa–Golomoti–Monkey Bay Road and the rehabilitation of the Mangochi–Monkey Bay Road. All the above works have been completed and are in defects liability period of one year.

4.2.2.3 With funding from the Arab Bank, the construction of the Zomba–Jali–Phalombe–Chitakale Road has made some good progress and physical completion for road works was 85 per cent and the bridge works were at 90 per cent by the end of the period under review. The project was due for completion in May 2008, but an extension of time was granted for another year.

4.2.2.4 The Karonga–Chitipa Road with funding from the Republic of China had faced a number of challenges including delays, poor workmanship and substandard work. This project was for the upgrading of the Karonga–Chitipa Road (M26) from earth to a Class 1 bitumen standard road. The general progress of the works was very poor and the contract was terminated by government due to convenience on 24th January 2008. Government of Malawi had identified another donor, Peoples' Republic of China and the works contract for the first 13 km had been awarded to China Road and Bridge Corporation, a Chinese Contractor.

4.2.2.5 Wholly government funded projects had made substantial progress during the period under review. Some of the projects recording substantial progress are Lumbadzi-Dowa-Ntchisi Road, Chiradzulu–Chiringa Road, Bangula–Nsanje Road, and Mzimba–Eswazini–Kafukule–Ezondweni–Njakwa Road including Ezondweni–Ekwendeni Spur, among others. The Malowa–Goliati Section has been completed and work to Chiperoni is making good progress. However, some of the roads such as the Bunda–Mitundu Road has met a number of difficulties and work has come to a halt due to none performance by the contractor. Nonetheless, Government is taking action to remedy the situation.

4.2.3 **Projects in the Pipeline**

4.2.3.1 A number of projects are in the pipe line for implementation for the fiscal year 2009/10. Some of these are the Jenda-Euthini–Rumphi Road, East Bank Road, Ntcheu–Tsangano–Mwanza Road, Rumphi–Nyika–Chitipa Road, Blantyre–Zomba Road, Mzuzu–Nkhata Bay road, Lilongwe–Nsipe Road, Mangochi–Liwonde Road and Lilongwe West bypass, among others

4.2.4 **Road Traffic Services**

4.2.4.1 In the period, the Malawi Traffic Information System has been upgraded to include the Automated Finger Identification System (AFIS), and Card

Verification Device (CVD). During the second part of the year (Jan-June 2009), the system was upgraded to integrate the penalty and demerit point system and mobile licensing equipment and system.

4.2.4.2 In the same period last year, the Road Traffic Directorate upgraded the Maltis in the modification and refinement of drivers licence and automation of some functions such as processing of COF and Road Service Permits.

4.2.4.3 In the same year, the Road Traffic Directorate through the National Road Safety Council continued erecting traffic lights at Area 10/M1 Road junction, Victoria avenue/Sanjika Road junction, area 23/Chidzanja Road junction in addition to the traffic lights that were erected by the Council at Chitukuko, Bwandilo, Lilongwe Hotel, area 3/ Kamuzu Procession Road junction, Lilongwe Technical College and Lilongwe Bridge, Natures Sanctuary and Nico Centre junction in Lilongwe; Limbe Police junction, Limbe Standard Bank branch intersection and Soche/ Mount Pleasant junction in Blantyre; and Katoto Filling Station junction and cross roads junction in Mzuzu. Additional traffic lights were also installed in Zomba and Mangochi. It also procured additional scholar patrol equipments that were donated to Ministry of Education, Science and Technology and 20,000 primary school pupils were trained on road safety across the country.

4.2.4.4 The number of accidents this year had decreased by an annual average of 23 per cent. In its effort to reduce the road accidents, additional highway traffic patrol vehicles, breathalyzers and calibration equipment were procured and donated to the Malawi Police Service.

4.2.4.5 The Department also had established district road safety committees in Mangochi, Blantyre, Lilongwe, Nkhotakota, Kasungu, Mwanza, Mulanje, Karonga, Nkhatabay, Ntcheu, Dedza, Mchinji, Thyolo, Chiradzulu and Balaka and erected billboards with road safety awareness messages in all the districts except Neno and Likoma.

4.3 Air Transport

4.3.1 The air transport sector has been quick to respond to the global economic down-turn and the International Air Transport Association (IATA) has already predicted huge losses in the sector. Despite this and other financial problems, Air Malawi has managed to continue to offer services. Other operators on the market are Nyasa Air Taxi and Executive Air Charters providing non-scheduled air services. Other operators to Malawi are South Africa Airways, Kenya Airways, Ethiopian Airlines and Air Zimbabwe all of which provide scheduled international air services.

4.3.2 In a bid to improve safety of aircraft operations, the Department of Civil Aviation purchased and installed a Doppler Very High Frequency Omni Directional Range/Distance Measuring Equipment) (DVOR/DME) at Kamuzu International Airport. The equipment gives the pilots continuous bearing and distance from the airport. The equipment was sourced at a cost of MK110 million. The same is planned to be installed at Chileka International Airport soon.

4.3.3 Likoma Aerodrome Runway was upgraded to bitumen standard. This was in response to the increased tourism activity on the Island and the demand for fast mode of transport to supplement the traditional means of water transport. It is hoped that the new runway will enhance the development of the Island in terms of tourism and other services.

4.3.4 Passenger and cargo figures dropped to 274,123 and 4,810 tons in 2008, respectively, from 290,915 and 5,910 tons in 2007 at Kamuzu International Airport. At Chileka there was a slight increase in passenger figures to 129,741 in 2008 financial year from 126,764 in the 2007 fiscal year. During the same period, cargo at Chileka International Airport dropped to 773 tons from 850 tons previously. The figures represent normal fluctuation trend as there were no significant changes in the determining factors.

TABLE 4.2: PASSENGERS AND FREIGHT HANDLED AT KIA AND CHILEKA AIRPORTS

	Kamuzu International Airport		Chileka International Airport	
Period	Passengers	Cargo (kg)	Passengers	Cargo (kg)
2006	221,344	4,306,198	138,476	736,116
2007	290,915	5,910,644	126,764	849,636
2008	274,123	4,810,324	129,741	773,415

4.4 Water Transport

4.4.1 During the period under review, Government took over the management and operation of Malawi Lake Services on 1st September, 2008 due to the failure of the concessionaire, Glens Waterways. The Malawi Lake Services, however, showed a slight increase in the haulage of dry cargo and passenger services, despite serious deterioration of the assets. There was no haulage of fuel cargo during the period due to the non-operation of the MT Ufulu, which carries wet cargo and requires capital investment to bring it back into operation. At the same time Government through the Privatization Commission embarked on a drive to find a new concessionaire for Malawi Lakes Services.

TABLE 4.3: PASSENGERS AND CARGO MOVED

Year	Wet Cargo	Dry Cargo	Passengers
2007/8	0	20,464	58,837
2008/9	0	21,214	68,309

4.4.2 Due to lack of maintenance and capital investment by the previous concessionaire, the general condition of all Malawi Lake Services Vessels and facilities have remained poor over the entire period under review. Government has therefore taken special precautions to ensure that the next concessionaire should have the requisite such as adequate resources and experience in running similar business as he would be required to inject in more capital to the business.

4.4.3 The aim of Zambezi Waterways Project is to re-open the waterway to navigation, as an alternative and cheaper transport route for imports and exports for Malawi, Zambia, Mozambique and the Democratic Republic of Congo (DRC). The project is on-going and so far activities implemented in the period are the procurement of the consultancy services for a detailed study and port construction which is underway.

4.5 **Plant and Vehicle Hire Organization**

4.5.1 The PVHO has implemented a number of projects within its mandate to hire out Plant and Vehicles and offer the maintenance services to Government vehicles. The Organization has done a lot of activities under the period of review. For instance, PVHO had done the computerization of their system with a total project cost of MK37 million in order to efficiently manage the resources and that decisions be made based on the available data,.

4.5.2 The organization has also completed the Motor Vehicle Spray Booth, a project which will make sure that all maintenance services especially the panel beating and spray painting of vehicles is done regardless of the weather conditions.

4.5.4 Plant and Vehicle Hire Organization implemented the installation of car tracking devices in order to closely monitor and control vehicle usage. This device also enhances the debt collection and enables the vehicles to be tracked quickly when stolen.

4.6 **Public Works Programme**

4.6.1 The maintenance of roads through the hand-reshaping Public Works Programme for the 2008/09 has achieved 3,741 km of roads at a total expenditure of MK400 million. The programme attracted over 85,000 men and women of age and the programme started on 29th September, 2008.

Chapter 5

MINING AND QUARRYING

5.1 Overview

5.1.1 The performance of the mining and quarrying sector in 2008 was also satisfactory, registering an overall growth of 6.8 per cent over the 2007. The upward trend in production is a reflection of increased production in response to the increased demand in the export market. This chapter reviews the performance of Malawi`s mineral production, employment, domestic and export sales. The chapter also presents a synopsis of new mineral exploration and assessment of exploration projects, mineral licenses and mining investment opportunities.

5.2 Mining Products

5.2.1 Coal production declined by 1.8 per cent from the level registered in 2007. This is largely due to some mining problems experienced by Mchenga Coal Mines and Mean Jalawe Coal Mines which are amongst the major producers and exporters of coal in the country. Overall, Mchenga Coal Mines Limited produced about 51 per cent of the total production followed by Kaziwiziwi Coal Mines and Mean Jalawe Coal Mines with a contribution of about 22 per cent and 12 per cent, respectively, of the total coal production.

5.2.2 During 2008, Shayona Cement Corporation, Malawi`s sole producer of indigenous cement, slightly increased production by 13.5 per cent over 2007. Generally, a steady increase is expected over the next two-year period due to the continuous efforts by the company to expand its production capacity in response to high demand for cement in the country.

5.2.3 Production of gemstones in 2008 tremendously increased by 221 per cent to 11,946 metric tons due to coming in of Nyala Mines Limited, a company mining ruby and sapphire gemstones in Chimwadzulu, Ntcheu District. Production of Agricultural lime remained essentially steady with an increase of 12 per cent as compared to last year which witnessed a drop in production. Demand for agriculture lime from the tobacco estates, poultry and paint industries remained robust from within and outside the country especially in Mozambique.

5.2.4 Paragon Ceramics maintained a steady course of production of items, including stoneware, earth ware, refractory bricks and electrical bobbins for use by ESCOM. The company's giftware exports remained strong and production increased by 7.6 per cent over the previous year. It should be noted that previously ESCOM depended solely on imported insulators, which are now procured locally.

5.2.5 During 2008, production of quarry aggregate (quarry stones) amounted to 312,580 cubic meters (468,870 tons), registering a 127 per cent increase over the previous year. This excludes production by artisanal miners, who have also experienced an increase in their operation. The production by artisanal miners increased by 312 per cent to 35,500 cubic meters (53,250 tons) from the levels recorded the previous year. Both increases resulted from high demand for quarry stone as the country continues to experience an increase in the infrastructural development.

TABLE 5.1: MINERAL PRODUCTIONS (2006-2008)

Production	2006	2007	2008	Per cent Change
Coal (tons)	60,408	58,550	57,477	*-1.8*
Cement Lime (tons)	34,226	42,088	45,980	*9.0*
Agricultural Lime (tons)	21,147	20,965	23,495	12.0
Quarry Aggregate (m3)	123,850	137,420	312,580	*127.0*
Cement (tons)	24,208	31,490	35,750	*13.5*
Gemstones/Min.Specs. (Kg)	2,171	3,710	11,946	*221.0*
Ornamental Stones (tons)	126	179	332	*85.0*
Clay/Pottery (pieces)	3,500	3,910	4,210	*7.6*
Terrazzo (m3)	1,200	1,560	10,150	*550.0*
Quarry stone (artisanals)	-	8,613	35,500	*312.0*
Granulated Clays	-	2,080	7,023	*237.0*
Iron Ore	-	1,737	1,090	*-37.0*
Other Industrial Minerals (tons)	2,299	2,409	3,500	*45.0*

Source: Department of Mines

5.3 Employment

5.3.1 The mining and mineral industry continued to generate substantial employment opportunities in the country. In 2008, the sector employed about 4,850 people, representing 49 per cent increase over that record in 2007. The coal mining industry was the largest employer especially with the coming in of new operators like Eland Coal Mining Company, Consolidated Coal Mining Limited and Chiweta Coal Mines Limited which have been granted mining concessions recently. The increase in the employment in the mining sector in 2008 was also attributed to the construction of the Kayerekera Uranium Mine in Karonga District. It should be noted that with regards to the quarry stone sub sector, formal quarries account for only 435 of the employees with the remainder being quarry stone hand knappers (artisanal).

TABLE 5.2: FORMAL EMPLOYMENT IN THE MINING SECTOR 2008

Sub-Sector	Workforce
Coal	1,110
Cement Lime	96
Agricultural Lime	194
Quarry Aggregate	2,030
Cement	348
Gemstones/Mineral Specimens	176
Ornamental Stones	37
Clay/Pottery	125
Terrazzo	196
Other Industrial Minerals	538
TOTAL	4,850

Source: Department of Mines

5.4 Domestic and Export Sale of Minerals

Domestic sales of minerals and mineral products continued to be dominated by Coal, Cement, Quarry aggregate, Terrazo, Bobbin insulators for ESCOM and agricultural lime as shown below:

TABLE 5.3: DOMESTIC SALES OF MINERAL AND MINERAL PRODUCTS (2006-2008)

Product	2006	2007	2008
Coal (metric tons)	43,058	46 012	53,977
Cement Limestone (metric tons)	34,226	42 088	45,980
Agricultural Lime (metric tons)	21,147	18 965	23,395
Quarry Aggregate (cubic meters)	123,850	137 420	348,080
Terrazo (cubic meters)	200	1 560	10,150
Slaked Lime (metric tons)	650	840	1,100
Cement (metric tons)	24,208	42 088	45,550

Source: Department of Mines

5.4.2 With regards to exports, the sales were dominated by gemstones, granulated clays, dimension stones (ornamental stones), ceramics giftware and, to some extent coal, which experienced an increase in the number of exports to Mbeya in Tanzania last year. But coal exports has drastically gone down due to increase in the price of coal duff from Malawi forcing the importing companies to opt for Moatize coal in Mozambique. The value of all mineral exports amounted to K116.5 million, which is an increase of 24.5 per cent over the preceding year. Prospects for mineral exports are bright considering that the Kayerekera Uranium Mine Project will attain full production capacity once construction of plant machinery is completed. The destinations for Malawi`s mineral exports include the Far East, South Africa, Europe, USA, Tanzania, Mozambique and Zambia.

TABLE 5.4: EXPORT OF MINERALS AND MINERAL BASED PRODUCTS

Product		2006	2007	2008
Coal (metric tons)	17 350	8 192	3,500	
Gemstone (Kg)		21 71	3710	11,946
Pottery/Ceramics (pieces)		700	910	1,022
Other Industrial Minerals (metric tons)		2 299	110	7,023
Ornamental stones (metric tons)		126	178	332
Agricultural Lime (metric tons)		–	–	100
Quarry Aggregate (cubic meters)		–	–	–

Source: Department of Mines

5.5 New Mining Operations and Licenses.

In 2008, Government granted about 200 licenses to prospecting mining companies and individuals.

TABLE 5.5: MINING AND PROSPECTING LICENCES ISSUED IN 2008

Type of License	Number issued	Mineral (s)
Small Scale Operators		
Non-Exclusive Prospecting License	73	Gemstones, ornamental stones
Mining Claim License	35	Gemstone, ornamental stones
Reserved Minerals License	52	Gemstones, ornamental stones
Large-Medium Scale Operators		
Exclusive Prospecting License	32	Uranium, heavy mineral sands, Base metals and platinum group Metals, glass sands.
Mining License	13	Quarry aggregate, heavy mineral sands, limestone, rare earth minerals.
Reconnaissance License	1	Gold

Source: Department of Mines

5.6 Mining Investment Opportunities

5.6.1 In 2008, a number of mineral deposits were pursued through intensive exploration and development work by various international and local companies, in particular heavy mineral sands, uranium, coal, glass sands and limestone.

5.6.2 During the year under review, two projects were at an advanced stage and continue to be the main area of focus among other mining projects. The

Kayerekera Uranium Mine construction project and the pre-feasibility studies being undertaken by Globe Metals and Mining formerly known as Globe Uranium of Australia which have recently discovered huge reserves of niobium, uranium, tantalum and zircon with niobium as primary mineral. This company embarked on a mission to market the minerals and resource upgrade before going for a full bankable feasibility study (BFS) of the project. Production of Uranium at Kayerekera has commenced this year and production by Globe Metals and Mining Company is expected to start in 2011.

TABLE 5.6: MINERAL DEPOSITS, RESERVES AND GRADE

Deposit	Location	Delianation Reserves (Million tonnes/grade)
Bauxite	Mulanje	28.8/43.9% Al_2O_3
Uranium	Kayelekera	12,5/0.15% Ur_3O_8
Monazite/Strontianite	Kangankhunde	
	Karonga/Chitipa	
Corundum	Chimwadzulu-Ntcheu	11.0/8% Sr and 2% REO
Graphic	Katengeza-Dowa	8.0/75.6gm per m^3
Limestone	Malowa Hill-Bwanje	15/48%CaO, 1.2% MgO
	Chenkumbi-Balaka	10/46.1% CaO, 3.5% MgO
Titanium Heavy Mineral Sands	Nkhotakota-Salima	700/5.6% HMS
	Chipoka	
	Mangochi	680/6.0% HMS
	Halala (Lake Chilwa)	15/6.0 % HMS
Vermiculite	Feremu-Mwanza	2.5/4.9% (Med+Fine)
Coal	Mwabvi-Nsanje	4.7/30% ash
	Ngana-Karonga	15/21.2% ash
Phosphate	Tundulu-Phalombe	2.017% P^2O^5
Pyrite	Chisepo-Dowa	34/8% S
	Malingunde-Lilongwe	10/12% S
Glass Sands	Mchinji Dambos	1.6/97% SiO_2
Dimension Stone	Chitipa, Mzimba	Blue, Black, Pink, Green
	Mangochi, Mchinji,Chitipa	Granite
Gemstones	Mzimba, Nsanje, Chitipa	Numerous pegmatites
	Chikwawa, Rumphi, Ntcheu	and volcanics

Source: Geological Surveys Bulletins and Private Companies Mineral Exploration Reports

Chapter 6

SCIENCE AND TECHNOLOGY

6.1 Overview

6.1.1 The Department of Science and Technology continued to facilitate and coordinate development and application of science, technology and innovation in line with the Malawi Growth and Development Strategy (MGDS). The Department implemented a number of activities in order to contribute to government efforts to achieve economic growth and development. For instance, the Department started the process of reviewing the National Science and Technology Policy (2002), completed the drafting of National Intellectual Property Policy, continued to implement the Ethanol Propelled Motor Vehicle Project, promoted several other initiatives in science and technology sector such as mushroom spawn production technology, continued to support the efforts of the Women in Science and Technology Network (WISTNET) and undertook efforts to develop the evidence based Science, Technology and Innovation Indicators.

6.2 Formulation of National Intellectual Property Policy

6.2.1 Malawi recognizes that intellectual property (IP) plays a critical role in wealth creation and, therefore, compliments the efforts of the Government to achieve sustainable economic growth and development. In order for IP to play this role effectively, there is need for Government to put in place a suitable framework that would promote the generation, protection and commercialization of intellectual property as an economic tool for the country's development agenda. The National Intellectual Property Policy provides that framework based on the link between IP and socio-economic development. The Policy gives a broad map that would enable Malawi to revitalize that link and integrate IP into the country's development strategies.

6.2.2 To this effect, the Department of Science and Technology with support from World Intellectual Property Organization (WIPO) has finalized and submitted a draft IP Policy to Cabinet which is expected to be launched later in the year.

6.3 Review of National Science, Technology and Innovation Policy (NSTIP)

6.3.1 The role that Science, Technology and Innovation play in poverty reduction, socio-economic growth and trade competitiveness has been recognized by the Government of Malawi since 1974. In this regard, Government developed the National Science and Technology Policy in 1991 and revised it in 2002. In order to effectively achieve this goal, there is need to revise the policy for a number of reasons. There is need to align NSTP (2002) to the Malawi Growth Development Strategy, conform to the current government policy format and, finally, formulate a clear implementation plan with clear responsibilities of key stakeholders.

6.3.2 In this regard, the Department of Science and Technology with assistance from the United Nations Education, Scientific and Cultural Organization has embarked on the review of National Science and Technology Policy and the Department has formulated a first draft with an implementation plan.

6.4 Ethanol Propelled Motor Vehicle Project

6.4.1 With the immense challenges that the Country faces due to over-reliance on fossil fuels, the Department of Science and Technology continued to conduct research on the use of ethanol as an alternative source of fuel for petrol motor vehicles in Malawi. The overall objective of the project is to contribute to economic development by promoting use of ethanol as an alternative fuel in motor vehicles. Currently, the project is being implemented in cooperation with Lilongwe Technical College (LTC), Press Cane Limited and Ethanol Company of Malawi (ETHCO) Limited through a public private partnership. ETHCO has imported a flexi fuel vehicle from Brazil for conducting experiments and this vehicle uses 100 per cent petrol or 100 per cent ethanol or any mixture of the two in a single tank. Currently, LTC has so far modified about three more sedans to run on ethanol.

6.4.2 On the supply side of Ethanol, Malawi currently produces about 18 million litres of ethanol per year. ETHCO and Press-Cane have a combined potential production capacity of 32 million litres per annum against the required 100 million litres. The production of ethanol is currently facing supply problems in meeting the demand of molasses. However, there are prospects for increased supply of ethanol through expansion of sugarcane fields at Dwangwa, Kasinthula and Nchalo. There are also potential sites where new sugar farms and factories can be established. Estimates indicate that there is need for three more factories of the size of ETHCO and Press-Cane to produce the remaining 68 million litres of ethanol.

6.4.3 Although the project faced a lot of challenges due to delays in procurement of experimental vehicles, a number of road tests on utilization of ethanol on various vehicles have been carried out. Experiments to convert a vehicle from petrol to ethanol propelled one have proven successful and apparently the research results indicate that ethanol use on vehicles is much environmentally friendly and economically feasible when compared to petrol use. It has also been proven that, even when the ethanol propelled vehicle lays idle for more than six months ethanol does not pose corrosion effects to the engine parts. However, the main experiments will be conducted soon after three brand new vehicles are procured by the Government for the project.

6.5 Development of Science and Technology Indicators

6.5.1 Government realizes that Science, Technology and Innovation (STI) indicators are crucial for establishing reliable information system to policy makers and research leaders to assist in making informed decisions. The indicators can be used to monitor global technological trends, conduct foresight exercises and determine specific areas of investment in science and technology in various sectors of the economy.

6.5.2 The Department of Science and Technology of the Republic of South Africa facilitated a national trainer of trainers' course on collection and analysis of STI data. A questionnaire has been developed and data collection exercise is underway nationwide. The survey results are expected by end of July 2009.

6.6 Strengthening of Women in Science and Technology Network (WISTNET)

6.6.1 To enhance the participation of women in Science and Technology in Malawi, the Department is playing a leading role in the establishment of Women Scientist Network (WISTNET). The initiative started in August 2006 and its overall vision and goal is to contribute to socio-economic development of Malawi by promoting the application of science and technology among women and girls through scientific and technological dialogue, capacity building and research.

6.6.2 Since 2006, the network has developed a database of more than 60 women with science and technology (S&T) backgrounds from different institutions across the country. It encourages the sharing and exchanging information on line between women scientists and technologists. There is also a taskforce that works to coordinate the activities of the network and members of this taskforce are working voluntarily to develop strategies for mobilization of financial and technical resources. The Network is expected to be launched this year with financial support from United Nations, Education and Scientific Organization (UNESCO). In preparation for the launch, the Department has also facilitated and supported the formulation of the WISNET Strategic Plan (2009-2014).

6.7 Urea Mineral Animal Licking Blocks

6.7.1 In Malawi, production of beef and Milk has been hampered by lack of quality supplementary animal feed. Therefore, the Department still promotes the utilization of Urea Mineral Licking Blocks (UMBs) in the country particularly in areas with high population of dairy cattle. The UMBs is a feed supplement that provides animals with essential nutrients such as protein, energy and minerals. These are usually deficient in most forages and crop residues. UMBs are important because they improve milk production by almost 6 to 10 per cent. In view of this, the Department in collaboration with the Department of Agricultural Research Services, Land O' Lakes and Shire Highlands Milk Production Association conducted some training for entrepreneurs in production and marketing of UMBs for local use.

6.7.2 During the year, the efforts to promote the utilization of UMBs faced a number of challenges including lack of private or entrepreneurial ownership, slow technology adoption by the end users and lack of start-up capital for new entrants into the business. However, some entrepreneurs have made notable progress and breakthrough in the production and marketing of UMBs.

6.8 Promotion of Mushroom Spawn Production Technology

6.8.1 The demand for mushrooms continues to grow as a result of the nutritional, health and economic benefits that are associated with its consumption and cultivation. However, mushroom production in Malawi is usually low due to insufficient supply of mushroom spawns. A survey conducted by Ministry of Agriculture and Food Security confirmed that Malawi at present produces less than 2,160 litres of mushroom spawns against the requirement of over 65,000 litres per year.

6.8.2 There is need, therefore, to scale up the efforts in order to meet the current demand in the country. The Department of Science and Technology is working collaboratively with a few selected entrepreneurs across the country in order to produce high quality mushroom spawns. If the spawn is produced in the right quantities, it will be supplied for sale in the local communities. Although the Department works with two entrepreneurs based in Lilongwe and Bvumbwe, it plans to expand the coverage to include other entrepreneurs in order to increase production of mushrooms by 2009-10.

6.9 Establishment of the National Commission for Science and Technology

6.9.1 The National Commission for Science and Technology (NCST) has been established as part of operationalization of the Science and Technology Act No. 16 of 2003. This follows the publication of a Gazette Supplement Notice No. 1, dated 20th February, 2009. The main purpose of the NCST is to advise Government and other stakeholders in all science and technology matters in order to achieve a science and technology-led development. The establishment of NCST is a key strategy for enhancing the development and application of science and technology for socio-economic endeavors in all sectors. The NCST will be fully operational by 1st July, 2009.

6.9.2 The Commission has been formed by merging the Department of Science and Technology and National Research Council of Malawi, which will, therefore, cease to exist in their present form.

6.9.3 The Commission shall report to the Minister responsible for Science and Technology. Its composition shall include a Chairman and nine other Commissioners, including a gender expert. These will be appointed from industry, academic, research, development and civil society institutions. There will also be five ex-officio members comprising the Secretaries for Agriculture and Food

Security; Education, Science and Technology; Health; Natural Resources and Environmental Affairs; and Development Planning and cooperation.

6.9.4 The Commission shall be served by a Secretariat headed by a Director General. The Secretariat shall be responsible for implementing the programmes of the Commission and providing technical and administrative backup services to the Commission.

Chapter 7

TRADE AND PRIVATE SECTOR DEVELOPMENT

7.0 Overview

7.0.1 The Ministry of Industry and Trade is mandated to encourage economic development and improvement of life of the people through facilitation of commerce, investments, industry, entrepreneurship and protection of consumers. This year's report, therefore, summarizes performance in trade, industry and private sector development.

7.1 Trade

The focus of the Ministry of Industry and Trade is placed on progressively increasing exports, creating an open, liberal and stable environment that is conducive to trade, integrating Malawi into the regional and international trading system and promoting fair trade within the country.

7.1.1 Trade Performance in 2008

7.1.1.1 The total merchandize exports value is estimated to increase from MK117.7 billion in 2007 to MK144.7 billion in 2008, representing an increase of 23 per cent. Much of the increase in the exports is attributed to non-traditional exports. Despite the progress in exports, imports value is estimated to increase by 25.7 per cent from MK187 billion in 2007 to MK235.2 billion in 2008 (Table 7.1). The sharp increase in import value is attributed to high fuel prices experienced on the international market during the first half of the year under review, which directly translated to high transport cost and increased import values.

TABLE 7.1: EXTERNAL TRADE-VALUE OF EXPORTS AND IMPORTS, 2001-2008 IN MK'MILLION

	2002	2003	2004	2005	2006	2007*	2008**
Total Imports	53,657.0	76,650.1	101,554.7	140,179.2	164,602.5	187,028.9	235,211.0
Total Exports	31,416.9	51,671.9	52,627.3	59,639.5	90,891.5	117,793.6	144,783.0
Trade Balance	-22,240.1	-24,978.2	-48,927.4	-80,539.7	-73,711.0	-69,235.3	-90,428.0

Source: NSO and Ministry of Industry and Trade

*Note:** Revised 2007 data, ** Estimated data for 2008

7.1.1.2 Owing to high prices of fuels and fertilizers on the international market, the overall current account registered an increase in trade deficit of 31 per cent from MK69 billion in 2007 to MK90.4 billion in 2008. Similarly, the trade deficit for 2008 in US dollar terms was estimated at US$617 million in 2008 compared to US$516 million in 2007 (Table 7.2).

TABLE 7.2: EXTERNAL TRADE-VALUE OF EXPORTS AND IMPORTS, 2001-2008 IN US$'MILLION

	2002	2003	2004	2005	2006	2007*	2008**
Total Imports	699.6	787	932.2	1183.7	1268.5	1436.4	1654.5
Total Exports	409.6	530.5	483.1	503.6	709.1	920.4	1036.6
Trade Balance	-290	-256.5	-449.1	-680.1	-559.4	-516	-617.86

Source: NSO and Ministry of Industry and Trade
Note: * Revised 2007 data, ** Estimated data for 2008

7.1.2 **Malawi's Major Trading Partners**

7.1.2.1 Malawi's major trading partners remained the three trading blocks namely: The Southern Africa Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA)[2] and the European Union.

7.1.2.2 The exports to SADC region increased by 20 per cent from MK27.2 billion in 2007 to MK32.6 billion in 2008 while imports increased from MK108.9 billion in 2007 to MK129.2 billion, representing an increase of 18.5 per cent. Similar trend is observed on trade with COMESA countries as exports increased by 5 per cent while imports increased by 25 per cent from 2007 to 2008 as indicated in Table 7.3. Both exports to and imports from the EU declined by 3 per cent and 5 per cent respectively from 2007 to 2008. The trade balance registered a deficit of MK138 billion and MK14 billion with SADC and COMESA respectively. However, trade surplus was registered with EU at MK17.37 billion, down from MK17.34 billion, representing a decline of 0.16 per cent from the previous year values.

TABLE 7.3: MALAWI'S TRADE WITH SADC, COMESA AND EU 2004-2008, MK'MILLION

	2004	2005	2006	2007*	2008**
SADC					
Total Exports	14613.8	16581.3	28459	27166.9	32638.0
Total Imports	58121.7	88597.1	98467	108936	129145
Trade Balance	-43507.9	-72015.8	-70009	-81769.1	-96507
COMESA					
Total Exports	8986.1	8031.9	10513	10704.7	11296.0
Total Imports	10880.3	21006.4	16454	21686.9	27282.2
Trade Balance	-1894.2	-12974.5	-5940.5	-10982.2	-15986.1
EU					
Total Exports	15059.4	20973.3	35082	44567	58067
Total Imports	13326.4	20529.9	24389	27195.7	25841.5
Trade Balance	1733	443.4	10694	17371.3	32225.5

Source: NSO and Ministry of Industry and Trade
Note: * Revised 2007 data, ** Estimated data for 2008

[2] Note that SADC and COMESA are not mutually exclusive and that trade with dual member Countries such as Zambia and Zimbabwe is reconded both under SADC and COMESA

7.1.2.3 South Africa continues to be Malawi's dominant import partner followed by Mozambique and Tanzania within the SADC region. Despite asymmetrical trade agreement, Malawi continues to register a huge trade deficit with South Africa. The trend is similar with neighbouring countries such as Tanzania, Zambia, Mozambique and Zambia. However, Malawi registered a trade surplus with most countries in the EU, including The United Kingdom, Germany, The Netherlands and Poland.

TABLE 7.4: MAIN TRADING PARTNERS IN 2008, MK'MILLIONS

COUNTRY	IMPORTS	DOMESTIC EXPORTS	RE-EXPORT	TRADE BALANCE
South Africa	71,363.1	10,843.7	10,945.3	-49,574.1
UK	9,087.9	9,513.2	5.0	430.3
USA	5,310.3	5,300.0	0.0	-10.3
Germany	2,667.5	4,226.9	0.0	1,559.4
Denmark	4,445.0	253.7	0.0	-4,191.3
Netherlands	3,605.2	5,696.4	0.0	2,091.2
Poland	132.5	4,039.3		3,906.8
Spain	168.2	717.3	0.0	549.1
Australia	204.2	344.7	0.0	140.5
Japan	4,117.2	46.3	0.0	-4,070.9
India	12,359.4	304.7	0.0	-12,054.7
Russia	372.1	1,699.2	0.0	1,327.1
Mozambique	60,377.9	2,682.9	19,232.4	-38,462.6
Egypt	1,540.4	1,403.2	0.0	-137.2
Zimbabwe	4,773.9	2,962.9	70.0	-1,741.0
Zambia	7,657.1	1,848.2	2,501.5	-3,307.4
Kenya	6,971.2	864.5	0.0	-6,106.7
Tanzania	16,239.0	3,514.3	0.9	-12,723.8

Source: NSO and Ministry of Industry and Trade
Note: * Revised 2007 data, ** Estimated data for 2008

7.1.4 Main Export and Import Products

7.1.4.1 Tobacco continue to dominate Malawi's export basket as it constituted 64 per cent of total export values at MK56 billion of total exports in 2008. This was due to good prices offered at the auction floors in the year. However, tobacco prices have been lower than what farmers were expecting this year. This is likely to affect production and export earnings for the year 2009/10. Sugar replaced tea as the second significant export product for Malawi and this accounted for 6.3 per cent of total export compared to 6 per cent of tea in 2008. Cotton exports declined from MK3 billion in 2007 to MK2.1 billion in 2008, reflecting a decrease of 30 per cent. The same applies to apparel and clothing which declined by 38 per cent from MK3.5 billion in 2007 to MK2.1 billion in 2008.[3] This has been attributed to decline in export to the USA under AGOA following the expiration of the Multi-Fibre Agreement (MFA) in 2005. This has exposed exports from

[3] Apparel and clothing includes knitted and crotched as well as not knitted or crotched)

developing countries, including Malawi, to stiff competition on the USA market since exports from both developing and developed countries' face similar conditions. Wood, natural rubber, hides and skins and wooden furniture are the other products that increased export values for Malawi.

TABLE 7.5: MALAWI'S MAJOR EXPORT COMMODITIES, 2004-2008, MK'MILLION

	2001	2002	2003	2004	2005	2006	2007*	2008**
Tobacco	18,363.3	17,893.1	24,191.2	22,303.5	31,621.1	54,810.3	51,729.6	55,964.1
Tea	2,461.0	2,827.8	3,481.5	5,132.5	5,909.9	6,514.9	7,281.7	5,256.9
Sugar	3,975.7	2,684.2	10,571.4	7,881.4	5,408.5	5,191.1	8,277.9	5,537.5
Apparel and Clothing	2,018.0	2,464.2	3,858.1	4,795.5	5,241.6	5,525.2	3,515.4	2,172.7
Cotton	316.6	260.8	483.9	2,224.3	1,847.1	1,832.7	3,062.2	2,147.9
Nuts	368.2	378.1	1,132.0	1,581.0	1,473.0	3,172.5	3,346.8	1,703.2
Pulses	211.3	218.8	494.1	608.3	327.9	617.8	1,814.9	1,195.9
Wood-Sawn and Plied	57.0	62.7	178.6	219.3	413.7	481.2	963.0	1,218.7
Natural Rubber	171.0	152.9	265.8	399.0	248.1	664.9	694.8	898.5
Coffee	451.5	175.6	245.1	217.5	321.3	201.7	514.9	455.5
Spices	78.0	224.0	141.2	170.7	174.0	569.0	190.4	333.9
Hides and Skins	33.9	32.1	31.5	44.0	67.5	113.3	122.4	155.9
Wooden Furniture				-	277.5	435.9	154.9	341.6

Source: NSO and Ministry of Industry and Trade
Note: * Revised 2007 data, ** Estimated data for 2008

7.1.4.2 The supply side constraints continue to hamper the performance of the export sector. Despite the fact that macroeconomic environment has improved for the past five years, the high transportation cost, unreliable supply and high cost of electricity, and limited capacities at enterprise and policy levels continue to undermine the competitiveness of this sector. Malawi still depends on few export commodities and this exposes Malawi to price shocks on the international market. However, Malawi has taken some efforts to diversify the export basket and this has resulted in exporting non-traditional commodities such as spices, macadamia nuts and wooden furniture.

7.1.4.3 In 2008, fertilizer emerged as a major import commodity for Malawi, accounting for 18 per cent of total import value. Hence, the fertilizer import bill increased by 41 per cent from MK26.5 billion in 2007 to MK37.5 billion. This was attributed to increased fertilizer and fuel prices on the international market. The import bill for petrol, diesel, paraffin and other fuels increased by 16 per cent from MK19 billion in 2007 to MK21 billion in 2008. For the third year running, maize did not appear among the top twenty import commodities for Malawi. This follows implementation of sound policies on food security in Malawi.

TABLE 7.6: VALUE OF SELECTED IMPORTS, 2001-2008, MK'MILLIONS

	2004	2005	2006	2007*	2008**
Petroleum	3500.4	3252.1	4206.9	6011.1	6956.9
Paraffin	859.2	1074.7	942.4	1317.1	1461.5
Diesel and other Fuels	5954	6684.5	9404.5	11427.2	13324.3
Fertilizer	6980	13159.4	8550.3	26509.5	37454.2
Coal	221.5	232.8	153.9	119.9	96.7

Source: NSO and Ministry of Industry and Trade
Note: * Revised 2007 data, ** Estimated data for 2008

7.1.5 Trade Agreements

7.1.5.1 In order to benefit from membership of wider market at regional and international level, Malawi continued actively to participate in bilateral and multilateral trade negotiations at both bilateral and multi-lateral levels.

7.1.6 Bilateral and Regional Trade Agreements

7.1.6.1 The Heads of State and Government for SADC, COMESA and Eastern Africa Community (EAC) met in October, 2008, in Uganda and agreed to establish a Free Trade Area among the three Regional Economic Communities (RECs) as a first step towards establishing a wider Customs Union. Through this initiative, the three RECs will harmonize trading arrangements, promote free movement of business persons, undertake joint implementation of inter-regional infrastructure programmes and establish institutional arrangements to foster cooperation among the RECs. A work programme for the preparatory activities has been agreed upon and is being implemented. A memorandum of understanding has been developed to form a basis for the establishment of the FTA.

7.1.6.2 Malawi has an asymmetrical bilateral trade arrangement with South Africa, bilateral trade agreement with Zimbabwe, Mozambique and People' Republic of China, and customs agreement with Botswana. During the period under review, Malawi renegotiated the trade arrangement with South Africa to provide for better terms for Malawi products. Malawi has also secured markets for products such as red beans with Cuba and 400 products, including tobacco with People's Republic of China.

7.1.7 Multilateral Trade Agreements

7.1.7.1 Malawi is yet to initial the Interim EPA. However, Malawi still continues to enjoy preferential market access to the European Union (EU) under Everything But Arms (EBA) Initiative, which is part of the EU Generalized System of Preferences (GSP). Through this Initiative, developing countries enjoy duty and quota-free access to EU for all imports save armaments. Minor variation applies to sugar, banana and rice where quotas are used. However, the EU is set to fully liberalize sugar, banana and rice regimes in 2009, meaning that the preferential treatment given to sugar from Malawi will be eroded. Other major concern to Malawi is the likelihood of withdraw of this arrangement at any time given that the EBA is unilateral in nature. This Initiative does not provide any guaranteed access of products to EU market in the long term. In addition, the EBA has also complex and restrictive Rules of Origin unlike the EPAs which reduce the potential benefits that the EU market offers.

7.1.8 **African Growth and Opportunity Act (AGOA)**

7.1.8.1 Under African Growth and Opportunity Act (AGOA), Malawi is granted preferential access to the United States market for 1,800 product lines duty and quota free in addition to the standard Generalized System of Preferences (GSP). Following the designation as AGOA beneficiary country in 2000, Malawi textiles and apparel exports to US markets increased from US$8.4 million in 2001 to US$ 27.7 million in 2006. However, due to expiry of the Multi-Fibre Agreement (MFA) in 2005, some companies, notably Chirimba Garments in Blantyre and Haps Limited in Lilongwe closed due to the decline of textiles and apparel exports to US markets as a result of the immense competition there. In 2008, apparel and clothing exports under AGOA declined by 94 per cent from US$19.4 million in 2007 to US$11 million. On positive note, Malawi has managed to diversify the export baskets under AGOA to include macadamia nuts.

7.2 **Industrial Performance and Investment Promotion**

7.2.0.1 The industrial development and promotional services centred on accelerating growth of the manufacturing sector and enhancing its competitiveness through assisting and supporting existing industries and intensifying marketing initiatives to attract new investments and expand existing opportunities. In 2008, the manufacturing sector contribution to GDP was at 8.0 per cent compared to 7.8 per cent in 2007. Major contribution came from tobacco, tea and sugar processing. In addition, significant input came from manufacturing of various products such as cement and building materials and consumer goods.

7.2.1 **Investment Promotion**

7.2.1.1 The pipeline projects registered in 2008 are estimated at US$500 million. The source of investments is 36.5 per cent from Asia followed by 21.5 per cent from SADC and 22 per cent from local investments. In terms of the sectoral composition, the bulk of these investments are in manufacturing (36.6 per cent), tourism (17.5 per cent), Agriculture (15 per cent) and mining (15 per cent). The Ministry's challenge is to transform these pipeline projects into operational investments, which have a potential to create 25,908 jobs. The increase in investor response has come about largely due to the stable political and macroeconomic conditions prevailing in the country.

7.2.2 **Investment Projects in the Pipeline**

7.2.2.1 The Ministry facilitated a number of projects which are in the pipeline. These projects are as follows:–

1. MSA Investment Limited project which will produce ethanol, sugar, alcohol and other consumable derivatives. This will employ 20,000 people. The project costs amount to US$220 million;
2. Bwanje Cement Manufacturing project which will employ 1,000 people. The project total budget is US$30 million;
3. Heavy Mineral Sands projects which will employ 200 people. The project total finances will be US$22 million;
4. African Cotton Ginning and Textile Manufacturing project which will employ 500 people. The project total finances amount to US$12 million;
5. Textile Industry project which will employ 300 workers. The project cost will be US$25 million;
6. Biodiesel project which will employ 1,000 workers. The project total finances will be US$100 million;
7. Limphasa Sugar Company which is investing US$60 million into sugar plant in Nkhata Bay and will employ 1,200 people;
8. Eucalyptus Essential Oils plant which will employ 50 people in Chikangawa. The project will cost US$0.5 million;
9. Tobacco cigarette finishing and packaging plant which will employ 100 people in Blantyre. The project investment amounts to US$3 million;
10. Tobacco processing plant in Lilongwe will employ 300 people and total investment cost is estimated to at US$40 million; and
11. The Chinese Owned Malawi Cotton Company which will invest US$25 million in an integrated cotton processing plant and will employ 1,100 people. The company has already provided financial support to over 40,000 farmers to grow cotton in the Balaka area.

7.2.3 **New Manufacturing Industries**

7.2.3.1 A number of manufacturing companies became operational during the period under review and these are as follows:

1. Viphya Furniture Industries which is producing and exporting furniture from Chikangawa and employs 100 workers;
2. Vizara Eco-Timbers Limited which is operating in Nkhata Bay and is producing and exporting timber and employs 110 people; and
3. The Mining of uranium at Kayerekera in Karonga has just started. It is expected that it will export yellow cake to international market and that it will contribute significantly to the economic growth of the country.

7.2.4 **Competition and Consumer Protection**

7.2.4.1 The Ministry of Industry and Trade implemented competition and consumer protection services to encourage competition through prevention of anti-competitive practices and other unfair business practices in the market place. To this effect, the commission analyzed the following mergers and takeovers, which were either approved outright, or approved on condition that certain conditions should be met:

1. Takeover of Baobab Insurance by AON Malawi Limited;
2. Takeover of Clark Cotton Malawi Limited by Cargill Incorporated;
3. Takeover of Telekom Networks Malawi by Malawi Telecommunications Limited;
4. Takeover of Malawi Distilleries Limited by Bottling and Brewing Group Limited;
5. Takeover of SSI Holdings by G4S International; and
6. Takeover of Dulux Malawi Limited by Ergon Investments International Limited.

7.3 **Private Sector Development**

7.3.0.1 During the year under review, the Ministry continued to implement business reforms to enhance performance of the private development sector. Among others, Private Sector Policy and National Investment Policy have been formulated to create an enabling environment for the reforms. Some of the major reforms undertaken are detailed below.

7.3.1 **Streamlined Customs Clearing Procedures for Greenline Clients.**

7.3.1.1 The number of documents required to export and import goods to and from Malawi have been rationalized in collaboration with Malawi Revenue Authority (MRA). Only two documents are mandatory both for exports and imports. Furthermore, a risk-based customs procedure has been established to reduce time taken to clear the goods for those who have built a good reputation with MRA. The MRA is also intending to abolish pre-shipment inspection to certain destinations to improve efficiency of custom procedures with a view to facilitate trade.

7.3.2 **Review of Value Added Tax (VAT)**

7.3.2.1 In response to the business community concerns, VAT was revised downwards from 17.5 per cent to 16.5 per cent making is one of the lowest rates in the SADC region. It is expected that this will reduce tax burden and improve cash flow position of business community thereby spurring private sector growth and development.

7.3.3 **Establishment of the Commercial Court**

7.3.3.1 The government of Malawi introduced the Commercial Division of the High Court during the period under review to expedite hearing and determinations of commercial cases. The introduction of the commercial court has seen a considerable reduction in the number of days it takes to settle a commercial dispute from an average of 337 days in 1997 to an average of 120 days by January 2009.

7.3.4 **Promotion of Small and Medium Enterprises (SMEs)**

7.3.4.1 The Small and Medium Enterprises (SMEs) are defined by the number of employees and turnover. Micro enterprises are those with 1 to 4 employees and turnover of up to K120,000.00. Small enterprises are those with 5 to 20 employees with turnover of K120 thousand to K4 million. Lastly, medium enterprises are those with 21 to 100 employees and turnover of K4 million to K10 million turnover while anything above is considered large scale.

7.3.4.2 The Ministry has been promoting SMEs to facilitate employment at lower level. Despite accounting for the majority of all business establishments and employment creation, SMEs contribution to value added output of the country is very low. SMEs continue to face challenges in production, access to viable markets and access to financing. The Ministry of Industry and Trade's focus for SME development is to support the development of highly competitive and resilient SMEs to enhance their contribution to the economy.

7.3.5 **SMEs Capacity Building**

7.3.5.1 The Ministry of Industry and Trade spearheaded the operationalization of a programme for supporting Small and Medium Enterprises (SMEs). The programme is being implemented subsequent to a memorandum of understanding (MoU) that the Malawi Government signed with the United States Africa Development Foundation (USADF). Through this programme, SMEs will access funds (grants) for enhancement of competitiveness and profitability and also increase their participation in export trade and investment relationships. Within few weeks of its inception, a Cassava producers group from Domasi in Zomba District has already benefitted from the programme through a grant of K13.9 million. This grant will carter for training in value addition and investment into product diversification which is expected to increase income of the group. The programme is expected to disburse US$1.5 million to small scale producers and SMEs over a period of 5 years.

7.3.5.2 The United Nations Development Programme (UNDP) is financing a project, jointly implemented by the Ministry of Industry and Trade, Malawi Investment Promotion Agency (MIPA) and Bankers Association of Malawi (BAM). The underlying aim of the project is to strengthen SMEs by focusing on various ways of addressing the micro and inherent factors hindering the growth and development of Malawian SMEs. Implementation of the project started and activities are expected to be completed within a two year period. UNDP provided funds amounting to US$600,000 for the project.

7.3.6 **Promotion of Rural Micro-enterprises**

7.3.6.1 The Ministry of Industry and Trade promotes rural economic empowerment by supporting the development of non-timber forestry based enterprises in the rural areas. The main subsectors supported are beekeeping and mushroom production. The Ministry financed training and procurement of start-up equipment to 133 mushroom producers in Kasungu and Rumphi districts. While utilizing their initial production capacity, the groups are able to produce mushrooms worth K378,000.00. The Ministry also financed delivery of beekeeping training and purchase of beehives and ancillary beekeeping equipment to over 100 entrepreneurs in Phalombe District. With the yearly output of 40 kg per hive, the 400 beehives procured are expected to produce honey worth in excess of K8 million per year for the producers.

7.3.7 **Cooperatives Development**

7.3.7.1 In Malawi, cooperatives are established to create employment and increase income distribution for both rural and urban communities. They are also aimed at improving social and economic lives of the rural masses through provision of market access and development of products. These cooperatives are basically divided into agricultural and financial cooperatives. During the year under review, the number of cooperatives in agriculture grew by 41 per cent while the financial cooperatives grew by 14 per cent.

7.3.7.2 The Ministry also facilitated linkages between cooperatives and prospective buyers. In this respect, 35 cooperatives were linked to markets while about 150 cooperatives were granted agricultural loans in the form of farm inputs to their members, thereby enhancing food security.

7.3.7.3 By December 2008, SACCOS countrywide had mobilized the sum of MK1.9 billion of savings, of which MK1.7 billion of loans were distributed to the members while Community Savings and Investment Promotion (COMSIP) Cooperatives issued out loans amounting to MK55.4 million to its members during 2008/09 fiscal year.

7.3.7.4 Agricultural cooperatives are playing a significant role in economic development through dairy, horticulture farming and beekeeping. In the next financial year, the Ministry will focus on enhancing the sustainability of the newly registered cooperatives by ensuring that each cooperative practices financial sound management including proper record keeping. This will require close monitoring of cooperative operations through inspections and periodic submission of reports.

Chapter 8

THE ENERGY SECTOR

8.1 Overview

8.1.1 This chapter reviews the performance of the energy sector in the economy during the 2008/09 financial year. In particular, performance in the electricity, petroleum, coal and biomass sub-sectors and various renewable energy programmes have been examined. Issues of energy sector reforms and energy planning using modern tools to improve technical and economic performance of energy supply industries, implementation of the Rural Electrification Programme and the Promotion of Alternative Energy Sources Project were the priorities for the energy sector.

8.2 Energy Sector Reforms

8.2.1 On 28th December 2007, 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) was *gazetted*. The gazetting of the four Acts automatically led to the establishment of Malawi Energy Regulatory Authority (MERA). The gazetting of the Energy Framework Law leads to automatic repeal of the Electricity Act (1998); the Petroleum Control Commission Act (1996); and the Petroleum (Storage) Act (1951). This meant that during the 2008/09 financial year the Department of Energy Affairs (DoEA) continued to assist MERA to get properly established. MERA is now fully operational and has recruited almost all its key personnel. To complete the legal framework for the energy sector, the DoEA will undertake to formulate the Coal Bill and the Renewable Energy Bill. It is envisaged that work on the drafting of the bills will be done during the 2009/10 financial year.

8.2.2 The next step in the policy implementation process is the formulation and implementation of reform strategies for the various sub-sectors in the energy industry, including electricity, liquid fuels and gas, biomass, coal and renewable energy technologies. So far, the DoEA has formulated reform strategies for the electricity, liquid fuels and gas, renewable energy and rural electrification sub-sectors most of which await publication. Formulation of the Biomass Energy Strategy was completed in the 2008/2009 financial year.

8.3 Energy Planning with Support from International Atomic Energy Agency (IAEA)

8.3.1 Being a member of IAEA, Malawi was required to prepare a Country Programme Framework under the Technical Cooperation Programme to establish national capacity for effective and robust energy planning. The Technical Cooperation Programme activities in Malawi are focusing on strengthening national capability for energy planning.

8.3.2 The activities are aimed at (i) enhancing the national capacity in planning a sustainable energy development strategy by equipping the professionals with suitable analytical tools and ability to create and maintain energy databases, thereby strengthening interaction between various institutions, and (ii) conducting planning studies for preparing national energy plan for future energy demand projections and long-term national energy supply plan which reflect a least-cost energy system.

8.3.3 The approach and methods proposed for these activities include national and regional trainings on energy balance compilation using two IAEA tools called Model for the Analysis of Energy Demand (MAED) designed to assess energy demand analysis and projection; and Model for Energy Supply System Alternatives and their General Environment (MESSAGE) which develops energy supply optimization by calculating a cheapest feasible energy investment plan to satisfy the given energy demand.

8.3.4 There is a working team comprising officers from different institutions who have been officially nominated by their institutions as permanent team members. The Department of Energy Affairs is the secretariat responsible for the overall planning and implementation of the activities. For effective implementation of the activities, the following structures have been established:

(*a*) National Steering Committee, which gives guidance and supervision to the Working Team in the conduct of energy studies;

(*b*) National Coordinator, responsible for planning and implementation of the activities;

(*c*) Working Team, responsible for conducting the actual study including data collection on regular basis; and

(*d*) IAEA's Technical Officer & Programme Management Officer, responsible for taking care of the managerial issues and official communications between the IAEA and the secretariat.

8.3.5 So far, twenty five (25) Core Working Team members have undergone training in energy demand assessment using the MAED Model and this was facilitated by an IAEA Expert from Sudan. More training sessions have been planned for the 2009/2010 financial year.

8.3 **Electricity**

8.3.1 In 2008/09 financial year, ESCOM sold 1,218.59 GWh of electricity compared to 1,109.52 GWh in the previous year, reflecting a 9.83 per cent increase in units sold. The number of registered consumers, however, grew by 4.98 per cent from 164,795 in 2007 to 173,000 in 2008. The installed capacity for the interconnected system during the period under review was 285MW of which 265MW was available and 1543GWh energy was generated (Table 8.1).

TABLE 8.1: ELECTRICITY GENERATION AND CONSUMPTION (2001-2008)

YEAR	2003	2004	2005	2006	2007	2008
Installed Hydro Capacity (MW)	284.5	284.6	284.5	284.5	285	285
Maximum Demand (MW)	212.3	212.5	232	241.7	251	259.67
Energy generation (GWh)	1,177.4	1,179.3	1,703	1,390.8	1453	1543
Number of Consumers	120,172	128,396	155,589	163,147	164,795	172924
Consumption Domestic (GWh)	304	308	377	417.3	437.54	456.63
General (GWh)	146	149	180	185.3	196.49	218.16
Power Demand (GWh)	480.6	483.4	491	503.3	-	521.9
Export (GWh)	6.5	6.5	7	10.6	17.4	21.93
Total Consumption GWh)	937.6	992.8	1055	1,076.5	1,109.52	1218.59

Source: ESCOM

8.4 Demand Analysis and Planned Projects

8.4.1 According to the Base Scenario of the Power Demand Forecast carried out in August 2008, generation requirements are expected to increase to 408MW in 2010 and 829MW in 2020 respectively. Growth rates are generally higher in the second decade due to higher long-term economic growth rates. *See* Table 8.2 below:

TABLE 8.2: FORECAST ENERGY AND POWER DEMAND

	Energy and Power				Average growth rate (% p.a.)		
	2008	2010	2015	2020	2008-2010	2010-2020	2008-2020
Domestic (GWh)	456.63	548.86	827.77	1170.40	8.04	8.10	7.91
General (GWh)	218.16	266.32	409.63	563.60	10.36	7.60	8.19
Small Power (GWh)	226.87	271.50	402.60	566.24	8.01	7.53	7.58
Large Power (GWh)	295.03	364.00	576.07	827.33	6.98	8.84	8.20
Export (GWh)	21.93	33.24	53.54	86.22	27.23	10.00	13.98
Total Sales (GWh)	1218.6	1483.9	2269.6	3213.8	8.4	8.0	8.1
Works units (GWh)	6.3	6.8	10.9	16.1	8.3	8.2	8.1
Losses (GWh)	325	315	189.81	268.77	5.36	6.30	6.29
Generation (GWh)	1543	1662.39	2712.86	3842.05	7.96	7.88	7.85
Peak Load (MW)	242	317.82	474.52	671.93	8.62	7.91	7.97
Step Loads(MW)	4.15	25.6	37.1	37.1	187	7	32
Reserve Margin(MW)	29	37	55	75	10	10	10
Generation Requirements(MW)	324	408	603	829	12.13	7.52	8.00

Source: ESCOM

8.4.2 As shown above, power consumption by domestic, general and small power consumers was significant with highest growth rates of 8.04 per cent, 10.36 per cent and 8.01 per cent, respectively, in the period 2008-2010. This is explained by very high GDP growth rates used as proxies for the income levels of these consumer categories. Coupled with this is the very high income elasticity of demand, which for the general category stands at 1.4.

8.4.3 Some impetus in electricity demand will emanate from continued expansion of mining, irrigation and telecommunications activities owing to the prioritization of the mining sector, food security and popularity of mobile phones, and a modest expansion in government spending. Inter-tariff subsidies and the on-going tax reforms will increase disposable incomes of the domestic/general sector, which should result into higher appliance ownership, thereby increasing electricity consumption.

8.4.4 The power demand forecast shows that with the present total installed capacity of 285MW, ESCOM is currently not able to meet demand and the reserve margin. With the projected peak demand of 408MW, 603MW and 829MW for years 2010, 2015 and 2020, respectively, the generation capacity of the country needs to be increased accordingly in order to meet the projected demand and the reserve margin.

8.4.5 In order to meet the projected demand, Government financed the implementation of Kapichira Hydro Power Project Phase II. Efforts to increase the generation capacity from other rivers other than Shire River are also at an advanced stage. This involves the conduct of the feasibility study for hydropower generation at Lower Fufu on South Rukuru River in Rumphi District. This will be done with financial support from African Development Bank (AfDB) and a request for financial resources was submitted to the Bank. Furthermore, plans are at an advanced stage to interconnect the power system in Malawi to that of the Southern African Power Pool (SAPP) Grid to allow Malawi to participate in power trade in the region.

8.4.6 ESCOM has completed the rehabilitation of Tedzani I Hydro Power Station (20MW) to improve generation capacity. Rehabilitation of Tedzani II Hydro Power Station (20MW) is underway and is expected to be completed by July, 2009.

8.4.7 In addition, ESCOM has embarked on projects to improve quality and security of power supply through major maintenance of the transmission and distribution network. Amongst the projects included are: Distribution Rehabilitation throughout the country and the reinforcement of a transmission line at 132 kV from Chintheche in Nkhatabay through Luwinga in Mzuzu to Bwengu in Rumphi District. There are also plans to construct a new 220kV line from Phombeya in Balaka through Lilongwe and Kasungu to Bwengu to supply the growing demand for electricity in the central and northern regions. The new transmission line will also be used to evacuate power from the planned 100MW hydropower station at Lower Fufu in Rumphi District and 150MW Songwe River Hydro Power Station in Karonga.

8.5 Electricity Tariff Developments

8.5.1 A tariff study for ESCOM was commissioned in 2003 and the final report was presented to Government in July 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 that were determined are based on long run marginal cost (LRMC), ESCOM's revenue requirements and national social objectives.

8.5.2 Since there were delays in implementing the tariff study, ESCOM reviewed the tariff study and modified some of the recommendations to take into account new requirements. Following this review, ESCOM has applied to MERA to adjust the tariff increase by 54.1 per cent. This will be gradually implemented in a phased manner for a period of four years.

8.6 Malawi Rural Electrification Programme (MAREP)

8.6.1 Malawi Rural Electrification Programme (MAREP) started way back in 1980 with ESCOM as the implementing agency through donor and own financing. Later on, Government took over the implementation of the programme in 1995 and DoEA was appointed as the implementing agent. The programme is executed in Phases. In this respect, five phases have been implemented which involved extending power transmission and distribution lines to district administration centres, major trading centres, tobacco growing areas, and development of the 4.5 Mega Watt Wovwe Hydro Power Plant.

8.6.2 Objectives of MAREP

8.6.2.1 The objective of MAREP is to increase access to electricity by people in peri-urban and rural areas as part of Government's effort to reduce poverty, transform rural economies, improve productivity and improve the quality of social services.

8.6.3 MAREP Phase V

8.6.3.1 Implementation of MAREP Phase V started in November 2007 and was expected to be completed in October 2008. However, due to other bottlenecks, it was completed in March 2009. MAREP Phase V electrified 27 trading centres across the country (Table 4). The total implementation cost for MAREP Phase V was MK899 million.

8.6.3.2 The funding MAREP Phase V came from the Government, amounting to MK84 million in the 2006/07 Development Budget; the Energy Fund amounting to MK404 million from fuel levy; MERA amounting to MK215 million from MERA establishment fund; and the Japanese Government, MK196 million through the Japanese Non-Project Counter Value funds.

8.6.4 MAREP Phase VI

8.6.4.1 The Government of Malawi is currently planning the implementation of MAREP Phase VI and this will electrify 54 trading centres, two in each district except Likoma District, which is fully electrified. Basic Design for Phase VI has been completed and Detailed Design is underway. It is planned that procurement of materials will start by end of July, 2009 and implementation will commence in September 2009. A capacity building component of the MAREP is financed by the Japanese International Co-operation Agency (JICA) as part of its bilateral development assistance to the Government of Malawi.

TABLE 8.3: MAREP PHASE VI TARGETED TRADING CENTRES

Region	District	Trading centre
North	Chitipa	Nthalire
	Karonga	Hara
	Rumphi	Chitimba
	Nkhatabay	Sanga
	Mzimba	Edingeni
Centre	Nkhotakota	Dwambazi
	Lilongwe	Nyanja
	Mchinji	Chiosya
	Salima	Chilambula
	Dowa	Thambwe
	Kasungu	Chamama
	Dedza	Golomoti
	Ntcheu	Ntonda
	Ntchisi	Khuwi
South	Neno	Matope
	Mwanza	Tulonkhondo
	Balaka	Chiyendausiku
	Machinga	Chikweo
	Mangochi	Makanjira
	Thyolo	Nansadi
	Zomba	Jenala
	Mulanje	Namphungo
	Chiladzulu	Kanje
	Blantyre	Mombo
	Nsanje	Mankhokwe
	Phalombe	Phaloni
	Chikwawa	Livunzu

Source: Department of Energy

8.7 **Community Solar/Wind Hybrid Electrification Project**

8.7.1 The Department, through MAREP is implementing pilot Village Electrification Projects using Solar-Wind (Hybrid) Systems. The main thrust of this project is to experiment on the suitability of stand-alone renewable energy technologies for rural electrification in order to increase access to modern energy services by the rural communities. This is expected to transform the rural communities which are far from the national grid.

8.7.2 Phase I started in 2007/08 financial year when the electrification of three villages, one in each of the three regions of the country was undertaken. The villages electrified under Phase I are Kadzuwa in Thyolo (Southern Region), Chigunda in Nkhotakota (Central Region) and Elunyeni in Mzimba (Northern Region). Phase I targeted 450 households, 150 in each village. The project was implemented at a cost of MK150 million and this was funded by the Government. The project has since been handed over to ESCOM for operation and maintenance.

8.7.3 In the 2008/09, the Department started implementing Phase II of the project and is in the process of electrifying Chitawo Village in Chiradzulu (Southern Region), Kadambwe Village in Ntcheu (Central Region) and Mdyaka Village in Nkhata bay (Northern Region). In all these villages progress of implementation is at advanced stage, and estimated to be completed by mid of this year.

8.8 **Community Solar/Wind Hybrid Project Concept**

8.8.1 The project concept is to electrify a village using a centralized Solar-Wind Hybrid System (60 per cent solar and 40 per cent wind) with estimated system capacity of 25 kW. The generated electricity is meant for provision of the following services to the village:

(*a*) Domestic and street lighting;
(*b*) Running electrical domestic appliances; and
(*c*) Running refrigerators at the trading centre of the village.

8.8.2 The area coverage of the village should be between 2 and 3 km radius with about 150 households each, including institutional (government) facilities such as staff houses, schools and clinics. Each house should have five lighting points.

8.9 **Petroleum**

8.9.1 The imports of petroleum products increased by 15.75 per cent in 2008 from the levels recorded in 2007. The importation of petrol and diesel increased by 12.8 per cent and 19.23 per cent to 103 million litres and 199.25 million litres, respectively, while imports of paraffin registered a decrease of 1.62 per cent to 17.96 million litres (Table 8.4). The decrease in paraffin imports is largely due to the scarcity of paraffin of the required standard 38° flash point. Intermittent supply of paraffin due to contamination also contributed to the decrease in paraffin imports.

TABLE 8.4: FUEL IMPORTS (LITRES) 2003–2008

Year	Petrol	Diesel	Jet a-1	Paraffin	Avgas	Total
2003	92,976,658	136,408,597	11,911,286	23,652,991	213,898	253,038.246
2004	94,186,321	147,922,241	10,862,036	24,762,093	284,286	266,870,655
2005	84,023,978	152,664,646	9,267,805	21,838,787	235,537	258,527,411
2006	88,330,024	153,235,938	11,764,101	20,310,207	224,682	259,158,172
2007	91,289,689	167,120,445	-	18,232,957	-	276,643,091
2008	103,003,788	199,251,252	-	17,957,471	-	320,212,511

Source: Malawi Energy Regulatory Authority (MERA)

8.9.2 Supply of fuel remained steady except for paraffin. The supply of paraffin had improved later as a result of decreasing the flash point from 430 to 380. The revision of the flash point was necessary because paraffin of 430 was scarce on the international market. In procuring fuel, Malawi capitalized on the Beira, Dar-es-Salaam and Mbeya routes. However, there was large increase in the fuel off-take from the Nacala Route due to improvements in fuel handling facilities, making the route attractive. About 67.02 per cent, 17.68 per cent 8.84 per cent and 6.46 per cent of total fuel imports came through Beira, Dar-es-Salaam, Mbeya and Nacala routes, respectively.

TABLE 8.5: MALAWI FUEL IMPORTS PER ROUTE 2003 - 2008

			ROUTES			
Year	Beira	Nacala	Dar-es-Salaam	Mbeya	Gweru	Total
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
2006	88,508,579	2,717,997	53,336,864	14,594,732	-	59,158,172
2007	197,009,678	1,164,019	60,113,735	18,355,659	-	276,643,091
2008	214,596,975	20,687,513	56,618,685	28,309,338	-	320,212,511

Source: Malawi Energy Regulatory Authority (MERA)

8.10 Petroleum Pricing

8.10.1 Since the establishment of MERA in December 2007, all energy pricing activities are handled by Energy Pricing Committee of MERA as per the requirement in the Energy Laws. For Petroleum Pricing, the Automatic Pricing introduced in 2000 continues to be the main principle behind fuel pricing. This system links pump prices to procurement costs and exchange rate movements with a +5% 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 Malawi Kwacha against the US Dollar. On a number of occasions, Government has suspended the principles of automatic pricing and opted to manage the price structure in a way that minimizes the impact of the fuel price increase on the economy as well as to recover import losses due to the loss in value of the Malawi Kwacha against the US Dollar and the high prices of fuel at the international market.

8.10.2 The following were pump price revisions of fuel for the period from September, 2006 to February, 2008. It is worth noting therefore, that the last revision of pump price was implemented on in February, 2008.

TABLE 8.6: PUMP PRICE REVISIONS IN FROM 2006-2009 (MK/LITRE)

Product	Sept.-2006	Sept.-2007	Jan. 2008	June 2008	Feb. 2009
Petrol	160.80	200.90	200.90	251.20	213.50
Diesel	154.50	186.61	187.60	234.50	199.30
Paraffin	125.90	140.0	132.20	165.30	132.20

Source: Malawi Energy Regulatory Authority (MERA)

8.11 Oil Pipeline

8.11.1 The Government is intending to increase the country's storage capacity by acquiring, establishing and maintaining inland and costal strategic fuel reserves equivalent to 60 days consumption. The existing storage capacity is around 25 days, but only 12 days actual volume is stored due to financial implications of holding large volumes. This is by far below the recommended storage capacity of 90 days for land-locked countries like Malawi according to the World Bank, International Atomic Energy Agency and Southern African Development Community.

8.11.2 The objective of the Oil Pipeline Project is to import four refined products namely petrol, diesel, paraffin and Avgas through the existing Beira terminal, store the products in new storage tanks at Beira (built by this project), and pump the products through a new pipeline from Beira to a new distribution terminal at Nsanje Port. The Nsanje terminal will include storage tanks, tank truck loading facilities and rail tank car loading facilities for distribution to points of use in the country. The total length of the pipeline route is estimated at 398 km with a design flow rate of 1,781 m^3 per day. The optimum size for pipeline is a nominal 8 inch with a wall thickness of 0.25 inch. The total volumes to be transported annually are estimated at 487,509 m^3 which translates into 1,336 m^3 per day. The capital cost for the project is estimated at US$138,749,046. The project will take approximately 3 years from initiation to delivery of first product at Nsanje Port terminal.

8.11.3 In 2007, Vanessa Petroleum of Qatar, through Worley Parsons conducted a feasibility study of the project which has since been completed and a report was submitted to government in 2008 for further action. The report indicates that the project is viable. The Beira-Nsanje route is envisaged to be the least expensive and most reliable with a number of economic benefits as compared to the Dar-es-Salaam, Mbeya and Nacala routes.

8.12 **Clean Fuels Initiatives**

8.12.1 The Ministry of Energy and Mines, through DoEA, has been working with the Malawi Bureau of Standards (MBS) to come up with Bio-fuels Standards. UNEP and UNDP provided resources for the development of these standards. Draft standards have been produced and are waiting for approval by the Standards Board. This development will assist a number of prospective investors in bio-fuels. The interested investors include Bio Energy Resources Limited (BERL), Total Malawi Limited and D1 Oils. These are interested to produce bio-diesel from Jatropha plant by engaging small-scale farmers to cultivate the plant as a source of income. D1 Oils has a Jatropha Plantation in Balaka District. Total Malawi Limited has plans to stock bio-fuels in its service stations across the country.

8.13 **Coal**

8.13.1 Mchenga Coal Mine continues to be the main coal mine in the country. The other mines are Kaziwiziwi and Jalawe in Rumphi District. Due to transportation costs and other factors, some industries, especially those located in the southern part of the country continue to import their coal requirements from neighbouring countries.

8.13.2 Industries such as sugar, brewing, textile, ethanol, cement, tea and tobacco as well as other large public institutions such as prisons and hospitals are the main users of Malawi coal. Due to a number of reasons, including unavailability of appropriate cooking devices; lack of proper information on use of coal as an alternative domestic energy source; and the cost of coal compared to firewood and charcoal, coal is not used as a domestic fuel. Current production of coal is about 50 per cent of the national demand which is about 120,000 metric tons per annum.

8.14 **Promotion of Alternative Energy Sources Project (PAESP)**

8.14.1 The Promotion of Alternative Energy Sources Project (PAESP) was launched in January 2007 with a goal to significantly increase the country's reliance on non-traditional fuels for cooking and heating, thereby improving the state of the country's environment. The immediate objective of PAESP is to promote the utilization of various market ready viable alternative energy sources (AES) to substitute firewood and charcoal as preferred fuels for cooking and heating in order to reduce deforestation in the long run. The project is being implemented by the DoEA in collaboration with other Government departments and private sector institutions. Thirteen (13) AES were identified for promotion under PAESP as shown in Table 8.7.

TABLE 8.7: SELECTED ALTERNATIVE ENERGY SOURCES

ENERGY TYPE	ENERGY SOURCE
Biomass Based Fuels	Biomass Briquettes
Coal	Coal (Household) Stoves
Gas Based Fuels	Liquefied Petroleum Gas
.. ..	Bio-Gas [Methane]
Ethanol Based Fuels	Gel-Fuel
.. ..	Super Blu 80-Nol
.. ..	Ethanol for cooking and heating
Petroleum Based Fuels	Paraffin stoves
Electric Energy	
Distribution	New Connections
.. ..	Ready Boards
Generation	Wind Power Generation
Solar	Photo-voltaic
.. ..	Solar Thermal [Water Heating]
Biomass Conservation	Rocket Firewood Stoves

Source: DoEA

8.14.2 PAESP is currently concentrating on promotion of four viable and market-ready technologies namely biomass briquettes, liquefied petroleum gas (LPG), paraffin and ethanol in the cities of Lilongwe, Blantyre, Zomba and Mzuzu. At the moment, the project is being funded by Government. However, there is need for donor support to scale up activities of the project.

8.15 PAESP Activities in 2008/2009

8.15.1 Trainings in Biomass Briquette Production

8.15.1.1 PAESP identified, trained and engaged approximately 400 biomass briquette producers in Lilongwe, Blantyre, Zomba and Mzuzu. To date, 20 briquette production centres have been established, that is, 8 centres in Lilongwe, 5 centres in Blantyre, 3 centres in Zomba and 4 centres in Mzuzu.

TABLE 8.8: CITIES AND BIOMASS BRIQUETTE PRODUCTION CENTRES

Lilongwe	Blantyre	Zomba	Mzuzu
Area 23	Angelo goveya	Mpondabwino	Chiwavi
Area 25	Chigumula	Sadzi	Chiputula
Area 44	Chilomoni	Seveni Mayilosi	Mchengautuwa
Area 49	Ndirande		Nkholongo
Baghdad	Zingwangwa		
Lilongwe Natural Sanctuary			
Senti			
Kaliyeka			

Source: DoEA

8.15.2 On average, each centre produces about 1000 briquettes in a week which translates to a total of 20,000 briquettes produced in a week in all the cities. PAESP procured 40 pressers from MIRTDC for trainings in briquette production.

8.16 Trainings in Briquette Stove and Liner Production

8.16.1 Approximately 100 individuals have been identified and trained in briquette stove production in Blantyre, Zomba, Lilongwe and Mzuzu. A total of 21 stove production centres have been established, that is, 5 centres in Lilongwe, 9 centres in Blantyre, 4 centres in Zomba, and 3 centres in Mzuzu.

TABLE 8.9: BRIQUETTE STOVE PRODUCERS IN THE MAJOR CITIES

City	Stove Production Centre	Number of Stove Producers	Stoves Produced to date
Lilongwe	Chigwirizano	6	150
	Likuni	5	150
	Kawale 1	3	150
	Area 25	4	150
	Senti	5	150
Blantyre	Bangwe	6	160
	Chigumula	2	160
	Chilomoni	3	160
	Chimwankhunda	6	160
	Machinjiri	3	160
	Mbayani	6	160
	Lunzu	4	160
	Ndirande	8	160
	Zingwangwa	12	160
Zomba	Mpondabwino	9	150
	Sadzi	7	150
	Seveni mayilosi	6	150
	Zomba Market	7	150
Mzuzu	Ekwendeni	7	130
	Mchengautuwa	6	120
	Nkholongo	4	120
Total	**21**	**119**	**3,310**

Source: DoEA

8.16.2 To date, the centres have produced approximately a total of 3,310 briquette stoves. PAESP also identified, trained and engaged approximately 230 women ceramic liner producers in the cities of Blantyre, Zomba, Lilongwe and Mzuzu. The producers are at Kunthembwe in Blantyre; Nkhoma in Lilongwe; Seveni mayilosi, Mbwana, Naisi and Sadzi in Zomba; and Ekwendeni, Nkholongo and Mchengautuwa in Mzuzu. To date, approximately 15,000 ceramic liners have been produced. The producers are selling the liners to stove producers at a cost of K100 per liner as an income generating activity (IGA) to the women groups.

TABLE 8.10: CERAMIC LINER PRODUCTION CENTRES

City	Ceramic liner Production Centre	Number of liner Producers	Liners Produced to date
Lilongwe	Nkhoma	75	3145
Blantyre	Kunthembwe	43	6320
Zomba	Mbwana	15	1530
	Naisi	14	2060
	Sadzi	3	400
	Seveni Mayilosi	8	890
Mzuzu	Ekwendeni	20	100
	Nkholongo	24	400
	Mchengautuwa	27	50
Total	**9**	**229**	**14,895**

Source: DoEA

8.17 **Involvement of the private Sector in PAESP**

8.17.1 PAESP has taken on board the private sector in the promotion of other market ready AES. There a number of companies that have openly committed themselves to supporting Government's efforts in promoting AES and the technologies. These are as are shown in Table 8.11 below;

TABLE 8.11: COMPANIES PARTICIPATING IN PROMOTING AES

Company	Technology
AFROX Malawi Ltd ..	LPG
Total Malawi Ltd	LPG and Paraffin
Far Distribution	Paraffin stoves
Innscor Distribution ..	Ethanol stoves
Reudi Trading	Ethanol and Paraffin stoves
PTC	Importation and marketing of any viable AES
Shoprite	Importation and marketing of any viable AES

Source: DoEA

8.18 **Programme for Biomass Energy Conservation (ProBEC)**

8.18.1 This is a SADC regional programme aimed at enhancing capacities and commitments of governments and development institutions to plan and integrate biomass energy conservation programmes. The project is being funded by the European Union and GTZ. The programme contributes to the improvement of quality of life for the poor rural and urban populations by enabling them to fulfill their energy needs in a socially and environmentally sustainable manner.

8.18.2 During 2008/09 financial year, the concept of the rocket stove was applied to develop an energy saving furnace for curing tobacco. After developing the concept, focus was on promoting the use of this rocket stove concept for curing Flue Cured Tobacco. Fuel saving stoves at household and institutional cooking in schools and restaurants were also promoted under the programme. ProBEC has trained NGOs and groups of women in Mulanje, Phalombe, Thyolo, Blantyre, Zomba, Machinga, Dedza, Ntcheu, Salima and Nkhotakota Districts. Eighty groups of women are now producing and selling energy saving clay stoves. Alliance One Tobacco Company has since adopted the rocket stove for tobacco curing by all smallholder farmers under contract farming.

8.19 New and Renewable Sources of Energy

8.19.1 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 the Government of Malawi. Solar PV systems provide a lower cost solution to satisfy basic electricity needs of the rural communities. Electricity needs include, lighting homes and schools, refrigerating supplies and supporting productive businesses, thereby helping improve rural peoples education, create employment opportunities and improve quality of life. As part of the NSREP process, a project to remove barriers on renewable energy in Malawi known as BARREM was funded by GEF and it assisted to create a critical mass of solar users in Malawi. Started in 2003, the project officially came to an end in February 2008. Notable achievements during the period under review are outlined below:–

1. Increased number of certified companies from 6 to 30. Most of these companies are solar PV installers and suppliers;
2. Installation of Solar PV systems for lighting, refrigeration, radio communication and water pumping in more than 50 health clinics and Community Day Secondary Schools across the country;
3. Removal of surtax and duty on import duty on RETs for certified companies;
4. Trough BARREM, the programme has established a Test and Training Centre for Renewable Energy Technologies (TCRET) and introduced a degree programme in renewable energy at Mzuzu University;
5. Development of Standards and Codes of Practice for solar PV, solar thermal, solar-wind hybrid, and solar water pumping technologies. This was done in collaboration with MBS;
6. Managed to reach a critical mass in public awareness of the efficacy of solar PV technologies and services;

7. The National Bank of Malawi is now disbursing its own funds under the Term Loan Scheme to potential purchasers of solar PV systems; and
8. Installation of solar-powered flue-cured tobacco fans. This was done in collaboration with the Agricultural Research and Extension Trust (ARET). The fans will contribute towards reducing use of firewood for curing tobacco thus preserving our environment.

Chapter 9

TOURISM, WILDLIFE AND CULTURE

9.1 Overview

9.1.1 Tourism industry in Malawi has great potential to become the main foreign exchange earner and is capable of making a substantial contribution to the country's economic and social development. For instance in 2007, the sector grew by 12 per cent, outpacing the World's average growth rate of 5 per cent and Africa's average growth of 7 per cent. This Chapter, therefore, gives an account on what the sector has achieved over the period under review, 2008/09 financial year.

9.2 International Visitors to Malawi in 2007/08

9.2.1 There was remarkable growth in tourist arrivals in 2007. Tourist arrivals in Malawi increased by 15 per cent from 637,772 in 2006 to 734,000 in 2007. During the period from 1994 to 2007, tourism in Malawi grew at an average annual rate of 12.8 per cent, reflecting a booming tourism industry in the country.

9.2.2 Internationally, Malawi tourism has experienced higher growth rate than the world average which is at 4.4 per cent while the rest of Africa has experienced a slowdown in the tourism market, registering 5.9 per cent from 8.1 per cent in 2006. The Africa region continued its overall dominance as a source of visitors to Malawi in 2007. Out of 734,000 departing visitors, 559,000 came from the region, 98,000 came from Europe and 77,000 came from other continents.

TABLE 9.1: INTERNATIONAL VISITORS TO MALAWI, 2004-2007

Year	2004	2005	2006	2007
Total Number of International Visitors	427,360	437,718	637, 772	734,000
Percentage Growth	*11*	*22*	*45.7*	*15*

Source: Department of Tourism, NSO, Department of Immigration

9.2.3 The number of departing visitors in the work/business category increased from 167,707 in 2006 to 260,381 in 2007, representing a growth rate of 55 per cent. The holiday/vacation category dropped from 312,083 in 2006 to 212,175, a slump of 32 per cent while those visiting friends or relatives also experienced a downward trend of 14 per cent from 156,879 in 2006 to 134,196 in 2007. The sharp decrease in the holiday/vacation segment could be attributed to the inconsistencies and inadequate market campaigns due to inadequate funding for destination marketing.

9.2.4 The average number of nights spent in 2007 was 7.7 compared to 7.8 in 2006. In terms of number of nights spent, visitors from Greece spent 36.9 nights followed by Lebanon (30.5 nights), Pakistan (28.6 nights) India (21.4 nights), Kenya (19.6 nights), UK (14.4 nights) and China (14.1 nights).

9.3 Utilization of Accommodation Units

9.3.1 There was a steady increase in number of visitors staying in hotels, inns, lodges and rest houses from 1994 to 2007, although there was a drop in 2003 in the number of visitors who stayed in rest houses. Most of the departing visitors, that is, 41 per cent of the total stayed in rest houses in 2007. This could be attributed to the affordable rates this type of accommodation offers to the visitors.

9.3.2 National room occupancy rate increased from 46 per cent in 2006 to 53.4 per cent in 2007 whilst the national bed occupancy rate rose from 31 per cent in 2006 to 38.2 per cent in 2007. The cities of Lilongwe, Blantyre and Mzuzu, and lakeshore districts recorded significant increases in room and bed occupancy rates.

TABLE 9.2: HOTEL ROOM AND BED OCCUPANCY RATES FOR MALAWI ACCORDING TO ZONES, 2006

	2007		2006	
Zone	Room Occupancy %	Bed Occupancy %	Room Occupancy %	Bed Occupancy %
Lilongwe	*71.98*	*57.55*	*67*	*51*
Blantyre	*70.07*	*56.39*	*63*	*49*
Mzuzu	*62.31*	*52.31*	*59*	*41*
Northern Lakeshore	*61.02*	*44.54*	*36*	*21*
Central Lakeshore	*63.53*	*53.52*	*61*	*42*
Southern Lakeshore	*64.56*	*49.28*	*59*	*33*
Protected Areas	*42.98*	*33.15*	*31*	*20*
Zomba/Liwonde/Balaka	*57.75*	*47.65*	*47*	*24*
Kasungu/Mchinji	*44.08*	*41.22*	*25*	*19*
Thyolo/Phalombe/Mulanje	*44.16*	*36.64*	*31*	*21*
Other Areas	*40.89*	*34.39*	*29*	*23*

Source: Department of Tourism

9.4 Tourist Expenditure

9.4.1 Earnings from tourism for 2007 as captured on visitors' exit cards and records from accommodation occupancy statistics show that those on business travel spent on average K114,575.00. This was followed by those on holiday or vacation who spent on average K62,108.00 The least category spent K2,347.00 on average and these came for other purposes other than those recorded above.

9.5 World Tourism Prospects in 2008 and Beyond

9.5.1 Tourism is proving to be one of the most resilient sectors and this should be a strategic sector, as global economic conditions continue to deteriorate. As such, the sector can play a special role in the recovery of the national and world economies. It is, therefore, important that this sector be in the core of stimulus packages.

9.5.2 While international tourism is projected to stagnate or even decline by 2 per cent, it is expected that the decline for Malawi will be smaller than this. This is partially attributed to the diversification of the tourism products and the forthcoming 2010 World Cup which is expected to boost tourism in Malawi.

9.6 Developments in Tourism Sector

9.6.1 The country has achieved notable developments in a bid to improve the tourism industry. A number of them are in the areas as outlined below.

9.6.2 During 2008/09 fiscal year, the tourism industry continued to grow due to the response the private sector made to the investment incentives which were introduced. There has been a significant increase of new entrants on the market especially in the accommodation sector. For example, a number of hotels and lodges, that is, Pacific Hotel, Crossroads Hotel and Nature Sanctuary Lodge in Lilongwe; Pumulani Lodge in Mangochi; new lodges and bush tented camp in Nkhotakota Game Reserve, have been established and they are operational. Due to strong economic performance in Malawi, the number of enquiries from potential investors in the sector increased in the year. One particular project that has received much attention is the construction of an International Conference Centre and a Hotel Complex in Lilongwe. During the year, the project went a step further as both the financiers and the contractors of the project were identified. In addition there is a sharp increase in the car hire business, with a lot of locals joining the business.

9.6.3 Tourism regulations are being enforced and there is intensified compliance to minimum standards in all accommodation units. Accommodation and eating units have been inspected by the Department of Tourism for licensing. For purposes of licensing businesses in 2009, the Department inspected a total of 1094 units, out of which 609 were recommended for licensing, representing a proportion of 55.78 per cent to be licensed compared to previous year’s 42.46 per cent. Furthermore, eight officers in the Department underwent Star Grading training in the Republic of South Africa to help them carry out Star Grading System for all eligible accommodation units. The exercise is expected to commence in the fourth quarter of the 2009/10 financial year.

9.6.4 The Construction of Mpale Cultural Village in Mangochi was finalized during the 2008/09 financial year. Through open tendering, the Department of Tourism is finalizing the identification of a concessionaire to manage the model village. The village is depicting a typical Yao culture and history. This is a new concept and a unique product in Malawi. This will, among other things, enhance competition and product diversification in the Southern Lakeshore part of the country.

9.6.5 After successful upgrading of the 2.3 km road to bitumen standard from Mulunguzi Dam to Ku Chawe Inn, The Department of Tourism had also embarked on the role of facilitating the upgrading of some 5km access roads to bitumen standards in Mangochi resort areas and the upgrading of these access roads is almost complete. With these developments, it is expected that the country will see an improvement in the sector.

9.6.6 Various investment promotion campaigns were undertaken both locally and internationally to sell to potential investors the investment opportunities in the tourism sector. The strategy has seen various investors entering the sector through construction of hotels, lodges, car hires, tour and travel agents, and tourism related enterprises. In addition, the period has seen the upcoming of a number of community-based tourism projects such as Mpalale in Dedza, Gwirize in Salima and Kandewe in Rumphi. The increase in investment and expenditure on tourism services has, therefore, led to significant contribution to economic development of this country.

9.6.7 Upgrading of Likoma Airstrip and reconstruction of Karonga Aerodrome have significantly improved the transport system to the northern corridor.

9.6.8 With Funding was from Malawi Government and Malawi Environmental Endowment Trust (MEET), a total of 145 km fence has been completed at Liwonde and Kasungu National Parks. Fencing is done to reduce human and wildlife conflicts. Several animal species have been relocated from Liwonde and Lengwe National Parks to Majete Wildlife Reserve whose animal population crashed. A total of 1,061 animals have been relocated during the period.

9.6.9 Under a concessionary arrangement, Majete Wildlife Reserve has been given a major face lift. The reserve is fenced, 10 staff houses and new office block have been constructed, more than 250 km of road network has also been constructed. Under co-management arrangements 450 muzzle loaders, 200 gin traps used by poachers have been confiscated and 200 arrests have been made.

9.6.10 A number of national monuments, for example, the National Memorial Park have been rehabilitated and this has increased the number of tourist attractions in the country.

9.6.11 The launch of an indigenous instrumental music programme in a number of primary schools has led to the participation of primary school pupils in several international forums to present Malawi's cultural aspect.

9.6.12 Unlike in the past when there was only one dance troupe owned by Government, the country has a number of dance troupes in its urban centres. This has created employment, especially for the youth.

9.7 Constraints to Development and Promotion of Tourism

9.7.1 The main constraints that have retarded the full potential growth of the tourism sector include:

1. Inadequate resources for destination marketing due to the removal of the Marketing Fund, which was the only source of funding for the programme;

2. Perception by some local Malawians that the services offered by tourism facilities are expensive;
3. Reduced access to accommodation and infrastructure in tourist attraction areas, especially in the rainy season;
4. Lack of direct long-haul flights that leads to more air costs and long travel time;
5. Inadequate data-base for planning and monitoring tourism development;
6. Low standards in some accommodation units and poor service delivery especially in rest houses and lodges. Specifically, there is poor management in the tourism industry. Hence, there is need to sensitize SMEs in the industry on the importance of engaging skilled staff in the management of tourism enterprises to ensure efficient service delivery which is crucial to the industry;
7. Late capture and production of tourism statistics due to manual collection of statistics. This leads to underestimating the contribution of the sector to the development of the economy; and
8. Reduced development and promotion of Malawi culture due to:
    a. Inadequate financial resources;
    b. Inadequate personnel;
    c. Lack of appropriate infrastructure;
    d. Lack of training opportunities; and
    e. Outdated legal framework which make it difficult for enforcement of regulations.

9.8 The Wildlife Sector

9.8.0.1 The Department of National Parks generates revenue through utilization of the wildlife resources found in different protected areas. The revenue is divided into consumptive and non-consumptive use.

9.8.1 Consumptive Use

9.8.1.1 This is the revenue emanating from the sales of the disposal of wildlife products that are confiscated and shooting of the problem animals. These wildlife products (hippo teeth, skins and game meat) are sold to the general public and licensed trophy dealers. However, the Department does not really depend on this as a source of revenue.

9.8.1.2 The other form of revenue under this category is the license fees. The Department provides licenses at a fee for different activities in the protected areas or outside these areas. Some of the licenses are bird license, game farming license, game ranching license and hunting license.

9.8.1.3 Utilization of wildlife resources is not restricted to Government only as the Department made a deliberate move to introduce a resource use programme through which communities are allowed to harvest some wildlife resources (fruits, thatch grass, palm fronds and fish) for their home use or sell. Under the same programme, communities are also allowed to set beehives inside the protected areas. In 2007/08 fiscal year, communities around Nyika National Park and Vwaza Wildlife Reserve realized around MK1,760,395.00 while in Kasungu, communities generated MK903,340.00. The generated income from the wildlife products is expected to increase by at least 3 per cent this year.

TABLE 9.3: REVENUE FROM CONSUMPTIVE USE

Revenue Source	2007/08 (Thousand Kwacha)	2008/09 (Thousand Kwacha)
Trophy sales	-	-
Firewood sales	6.00	1.00
Timber sales	50.00	56.75
Game meat sales	230.00	815.08
Game licenses	2.00	-
Fishing licenses	15.00	-
Total	**293.00**	**872.83**

Source: Department of National Parks and Wildlife

9.8.2 **Non Consumptive Use**

9.8.2.1 This refers to all activities related to eco-tourism, including park entry fees, concession fees, hire of guides, horse safaris and fishing. There are also other sources such as research fees, camping fees, tuck shops and maize mills, among others. The detailed definitions of each source are as follows:–

1. **Park entry fee:** This is a fee paid by all visitors to national parks and wildlife reserves except those on education visit. This is major source of revenue. More revenue could be generated if access and game viewing roads in the protected areas could be improved to all weather roads. An increase animal numbers and species would also increase number of visitors;

2. **Concession fee:** This is a fee paid by the private operator who manages a facility such as a lodge inside the Park. This is after private operators have signed concession agreements with the Department. The operators pay a concession fee to the Department. A number of new concessions have been signed, hence, it is expected that more revenue will be generated in the coming years than is the case now. However, for those that are already paying, there is need to increase accommodation facilities so as to generate more revenue as this is the major source of revenue;

3. **Hire of Guides:** Tourists pay a fee for a guide to accompany them

during their game drives and walking safaris; and

4. **The maize mills and tuck shops:** These are mostly to cater for the staff as they live far from trading centres to get their requirements. The Department gets revenue from these facilities.

TABLE 9.4: REVENUE FROM NON-CONSUMPTIVE USE OF WILDLIFE RESOURCES

Source of Revenue	2006/07 (Million Kwacha)	2008/09 (Million Kwacha)
Concession fees	14.30	10.90
Park entry fee	9.38	8.25
Hire of guides	0.02	-
Tuck-shop /Maize mill	0.26	0.14
Accommodation/Camping	0.05	-
Research fee	0.00	-
Horse Safari	0.24	-
Other	0.06	-
Total	**24.31**	**19.00**

Source: Department of National Parks and Wildlife

9.8.2.2 There is a notable decline in revenue collected through concessions because the concession agreements for some lodges expired, for instance, Chilinda Lodge in Nyika National Park and another at Vwaza Wildlife Reserve.

Chapter 10

EMPLOYMENT AND SOCIAL SERVICES

10.1 Introduction

10.1.1 This chapter reviews developments in the social services sectors, including community development, labour, education and health. The first part summarizes developments in the gender, child welfare and community services while the second part summarizes the labour and employment issues and development. This is followed by the performance of the gender and community services, education and health sectors.

10.2 Gender, Child Welfare and Community Services

10.2.1 The Ministry of Women Gender and Child Development is implementing a number of programmes through its technical departments and the implementation is guided by the Ministry's five year strategic plan, whose goal is to strengthen policy development and management capacity in the implementation of long-term development strategies adopted by Government for national development as well as to guide the development and review of policies and strategies for programme implementation within the Ministry.

10.2.2 Community Development

10.2.2.1 Economic Empowerment

10.2.2.1.1 The Ministry continues to encourage entrepreneurship at the community level especially in the rural areas. Through the Skills Development and Income Generation (SDIG) Project, an accumulative total of 1,956 business groups, comprising 21,179 participants of which 79 per cent are women, have been trained in production and business skills.

10.2.2.1.2 On capital building and investment, business groups under SIDG and Functional Literacy and Integrated Rural Development (FLIRD) Projects have mobilized K225 million savings since 2006.

10.2.3 Adult Literacy Programmes

10.2.3.1 Through the National Adult Literacy Programme, the Ministry strives to reduce the prevailing high levels of illiteracy among Malawi's adult population by giving them an opportunity to acquire numeracy, reading and writing skills. The approach is to make people functionally literate by linking literacy to livelihood activities. This enhances effective participation and contribution to community based development interventions.

10.2.3.2 The Ministry with support from UNDP is also implementing a Functional Literacy for Integrated Development Programme (FLIRD) that aims at poverty alleviation through sustainable economic growth and infrastructure development. Under this project, the Ministry is running 595 literacy classes in 12 districts, reaching out to a total of 14,875 learners, of which over 90 per cent are women. In addition, ICEIDA is supporting a total of 44 literacy classes in Monkey Bay, of which 12 livelihood groups have been provided with a starter pack of K80,000 each. Under SIDG Project, 46,074 learners (77 per cent women) were declared literate by the end of the 2008/09 cycle.

10.2.4 **Social Welfare**

10.2.4.1 The Ministry with support from NAC, UNICEF and other partners continues to support vulnerable groups to turn them into self-reliant and productive citizens. Through the OVC programme, the Ministry is providing psycho-social and economic support to orphans, vulnerable children and guardians. The number of orphans and children provided with educational support has increased from 10,698 in 2007/08 to 12,000 in 2008/09. In addition, over 70,000 households and greater than 46,000 children, of whom 74 per cent orphans, have been supported under the social cash transfer scheme.

10.2.4.2 Under rehabilitation services, 40 juveniles have been rehabilitated and re-integrated into their communities after equipping them with vocational skills. To promote early childhood development, 840 caregivers and 7,500 people have been trained in ECD and over 1500 malnourished children were provided with vitamin fortified flour.

10.2. 5 **Women Affairs**

10.2.5.1 As the national gender machinery, the Ministry continues to lobby for increased gender equity and equality in order to enhance equal participation of men and women in issues of national development. In this respect, the gender sector has implemented the following:

(*a*) Under the 50-50 Women in Politics Programme that is aimed at increasing women representation in parliament to 50%, the Ministry has supported 235 women aspirants with campaign materials like T-shirts, caps and finances. A total of 1,680 women were trained in leadership and assertiveness skills. Eighty four campaigns were held on the importance of women participation in politics;

(*b*) Training of the public, private and civil society stakeholders in Gender Budgeting was undertaken;

(*c*) To address the gender dimension of HIV/AIDS, 580 initiators and gatekeepers were trained in HIV/AIDS and human rights under the Women, Girls and HIV/AIDS project; and

(*d*) 40 gender based violence women survivors were provided with psycho-social support.

10.3.1 Labour Market

10.3.1.1 Employment

10.3.1.1.1 In 2008, the Ministry and collaborative partners continued to support harmonious labour relations, employment services and skills development for the enhancement of socio-economic development in the country through sustainable economic development, social justice and peace, social development, social protection and quality assurance on skilled human resources in the labour market.

10.3.1.2 National Unemployment Rates

10.3.1.2.1 The National Welfare Monitoring Surveys for 2006 and 2007 have shown the national unemployment rates of 6 and 3 per cent for the years 2006 and 2007, respectively. The national unemployment rates for males and females in the year 2006 were 5 and 7 per cent, respectively. In 2007, the national unemployment rates for the males and females were 4 and 2 per cent, respectively.

10.3.1.3 Rural and Urban Unemployment

10.3.1.3.1 In 2006, the rural and urban unemployment rates were 5 and 17 per cent, respectively. In 2007, the rural and urban unemployment rates were 2 and 11 per cent respectively. Disaggregation of unemployment into males and females for rural areas in 2006 shows unemployment rates of 4 and 5 per cent, respectively. On the other hand, the unemployment rates for males and females for years were 11 and 25 per cent in the urban areas, respectively.

10.3.1.3.2 Disaggregation of unemployment rates into males and females in rural areas for 2007 shows unemployment rates of 3 and 2 per cent, respectively. In the same year, the unemployment rates for males and females for urban areas stood at 13 and 9 per cent, respectively.

10.3.1.4 Unemployment Rates in the 15 to 24 Years Category

10.3.1.4.1 In the 15 to 24 years category, the unemployment rates were 9 and 7 per cent for the years 2006 and 2007, respectively. The disaggregation into males and females in the 15 to 24 year category for 2006 indicates that unemployment rates were 8 and 10 per cent, respectively. In 2007, the unemployment rates for males and females for the 15 to 24 years category were 9 and 5 per cent, respectively.

10.3.2 Minimum Wages

10.3.2.1 Minimum wages for Malawi were last adjusted on 9th October, 2007. Minimum wages are still a two-tier system comprising segmented wage structures for the rural and urban areas. The minimum wage for the rural setting is at K95.45 per day for 26 working days in a month plus a housing allowance of K10.00 for each day of the month. On the other hand, the minimum wage for the urban areas is at K117.30 per day for 26 working days plus a housing allowance of K12.00 for each day of the month. In recent integrated labour inspections for various enterprises in Lilongwe, Zomba and Blantyre in which individual employees were interviewed, it was observed that all enterprises inspected are complying to the Statutory Minimum Wages requirements.

10.3.2.3 The minimum wages for apprentices were also adjusted together with other minimum wages. The minimum wages for the second year, third year and fourth year apprentices are at K5,500, K6,500, K7,500 per month, respectively. For craftsmen, the minimum wages are K6,500 and K7500 per month for Malawi Craft Certificate Holders and Malawi Advanced Craft Certificate Holders, respectively. Lastly, the minimum wages for the tradesmen K5,500, K6,500 and K7,500 per month for tradesmen Grade III, Tradesmen Grade II and Tradesmen Grade I.

10.3.3 **Child Labour**

10.3.3.1 As part of efforts to address the problem of child labour, a National Child Labour Study was conducted in 2002 and it comprised a Household's, Street Kids' and Children in Sexual Exploitation Surveys. The study was funded by the International Labour Organization/International Programme for the Elimination of Child Labour-Statistical Information Monitoring Programme on Child Labour (ILO/IPEC-SIMPOC) in the ILO office in Geneva. The survey report found out that 3.2 million children were at that time found working. Out of these 1.4 million were classified to be in child labour segment, most of whom (99 per cent) were classified as unpaid family workers. The level of children in worst forms of child labour was at least 71 per cent. A related study called Multiple Cluster Survey, conducted in the year 2006 sponsored by UNICEF showed that child labour was at 38 per cent by 2006.

10.3.3.2 The ILO/IPEC in 2006 launched a child labour control project worth an equivalent of US$2,000,000 to combat child labour in the country. The emphasis is on domestic child labour.

10.3.3.3 The project has facilitated the production of the National Action Plan for the envisaged time line. In related efforts too, UNICEF and Ministry of Labour in collaboration with the social dialogue partners and allied stakeholders have produced a draft policy document on the fight against child labour.

10.3.3.4 The Government through Part II of development budget, has continued to support the fight against child labour and funding has reached MK150 Million for both 2007/08 and 2008/09 financial years, including a pledge for the year 2009/10..

10.3.4 **Labour Relations**

10.3.4.1 The Ministry continues to conduct labour inspections in the country in order to enforce labour legislations and monitor labour market dynamics The Ministry conducted integrated labour inspections in October 2007, January, 2008 and February, 2008 under the Modernization of Labour Inspections Project. During the inspections a number of infringements were discovered and these include lack of holidays; unpaid overtime; absence of written terms of conditions of employment; unattended water and sanitation problems especially in shops; locking up of workers in bakeries at night; lack of funeral management policies; lack of HIV and AIDS policies; and presence of sexual abuse, among others. A total of K1.4 million on holidays and overtime was paid at the spot witnessed by labour officers during the inspections.

Table 10.1: REGISTERED CUMULATIVE NUMBER OF VISITS AND INSPECTIONS CLASSIFIED BY TYPE, 2007

Quarter	Routine	Complaints	Follow Ups	Workers' Compensation	Special Inspections	Other Visits/ Inspections	Sweeping Inspections
First	122	229	37	99	0	3	0
Second	33	114	2	48	5	7	217
Third	44	111	0	59	0	17	667
Fourth	62	77	1	16	2	0	0

Source: Ministry of Labour

10.3.4.2 In an effort to amicably settle labour complaints and salvage lost or unpaid wages arising from problems in employment contracts the Ministry registered and settled a number of labour complaints and salvaged lost wages

TABLE 10.2: REGISTERED CUMULATIVE NUMBER OF LABOUR COMPLAINTS AND AMOUNT IN MALAWI KWACHA CLAIMED FOR EACH QUARTER, 2007

Quarter	Complaints Registered	Complaints Settled	Outstanding Complaints at year end	Amount claimed during year (Kwacha)
First	9003	2993	6010	5,596,698
Second	4474	2272	2202	5,983,479
Third	1918	928	990	8,090,560
Fourth	1071	502	569	3,597,468

Source: Ministry of Labour

10.3.4.3 The average claim per claimant ranged from minimum of K2,000 per claimant to a maximum of K9,000.00. Most claims were unpaid wages and claims on holidays that were not granted during the course of employment.

10.3.4.4 Industrial accidents do occur in the course of production of goods and services. Most accidents occur because of luck of protective clothing and information. The Ministry registered a number of industrial accidents in 2006.

TABLE 10.3: REGISTERED CUMULATIVE NUMBER OF INDUSTRIAL ACCIDENTS BY DEGREE OF INCAPACITY FOR EACH QUARTER, 2006

	Degree of Incapacity			
Quarter	Fatal	Partial	Temporary incapacity	Not classified elsewhere
First	8	127	112	42
Second	5	139	128	32
Third	2	50	35	6

Source: Ministry of Labour

10.3.4.5 In its effort to promote industrial peace and justice, the Ministry settled a number of Industrial strikes, that is, 27, 2 and 16 for the South, North and Center, respectively, were reported and settled in 2005 while in 2006 the South had 15 strikes and the North had one strike.

10.3.4.6 In respect to the right to association and freedom to organize a collective bargaining, 2 prospective unions applied for registration with the Ministry. Only one has been registered and the other has been rejected, bringing the number of registered unions in the country to 28. In terms of collective bargaining agreements, only 27 agreements are in force.

10.3.4.7 The trade testing services are crucial to skills development and quality assurance. In view of this, the Ministry issued 1,789 trade test certificates and examined 6,411 artisans and this exceeded the target of 1,200 artisans in 2008. Last year, 1,059 certificates were issued in 18 different trades.

10.3.5 Employment of Expatriates

10.3.5.1 Malawi continued to experience inflow of manpower from other countries due to the growing demand for skilled manpower amid shortage locally. The recorded number of expatriates that were issued employment permits in 2008, 2007, and 2006 were 365, 745, and 1,015, respectively. Most expatriate workers are in the managerial, professional and technical categories, among others. Tables 10.4 and 10.5 are distributions expatriates by countries of origin and occupation for 2007 and 2008.

TABLE 10.4: REPORTED EMPLOYMENT PERMITS FOR EXPATRIATES BY COUNTRY OF ORIGIN, 2007 AND 2008

	2007		2008	
Country of Origin	Number	As a percentage of the total	Number	As a percentage of the total
American	52	*7*	18	*5*
British	85	*11.4*	25	*7*
Chinese	37	*5*	31	*8*
Canadian	13	*1.7*	7	*2*
German	18	*2.4*	8	*2*
Indian	171	*23*	93	*25*
Italian	15	*2*	1	*0*
Kenyan	12	*1.6*	11	*3*
Dutch	16	*2.1*	2	*1*
Pakistan	23	*3.1*	9	*2*
South African	53	*7.1*	31	*8*
Sri Lankan	23	*3.1*	13	*3*
Tanzanian	14	*1.9*	2	*1*
Zambian	23	*3.1*	4	*1*
Zimbabwean	59	*7.9*	64	*17*
Other	131	*17.6*	46	*12*

Source: Ministry of Home Affairs (Immigration Department)

TABLE 10.5: REPORTED EMPLOYMENT PERMITS FOR EXPATRIATES BY OCCUPATION OF ORIGIN, 2007 AND 2008

	2007		2008	
Profession	Number	As a percentage of the total	Number	As a percentage of the total
Accountant	17	2.3	31	8
Administrators	11	1.5	15	4
Agronomist	00	00	3	1
Medical Doctor	00	00	11	3
Consultant	11	1.5	8	2
Director	42	5.6	13	3
Controllers	19	2.6	00	00
Engineer	58	7.8	21	6
Lecturer	14	1.9	17	5
Manager	210	28.2	73	20
Church Minister	120	16.1	66	18
Project Coordinator	11	1.5	7	2
Teacher/Tutor	54	7.2	27	7
Technician	15	2.0	69	18
Volunteer	10	1.3	10	3
Other	153	20.5	2	100

Source: Ministry of Home Affairs (Immigration Department)

10.3.6 **Occupational Safety and Health**

10.3.6.1 The number of pressure vessels examined increased to 700 in 2008 from 600 in 2007. The registration of work places is crucial to business start-ups and the trend in registration of work places is generally upward.

TABLE 10.6: REGISTERED WORKPLACES AND NUMBER OF INSPECTIONS CONDUCTED, 2003—2008

Activity	2003	2004	2005	2006	2007	2008
Inspections conducted	102	51	139	321	282	191
Pressure vessels examined	327	77	233	741	644	745
Industrial accidents reported and investigated	31	8	7	11	8	6
Registered workplaces	381	70	174	278	296	238

Note: The figures for 2006 adjusted.
Source: Ministry of Labour

10.3.6.2 In terms of facilitating payment of workers' compensation for occupational injuries or diseases, a lot of payments were made in 2007 and reduced in 2008 to 1,117 cases. This may show improvements in compliance by industry in paying compensation in time.

TABLE 10.7: WORKERS' COMPENSATION FOR THE YEAR OF INSPECTIONS CONDUCTED, 2005—2008

Activity	2005	2006	2007	2008
Cases Paid	395	701	1,545	1,117
Amount Paid in K '000' ..	28,580	64,657	196,816	186,470

Source: Ministry of Labour, statistics unit/workers compensation department
Note: Blank cells indicate data not readily available

10.3.6.3 The Ministry has also embarked on registration of employers in its efforts to establish workers' compensation fund. During the period from 2006 to 2008, there has been an increase in cases paid and amount received.

10.4 **HIV and AIDS at the Workplace**

10.4.1 Under the HIV and AIDS Mainstreaming Project, Ministry trained 50 senior officials on voluntary counseling and HIV and AIDS related topics, 122 peer educators and 12 officers as counselors. The Ministry is maintaining 20 officers on ARV treatment, drug and food supplements, including SIBUSISO. The Ministry has procured a utility vehicle, information education and communication materials, a computer and some accessories. The Ministry has produced a final draft copy of a sample survey on HIV and AIDS workplace policies and programmes to identify gaps and a map on policy activities. The results show that at the time of the survey there was not enough evidence that there existed a business establishment that had an HIV and AIDS policy that was both comprehensive and anti-discriminatory. The Ministry has produced the final draft of reviewed National Workplace Policy and continues to offer business establishments with technical assistance on the development of workplace policies.

10.4.2 The Ministry is also implementing an ILO Project on HIV and AIDS prevention and impact mitigation in the transport sector through the United Nations Development Programme. The development objective is to reduce the impact of HIV and AIDS in Sub Saharan Africa by addressing the world of work vulnerabilities and strengthening the application of the policy and legal frameworks for the protection of infected and affected men and women workers. The immediate objective is to increase knowledge on HIV and AIDS and more responsible attitudes to risk behaviour of men and women workers and their families, help limit the spread of HIV and AIDS in the transport sector. This Project covers Malawi, Mozambique, Zimbabwe and South Africa.

10.4.3 The project in Malawi has employed a national coordinator located at Ministry of Labour headquarters and produced a national workplan. The project implemented a Peer Educator Training for Air Malawi including capacity building on reduction of stigma and discrimination. The training centred on raising awareness, openness on fears and concerns surrounding the infection, gradual shifting to action. The fight against the pandemic in the transport sector will need a further hand from other players for sustainability, including National AIDS Commission and utility vehicles for mobility for project coordinators. There is need to expedite approval of the proposals at international level to remove gaps in the fight against the plight in the transport sector.

10.5 The Education Sector

10.5.1 Overview

10.5.1.1 The Ministry of Education, Science and Technology in collaboration with private and faith-based education institutions provides primary and secondary education, technical and vocational training, teacher and higher education. Early Childhood Education and Adult Literacy education is provided by the Ministry of Women and Child Development and out of school youth education is provided by the Ministry of Youth, Sports and Culture in close collaboration with the Ministry of Education, Science and Technology.

10.5.2 Major Achievements during the 2008/09 Financial Year

10.5.2.1 Primary Education

10.5.2.1.1 The sector has managed to reduce pupil per qualified teacher ratio from 95:1 to 91:1; survival rate of pupil in schools has improved from 54 per cent for boys (Std 5), 51 per cent for girls (Std 5) and 26 per cent for girls in (Std. 8) to 78 per cent (for boys in standard 5), 73.6 per cent (for girls in Standard 5) and 44.9 per cent (for girls in standard 8), respectively.

10.5.2.1.2 The outcome based curriculum for primary education has been successfully rolled out in standards 1, 2, 3, 5, 6 and 7; the final phase will be implemented in standards 4 and 8

10.5.2.2 **Secondary Education**

10.5.2.2.1 Forty girls hostels have been constructed that will carter for 2.240 female students and improved girls participation. This should also improve the dropout of girls which is currently at 8,600 as of 2008 statistics. The sector has upgraded 40 community day secondary schools and provided bursaries to about 5000 needy students

10.5.2.2.4 Four (4) national secondary schools (Blantyre, Dedza, Lilongwe Girls and Mzuzu) are being rehabilitated through the education sector support project

10.5.2.3 **Teacher Education**

10.5.2.3.1 The sector has improved intake to the teacher training colleges (TTC) from 2,500 to 3,750 through the rehabilitation and expansion of existing colleges and through the introduction of the parallel mode of training in selected TTCs. This has also facilitated the enrolment of more female teacher trainees.

10.5.2.4. **Tertiary and Higher Education**

10.5.2.4.1 The sector reviewed the Curriculum at tertiary level to respond to countries needs of the business sector. There was also increased intake in Universities through accreditation and recognition of private universities and introduction of non-residential programmes diversification in University of Malawi. While these programmes have been introduced, adequate teaching and learning materials were supplied in all public colleges.

10.5.2.4.4 In order for the Government to concentrate on core activities, non-core functions such as security, maintenance and grounds keeping have been outsourced in all public universities.

10.5.3 **Progress Towards the Millennium Goals**

10.5.3.1 The sector has strived to reduce gender parity at primary level, which is now at 1:1[4] . Besides, net enrolment of pupils in schools is at 80.5 per cent for boys and 87.5 per cent for girls[5]

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[4] Education Statistics, 2008

[5] MICS, 2006

10.5.4 Progress with Development Partners in 2008/09 Financial Year

10.5.4.1 The sector has received 82.9 per cent of aid, achieved 55.59 per cent of planned disbursements and got 73.73 per cent of aid flows in line with the National Education Sector Plan. The sector has managed to have 33.44% proportion under threshold used in the common arrangements and procedures, that is, national procurement systems.

10.5.4.3 The sector in collaboration with the development partners has developed a Joint Financing Arrangement and a Memoranda of Understanding on the Sector Wide Approach (SWAp). The Secretariat of SWAp has been set up with Technical Advisors being supported by the development partners[6].

10.5.6 Challenges and Opportunities

1. Lack of teacher houses for primary school teachers in the rural areas. Against the demand for 32,687 teacher houses, there are 11,075 permanent teachers houses, 5,421 temporary teachers houses and 1,049 teachers houses under construction;
2. Lack of essential infrastructure in primary schools, particularly those in rural areas where 11 per cent of schools have access to piped water, 58 per cent access water through boreholes and 31 per cent of schools access water through wells, rain water, lake or river and other ways. In addition, 93 per cent of schools do not have access to electricity;
3. High pupil per classroom ratios of 104:1 at primary school and 44:1 at secondary school;
4. High repetition rates, especially in lower standards of primary education which are at 25.37 per cent in standard 1, 22.71 per cent in standard 2 and 24.18 per cent in standard 3; and
5. Need for the percentage flow of funds to proportionately reflect maximum increase to basic education.

10.6 The Health sector

10.6.1 Overview

10.6.1.1 The policy goal of the health sectors is to raise the level of the health status of all Malawian through the development of a delivery system capable of promoting health, preventing, reducing and curing diseases and reducing the occurrence of premature death in the population.

10.6.1.2 The overall objective of the Ministry 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

[6] The Technical Advisors are in areas of Institutional Development, Procurement, Policy and Planning and Financial Management

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.

10.6.2 Major Achievements

10.6.2.1 Significant progress has been made in the provision of child health services, and the recent improvements in child health indicators reflect this. The under five mortality rate reduced from 189 per 1000 live births in 2000 to 122 per 1000 live births in 2006 while infant mortality rate reduced from 104 per 1000 live births in 1992 to 72 per 1000 live births in 2006. The proportion of 1 year old children immunized against measles increased from 82 per cent in 2004 to 85 per cent in 2006.

10.6.2.2 The maternal mortality ratio has also reduced from 1,120 per 100,000 live births in 2000 to 807 per 100,000 live births in 2006. The country has also adopted an aggressive approach towards training, recruitment and retention of human resources for health The approach has introduced the donor assisted top-ups for health workers and produced a six year Emergency Human Resource Plan (2004-2010). The proportion of births attended by skilled health personnel has increased slowly from 38 per cent between 2000 and 2004 (MOH data) to 45 per cent in 2007. The recent initiatives towards strengthening the human resources for health situation as well as other community mobilization initiatives will improve these indicators

10.6.2.3 On infrastructure, quite a number of projects were completed in 2009. These include construction of the Nkhotakota District Hospital and 3 laboratories in three districts. In addition, construction of 250 staff houses in rural areas and rehabilitation of 250 houses has commenced and is ongoing. Furthermore, 42 basic Emergency obstetric care facilities and several other health centers across the country are being constructed.

10.6.2.4 The MoH is also currently working with CHAM in the implementation of Service Level Agreements (SLAs), which provide access to care free of charge at the point of delivery. These agreements have focused on maternal and neonatal care. To date, there are over 90 agreements in place.

10.6.2.5 On HIV/AIDS, a number of initiatives are being implemented to prevent the spread and mitigate the social economic impact of HIV and AIDS. Notably, the number of ARV sites in the public sector has increased from 11 in 2004 to 109 in 2007. As a result, the number of clients on anti-retroviral treatment (ART) has increased from 4,000 in 2004 to 208,000 in 2007. This is partly due to the abolition of the fee that was being demanded on AIDS patients.

10.6.3 **Challenges**

10.6.3.1 The Ministry of Health is confronted with a lot of challenges in its implementation of various programmes and the notable ones are as follows:–

(1) Shortage and continued pilferage of drugs and other essential supplies;

(2) Weak multi-sectoral collaboration at national and district level;

(3) Shortage of health workers;

(4) Poor access to health care services as a result of both geographical and economic factor. This affects women, children and the poor;

(5) Capacity constraints at the training institutions. This limits intakes and negatively impacts the human resources for health;

(6) Lack of essential utilities such as water, electricity and communications; and

(7) Increased demand for referral cases abroad.

Chapter 11

POVERTY REDUCTION PROGRAMME

11.1 Overview

11.1.1 This chapter reviews progress in the implementation of the Malawi Growth and Development Strategy (MGDS) in the 2007/08 financial year. MGDS is the overarching strategy aimed at reducing poverty through economic growth and infrastructure development.

11.2 2008 MGDS Annual Review

11.2.1 This was the second review of the MGDS that analysed progress in implementation of the strategy for the financial year 2007/08. Unlike the 2007 annual review where thematic working groups (TWGs) were used, this review used broadly representative sector working groups (SWGs). The focus was on sectors after it was discovered that TWGs did not adequately cover contribution from non-state actors. The review, just like the first one, focused on the six key priority areas and the five broad themes within the MGDS. In general, the review showed that there had been remarkable progress as many sectors achieved their expected targets. This could be a result of more expenditure on development projects than in the previous year. Nevertheless, there were still some sectors that did not perform well. In particular, the review showed that all the key priority sectors had a satisfactory performance in terms of achieving MGDS outcomes, core sector outputs and development projects performance targets. On the other hand, there were mixed results on thematic areas, although overall performance was better than that of 2006/07.

11.3 MGDS as an Overall Policy Strategy

11.3.1 The review found that there is need to align the overall national budget to the MGDS for several key priority areas to be more confident of achieving MGDS outcomes. Just like in the first review, it was noted that there were inconsistencies between output activities in the MGDS and those in the output based budget. In some cases, there was a mismatch among the outcomes, outputs and activities outlined in the MGDS with those listed in the output based budget. Donor alignment and harmonisation still remains a challenge that would affect implementation of the strategy.

11.4 MGDS Performance by Key Priority Areas

11.4.1 Agriculture and Food Security

11.4.1.1 The review rated agriculture and food security as having performed above average. The country registered another surplus of about 500,000 metric tons in 2007. The percentage of food secure households increased from 97 per cent in 2006/07 to 99.5 per cent in 2007/08. Per capita cereal availability on the other hand declined from 270 kg in 2006/07 to 231 kg in 2007/08. The surplus and increased household food security was attributed to the continued implementation of the input subsidy programme. Per capita meat availability increased from 8 kg in 2006/07 to 10.1 kg in 2007/08. Performance of development projects was satisfactory as 75 per cent of the projects in this sector achieved their output targets as compared to 33 per cent in 2006/07.

11.4.2 **Irrigation and Water Development**

11.4.2.1 This sector had an average performance compared to a below average performance in 2006/07. The percentage of population with access to portable water increased from 74 per cent in 2006/07 to about 76 per cent in 2007/08. Percentage of population with access to improved sanitation on the other hand declined from 88 per cent in 2006/07 to about 57 per cent in 2007/08. The sector also managed to achieve 3 of its 4 core sector outputs and 68 per cent of its development projects achieved their targets as compared to 48 per cent in 2006/07.

11.4.3 **Transport Infrastructure Development**

11.4.3.1 The sector had an above average performance unlike in 2006/07 when the performance was below average. In terms of annual indicators, the sector achieved 5 of its 9 indicator targets. For example the percentage of roads in good condition increased from 24 per cent in 2006/07 to about 33 per cent. The sector also managed to achieve its targets on all four core outputs which included the completion of the preliminary phase of the Shire Zambezi Waterway. About 76 per cent of development projects implemented by the sector achieved their targets as compared to only about 39 per cent in 2006/07.

11.4.4 **Energy Generation and Supply**

11.4.4.1 This sector had an average performance as opposed to above average performance in 2006/07. The sector managed to exceed all its targets on annual MGDS indicators. Forty new trading centres were connected to electricity, surpassing its target of 27 centres, 7.8 per cent of the households had an increased access to electricity, slightly above the target of 7 per cent, and 82 per cent of population were using solid fuels and this was below an annual target of 86 per cent. About 50 per cent of projects that were implemented in 2007/08 achieved their targets. However, the sector failed to meet all three core sector output targets, including; increased access to reliable and sustainable energy supply, use of alternative energy supply for power by rural communities in underserved areas and reduction in levels of brown outs and black outs.

11.4.5 **Integrated Rural Development**

11.4.5.1 The assessment of this key priority area was based on proxy indicators because annual indicators have just been developed and there was no data by the time of the review. The proxy indicators used were per capita income growth, income per capita, and per cent of food secure households. It was noted that income per capita increased from US265 in 2006 to US284 in 2007 whereas per capita income growth declined from 5.8 per cent to 3.2 per cent. The percentage of food secure households increased from 97 per cent in 2006/07 to 99 per cent in 2007/08. On core sector outputs, the sector managed to achieve 4 of its 6 output targets and 75 per cent of development projects met their output targets. Based on these, the sector was rated as having performed above average sector as was the case in the 2007 annual review.

11.4.6 Nutrition, HIV and AIDS

11.4.6.1 This sector was rated as above average performer as was the case in 2007. In terms of MGDS annual indicators, the sector managed to achieve all its 7 indicator targets. For example, the percentage of HIV positive pregnant women receiving a complete course of ARV prophylaxis to reduce the risk of MTCT increased from 73 per cent in 2006/07 to 78 per cent in 2007/08, which was slightly above the 2007/08 target of 35 per cent. HIV and AIDS prevalence rate among pregnant women aged 15 to 24 years declined from 14.3 per cent in 2006/07 to 12.3 per cent in 2007/08, which was below the target of 14.3 per cent. The prevalence rate for the whole nation for the age group 15 to 49 years also declined from 14 per cent in 2006/07 to 12 per cent in 2007/08, which was also below the target of 13.5 per cent. In terms of core outputs, the sector managed to achieve 12 out of 18 core outputs and high per cent of its development targets achieved their indicator targets.

11.5 MGDS Performance by Thematic Areas

11.5.1 Sustainable Economic Growth

11.5.1.1 This thematic area comprises six sub-themes namely: Potential growth sectors, enabling environment for private led growth, export-led growth, conservation of natural resource base, economic empowerment, land and housing.

11.5.1.2 The review rated the performance of trade and private sector development as average. The sector managed to achieve 23 of its 27 core output targets. These include promotion of rural industrialisation, promotion of industrial development, and creation of a sustainable environment for SMEs operation, among others. However, only 44 per cent of development projects implemented in this sector managed to achieve their output targets.

11.5.1.3 The performance of the mining sector was rated as average. The sector performed well in terms of annual indicators because it achieved all 5 indicator targets. The sector also managed to achieve 4 out of 7 core sector output targets. However performance on development projects was unsatisfactory as only 25 per cent achieved their targets whereas the rest did not have data.

11.5.1.4 The tourism sector was also rated as having an average performance. The sector managed to achieve 5 out of 9 annual indicator targets; and all core output targets. However, in terms of development projects, 20 per cent failed to meet their indicator targets whereas the rest were not funded. Some of the annual indicators achieved include increase in the number of tourists from 714,511 in 2006/07 to 779,500 in 2007/08, and an increase in the contribution of tourism to GDP from 3.8 per cent to 5.2 per cent. Culture has just been incorporated in the MGDS as a separate sector and the review rated its performance as above average. The sector managed to achieve five of its core output targets and about 60 per cent of the development projects met their targets.

11.5.1.5 The fisheries sector had an average performance as reflected in the achievement of the annual indicators, core outputs and development projects. The sector achieved 4 of its 5 annual indicator targets and all the 7 core output targets. Some of the indicators that were achieved within the targets include increase in quantity of fish landed in capture fisheries and aquaculture which increased from 62,500 metric tons and 1,400 metric tons, respectively in 2006/07 to 58,000 metric tons and 2,000 metric tons in 2007/08, respectively. However, development projects performed poorly as only 16.7 per cent achieved their targets.

11.5.1.6 Forestry conservation and management sector had a satisfactory performance based on core outputs and development projects achievements. The sector achieved all its 4 core outputs targets and 67 per cent of development projects achieved their indicator targets. The performance of the environment protection sector was also satisfactory in terms of achievement of annual indicator targets, core sector outputs, and development projects performance. Use of Ozone Depleting Substances (ODSs), which is the only annual indicator, declined from 3.6 ODSs tons in 2006/07 to 2.3 ODSs tonnes in 2007/08. In addition, the sector achieved 5 of its 6 core outputs targets and 50 per cent of the development projects achieved their targets. Just like in the first review, the wildlife sector did not perform well during the 2007/08 financial year. The sector managed to achieve 4 of its 8 output targets and development projects performance was unsatisfactory.

11.5.1.6 The performance of land management and housing development was satisfactory as compared to 2006/07. The sector managed to achieve 17 out of 32 indicator targets and all the 9 development projects met their targets. Some of the output targets that were met include production of the national housing policy, development of strategic plan, and construction of chiefs' houses.

11.5.2 **Social Protection and Disaster Risk Management**

11.5.2.1 The review rated the performance of this sector as below average. The sector failed to meet the only indicator that had data and this is the proportion of disadvantaged receiving conditional and unconditional cash transfers. The target for 2007/08 was 7 per cent but only 3 per cent were reached. In terms of core sector outputs, only 1 output target out of 4 was met. About 60 per cent of development projects implemented within this sector also failed to meet their indicator targets.

11.5.3 **Social Development**

11.5.3.1 This theme now comprises four sub-themes, namely: Health, education, gender, and youth and sports development. The health and education sectors performed just above average due to good performance in terms of annual indicators and core outputs. The health sector managed to achieve 7 of its indicator targets. For example, TB cure rate increased from 73 per cent in 2006/07 to 79 per cent, which was above the target of 77 per cent; nurse to population ratio declined from 1:3,653 to 1:3,062, which was below the target of 1:3,400; and proportion of births attended by skilled personnel increased from 41 per cent to 45 per cent, which was the target. However development projects performance was unsatisfactory as only 16 per cent of the projects achieved their targets. The performance of the education sector in annual indicators, core outputs and development projects was satisfactory. The sector achieved 15 of the 22 indicator targets and 1 of the 2 core outputs whereas 68 per cent of the development projects achieved their targets. However indicators on the quality of education did not perform well.

11.5.3.2 The gender, youth and sports development sectors performed above average and this was based on achievements in annual indicators, core output targets, and development projects performance. For the gender sector, 1 of the 2 annual indicator targets was achieved and 3 of the 4 core output targets were met. In addition, 79 per cent of the development projects achieved their targets. For the youth and sports development sector, 2 of the 3 annual indicator targets were achieved and 12 of the 16 core output targets were achieved. The sector implemented one development project, that is, the rehabilitation of the Kamuzu Stadium and the project only managed to achieve 67 per cent of its targets.

11.5.4 **Infrastructure Development**

11.5.4.1 The sectors that were assessed under this theme were technology and research development; and air and rail transport. The performance of technology and research development was not that satisfactory. Much as 4 out of 6 output targets that had data were achieved, development projects performance was poor as only 37 per cent of the projects met their targets. The air and rail transport sector had an average performance, an improvement compared to 2006/07 when it performed poorly. The sector managed to achieve 8 of the 9 annual indicators which included improvements of runways, improvement in equipment used and traffic growth in terms of passengers and freight. The sector also managed to achieve 1 of the 2 core output targets. However, in terms of development projects, the sector performed poorly as only 38 per cent of them achieved their targets.

11.5.5 **Improved Governance**

11.5.5.1 This theme comprises two sub-themes which are the economic governance and democratic governance. The economic governance sector performance was above average in terms of achievements of annual indicators and core outputs. All 9 annual indicator targets for the sector were met. For example, annual GDP growth rate increased from 6.7 per cent in 2006 to 8.6 per cent in 2007, which was above the target of 6 per cent, and income per capita increased from US$MK265 to US$284 which was the target. Inflation rate declined to single digit from 13.9 per cent in 2006 to 7.9 per cent in 2007, and domestic debt as percentage of GDP declined from 12.1 to 11.9 during the same period. This was below the targeted inflation rate of 12.6 per cent. In terms of core outputs, 14 out of 18 output targets were achieved. In terms of development projects, the performance was poor as only 25 per cent of them achieved their targets whereas 50 per cent of the projects did not have data.

11.5.5.2 Under democratic governance, performance assessment was made on Anti-Corruption Bureau (ACB), justice and the rule of law, and security. The ACB was rated as having performed above average and this was based on the achievements of annual indicators and core outputs. Six of the eleven annual indicators were met and these include number of prosecution cases completed, which increased from 16 cases in 2006/07 to 21 cases in 2007/08, and the number of cases taken to court, which increased from 68cases to 95 cases. All two core output targets were achieved and these were corruption and fraud reduced, and law enforcement enhanced.

11.5.5.3 Comprehensive assessment of the justice and the rule of law sector were hindered by lack of data on annual indicators and development projects. Progress was only reported on core sector output targets achieved where the sector managed to achieve all the 4 targets. The security sector comprises Ministry of Home Affairs, Malawi Police Service, Malawi Prisons, and Defence. The review rated this sector as having performed above average based on achievement of annual indicators and core outputs. All the 4 annual indicator targets were achieved and these include decline in crime rate from 725 in 2006/07 to 704 in 2007/08, reduction in the police to population ratio from 1:1,320 to 1:1,322, decline in the warden to prisoner ratio from 1:14 to 1:11, and a constant proportion of 5 per cent of female to male soldiers. The sector also managed to achieve 5 of the 10 core output targets.

Chapter 12

BANKING AND FINANCE

12.1 The Banking System

12.1.1 Broad money rose by 33.3 per cent to K139.6 billion in 2008 compared to an expansion of 36.9 per cent in 2007 on account of a rise in net domestic assets as net foreign assets decreased. The expansion in net domestic assets was largely due to credit extension to the private sector, which rose to K68.1 billion in 2008 from K47.3 billion in 2007. The bank rate in 2008 closed at 15.0 per cent, a level it has held since November 2007 while the commercial banks lending and savings rates were averaged 19.3 per cent and 3.0 per cent, respectively. Thus, liquidity management was done mostly through open market operations supported by foreign exchange operations.

TABLE 12.1: MONETARY SURVEY (K'MN)

	End month balances				Changes during periods			
	2005	2006	2007	2008[7]	2005	2006	2007	2008
A. NET DOMESTIC CREDIT								
1. Credit to government (i+ii)	26,409.5	20,339.4	21,111.4	83,861.7	-890.2	-6070.1	772.1	62,750.3
i. Monetary Authorities	11,457.2	7,459.5	-816.5.1	56,711.6	-588.4	-3,997.7	-8,276.0	57,528.1
ii. Commercial Banks.	14,952.2	12,879.8	21,927.9	27,150.2	-301.8	-2,072.4	9,048.1	5,222.2
2. Credit to statutory bodies	307.2	1,212.4	3,736.5	6,043.4	7.7	905.3	2,524.1	2,306.8
3. Credit to private sector (gross)	24,133.6	37,188.9	47,267.1	68,143.5	7,108.3	13,055.3	10,078.3	20,876.3
B. NARROW MONEY (M1)								
4. Currency outside banks	11,514.1	14,653.5	19,561.3	25,261.3	729.5	3,139.4	4,907.8	5,700.0
5. Private sector demand deposits	21,365.7	22,572.7	34,455.1	45,335.5	5,389.4	1,207.0	11,882.4	10,880.4
C. QUASI-MONEY	32,876.4	39,397.9	50,863.4	69,046.6	3,070.9	6,521.5	11,465.5	18,183.2
D. MONEY SUPPLY (M2)[1] (B+C)	65,756.1	76,624.0	104,879.8	139,643.3	9,189.8	10,867.9	28,255.7	34,763.5
E. NET FOREIGN ASSETS	11,382.5	23,199.7	27,726.4	18,665.5	1,383.9	11,817.2	4,526.7	-9,060.9
6. Monetary Authorities	6,947.9	15,542.9	25,763..3	15,400.0	4,028.9	8,595.0	10,220.4	-10,363.3
7. Commercial banks.	4,434.6	7,656.8	1,963.1	3,265.5	-2,645.0	3,222.1	-5,593.7	1,302.4

Source: Reserve Bank of Malawi
[1]From December 2008, the figures comprise eight banks

Note: Monetary survey encompasses data on the central bank and eight commercial banks: National Bank, Standard Bank, ECObank, NedBank, IndeBank, NBS Bank, Opportunity International Bank of Malawi and First Merchant Bank (Malawi) Limited.

12.2 **Money and Quasi Money**

12.2.1 Money supply rose by K34.8 billion to K139.6 billion in 2008 compared to an increase of K22.1 billion to K104.9 billion in 2007. This outcome is explained by increases of 30.7 per cent to K70.6 billion and 35.7 per cent to K68.9 billion in narrow money and quasi money, respectively. Currency outside banks increased by K5.7 billion to K25.3 billion whilst demand deposits rose by K10.9 billion to K45.3 billion. The increase in the above components of narrow money reflected an increase in economic activity particularly in the agriculture sector during the year.

12.2.2 The increase in quasi money mainly arose from both time and savings deposits as well as foreign currency deposits. With growth of 39.0 per cent, time and savings deposits accounted for a larger part of the increase in quasi money, reflecting increased income as the economy grew by 9.7 per cent in 2008. Foreign currency deposits rose by 29.4 per cent to K22.2 billion. This was mainly due to new foreign currency deposits accounts coupled with exchange rate gains following the depreciation of the kwacha against most of the hard currencies.

12.3 **Net Domestic Credit**

12.3.1 Net domestic credit extended by the banking system rose by K85.9 billion to K158.0 billion in 2008 following another increase of K13.4 billion in 2007. Gross credit to the private sector increased by 44.2 per cent (K20.9 billion) to K68.1 billion following another increase of K10.4 billion in the previous year. Most of the credit during the year went to the Agricultural sector which borrowed in order to purchase farm inputs.

12.3.2 Net credit to statutory bodies increased by K2.3 billion to K6.0 billion in 2008. Credit extended by the commercial banks for the purchase of maize explained the larger part of this movement as it increased by K1.6 billion to K4.1 billion during the year 2008. Central bank's net lending to statutory bodies also increased by K706.5 million to K2.0 billion.

12.3.3 The banking systems' net credit to government recorded an annual increase of K62.7 billion to K83.9 billion as compared to an increase of K772.1 million in the preceding year. This increase was mainly explained by an increase of K33.3 billion in monetary authorities' holdings of Treasury bills and K29.8 billion holdings of local registered stocks following recapitalization of the central bank. In addition, commercial banks' net lending to government increased by K5.2 billion despite an increase of K1.7 billion in government deposits. The increase in borrowing from commercial banks emanated from increased uptake of Treasury bills.

12.4 **Commercial Banks: Sources and Uses of Funds**

12.4.1 Total resources of the commercial banks rose by K44.8 billion to K164.7 billion at the end of 2008 following another increase of K11.6 billion in 2007.

Deposits of the private sector were the main source of funds for the commercial banks as they recorded an increase of K29.3 billion. This development was explained by increased economic activity during the year. Capital accounts rose by K8.7 billion on account of profits made during the year whereas official sector deposits, particularly those for parastatal bodies rose by K1.5 billion to K5.0 billion. However, liabilities to non-residents declined by K1.7 billion compared to an increase of K3.2 billion recorded during the preceding year. This was partly explained by increased demand for foreign exchange during the year which compelled investors to draw down on their foreign currency denominated account holdings.

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

	End Period Balances				Changes During Period			
	2007		2008		2007		2008	
A Sources of Funds	1st half	2nd half		Year	1st half		2nd half	Year
1. Private sector	82,858.3	112,128.3	9,333.2	13,129.6	22,462.8	12,798.9	16,471.1	29,270.1
2. Official Sector Deposits[1]	3,437.1	4,961.8	328.0	808.9	1,136.9	16.2	1,508.5	1,524.7
3. Borrowing from the RBM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Foreign Borrowing	5,845.6	4,168.3	531.8	3,744.2	3,212.4	-1,160.0	-517.3	-1,677.2
5. Capital Accounts	16,577.6	25,232.4	1,741.6	855.8	2,597.4	4,010.2	4,644.6	8,654.8
6. All other liabilities[2]	11,195.0	18,245.2	1,385..8	97.5	1,483.3	5,997.5	1,052.8	7,050.3
Total (1+2+3+4+5+6)	119,913.6	164,736.2	12,256.8	18,636.1	30,892.9	21,662.8	23,159.7	44,822.6
B. Uses of Funds								
I. Domestic credit to:								
7. Private sector (gross)	47,267.1	68,143.5	3,747.0	6,331.3	10,078 3	12,680.1	8,196.2	20,876.3
8. Statutory bodies (gross)	2,470.2.	4,070.6	1,234.9	22.9	1,257.8	382.3	1,218.0	1,600.4
9. Central Government (gross)	22,904.9	29,858.3	5,756.1	3,543.9	9,299.9	4,780.2	2,173.2	6,953.4
10. Sub-total (7+8+9+10)	72,642.2	102,072.4	10,738.0	9,898.1	20,636.0	17,842.6	11,587.4	29,430.1
II. Deposits with Reserve Bank plus currency in banks	8,043.7	10,421.0	-1,390.7	2,430.0	1,039.3	1,687.8	689.5	2,377.3
III. Foreign assets	7,808.7	7,433.8	743.1	-3,224.4	-2,481.2	3,667.9	-4,042.8	-374.9
IV. All other assets[2]	31,418.9	44,809.9	2,166.5	9,532.4	11,698.8	-1,535.6	14,925.6	13,390.0
V. Total (I+II+III+IV)	119,913.6	164,736.2	12,256.8	18,636.1	30,892.9	21,662.7	23,159.7	44,822.6

Source: Reserve Bank of Malawi

[1]Statutory bodies and local authorities

[2]Including inter-bank accounts

12.4.2 Most of the resources of the commercial banks (About 65.7 per cent) were used in extending credit to the domestic economy that recorded an annual increase of 41.3 per cent. Credit to the central government rose by K7.0 billion mainly due to increased uptake of Treasury bills by the commercial banks. Commercial banks' credit to the private sector rose by K20.9 billion to K68.1 billion following another increase of K10.1 billion in the preceding year. Commercial banks lending to statutory bodies rose by K1.6 billion to K4.1 billion. Foreign assets of commercial banks dropped by K375.0 million to K7.4 billion because most investors opted to draw down their foreign currency savings in order to meet their foreign exchange requirements.

12.5 Reserve Bank of Malawi: Sources and Uses of Funds

12.5.1 Resources of the Reserve Bank of Malawi rose by K70.0 billion to K141.4 billion during the year following another increase of K27.5 billion in 2007. The increase mainly emanated from unsectored liabilities reflecting the recapitalization of the Reserve Bank and intensification of mop up operations during the year. Foreign liabilities rose by K13.5 billion to K18.2 billion largely due to loan disbursements by the International Monetary Fund. Government deposits which recorded an annual increase of K5.3 billion to K29.3 billion also explained the increase in central bank sources of funds. Government deposits increased mainly due to increased donor support especially in December 2008. Currency outside banks rose by K5.7 billion to K25.3 billion following another increase of K5.1 billion in the previous year as the country continued to register buoyant economic growth rates. Currency in banks rose by K2.7 billion to K10.2 billion in line with increased customer deposits.

12.6 Other Financial Institutions: Sources and Uses of Funds

12.6.1 The consolidated position of the Other Financial Institutions (OFI) expanded in 2008 as reflected by comparable increases of 92.2 per cent (K8.9 billion) in both assets and liabilities of the institutions. The assets of the OFIs represented 11.3 per cent of the entire banking sector's assets compared to 8.0 per cent registered in 2007.

12.6.2 Total resources of the OFIs amounted to K18.5 billion following an annual increase of K8.9 billion in 2008. The OFIs major sources of funds were holdings of time and savings deposits that were up by 73.5 per cent to K10.1 billion mainly on account of proceeds from marketing of agricultural products. Transferable deposits withdrawable on demand also increased to K2.4 billion in 2008 from K594.0 million in 2007 and this was on account of increases in deposits of the agricultural and financial services sectors. Other liabilities increased by K1.1 billion to K2.3 billion explained largely by interest accrued on loans. Capital and reserves rose by K925.1 million largely due to profits retained from previous years.

12.6.3 The OFIs invested most of their funds in the domestic sector. The stock of outstanding loans and advances to the private sector, which comprise secured and unsecured loans improved by K2.8 billion to K7.7 billion. The wholesale and retail trade accessed the largest share at 36.5 per cent followed by the agricultural sector that held 22.1 per cent of the credit. Claims on the central government increased by K2.2 billion and was entirely explained by an uptake of government Treasury bills following rising yields in the year. The OFIs unsectored assets rose by K2.4 billion to K4.4 billion mainly through money market lending, reflecting open market operations following excess reserves in the last half of the year. Investments in foreign assets increased by K588.3 million to K732.3 million and constituted only 4.0 per cent of the total assets.

12.7 **Money Markets**

12.7.1 Treasury bill subscriptions increased by 9.0 per cent and amounted to K168.7 billion in 2008 compared to an increase of 25.8 per cent in 2007. Nevertheless, the increase reflected higher-than-normal liquidity conditions that prevailed in the system in 2008.

TABLE 12.3: TREASURY BILLS PRIMARY MARKET, PERIOD TOTALS (FACE VALUES K'BILLION)

	Annual	2008				Annual
	2007	Qtr 1	Qtr 2	Qtr 3	Qtr 4	2008
Total subscription	154.7	54.1	30.7	39.5	44.3	168.7
Issues	109.6	32.8	40.6	62.2	57.8	193.4
Maturities	117.5	33.7	37.9	50.0	34.0	155.7
OMO Portfolio	17.8	1.1	7.6	15.1	0.0	23.8
Normal	99.7	32.6	30.3	34.9	34.0	131.9
Net Issues(+)/maturities(-)	-7.9	-1.1	2.7	12.2	23.8	137.8
Treasury bill stock	84.4	83.4	86.2	98.4	122.3	122.3
Treasury bill stock at cost value	78.1	78.2	81.0	91.0	112.7	112.7

12.7.2 Total issues amounted to K193.4 billion comprising K132.3 billion normal T-bills and K60.9 billion OMO T-bills, representing an increase of 76.4 per cent from a total of K109.6 billion issued in 2007. The increase in issues was mostly in accordance with higher level of maturities in 2008 amounting to K155.7 billion compared with K117.5 billion in 2007. Effectively, 2008 registered overall net issues of K37.7 billion at face value (K28.7 billion at cost value) compared with net maturities of K7.9 billion at face value in the previous year.

12.7.3 The aggregate annual net issues registered in 2008 increased the outstanding Treasury bill stock from K78.1 billion (K84.0 billion at face value) at the end of 2007 to K112.7 billion (K122.7 billion at face value) as at 31st December 2008 at cost values. The rise in outstanding T-bill stock mostly emanated from growing OMO T-bill holdings by the Reserve Bank which more-than-doubled during the year to stand at K55.3 billion (K61.1 billion at face value) at the end of 2008 from K22.0 billion (K23.8 billion at face value) last year at cost values.

12.7.4 Treasury bills holdings by commercial banks grew steadily during the year to K29.3 billion from K21.0 billion in December 2007 while private sector holdings rose to K21.0 billion from K20.1 billion. However, holdings by discount houses dropped to K7.1 billion compared with K9.0 billion at the end of last year. Foreign sector holdings which stood at K6.0 billion at the end of 2007 dropped to zero as all investors pulled out from this market due to the impact of global financial crisis.

12.7.5 Holdings of Local Registered Stocks (LRSs) mainly by commercial banks and other financial institutions stood at K3.6 billion compared to K3.7 billion in December 2007. Treasury Notes (T-notes) held by the Reserve Bank mostly in respect of recapitalisation of the Bank stood at K31.1 billion as at the end of December 2008.

TABLE 12.4: TREASURY BILLS HOLDINGS BY SECTOR (K'BILLION)

	2007	2008			
	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total Stock (Cost Value)	78.1	78.2	81.0	91.0	112.7
Of which T-bill holdings by:					
Reserve Bank	22.0	21.4	25.0	39.4	55.3
Commercial Banks	21.0	24.4	25.4	26.8	29.3
Discount Houses	9.0	7.5	6.6	4.4	7.1
Foreign Sector	6.0	5.9	2.5	0.5	0.00
Non-banks	20.1	19.0	21.5	19.9	21.0

Source: Reserve Bank of Malawi

12.7.6 There was steady increase in T-bill yields during the first half of 2008 only to stabilize after August 2008 in response to higher-than-normal liquidity in the market. The all-type yield stabilized at around 9.45 per cent over the first quarter of 2008 before it started to rise again, gaining 19 basis points to an average upper limit of 9.64 per cent during the second quarter. The general rise in T-bill yields during the second quarter of 2008 was a result of under-subscriptions on the primary auctions. However, at close of period in 2008, there was a general downward trend in all the yields compared to same period in 2007. The 91-day, 181-day and 273-day tenors averaged 11.33 per cent, 9.97 per cent and 11.53 per cent, respectively, compared to 14.24 per cent, 14.32 per cent and 14.45 per cent in 2007. The all-type yield lost 330 basis points to close at 10.94 per cent

12.8 CAPITAL MARKETS

12.8.1 There was redemption of Local Registered Stocks (LRS) amounting to K44.0 million and a conversion of stocks amounting to K101.6 million during the review period. However, no issue of LRS took place during this period. As a result, the outstanding stock of LRS closed off the year at K3.614 billion compared to K3.657 billion recorded at the end of preceding year.

12.8.2 The LRS market recorded no activity during the year as investors showed continued preference to hold onto their instruments which offer higher yields in the range of 20.0 per cent to 38.0 per cent, compared to short term Treasury Bills and RBM Bills whose yields fell in the range of 8.5 to 20.0 per cent during the review period.

12.8.3 Two new companies, which are REAL Insurance Malawi and Telekom Networks Malawi (TNM), officially listed on the Malawi Stock Exchange (MSE) during the review period. As such, the number of counters on the Stock Exchange increased from thirteen (13) to fifteen (15). REAL Insurance Malawi offered 77.5 million shares at an offer price of K2.30 per share while TNM offered 1.2 billion shares at an offer price of K2.00 per share. Both IPO's were oversubscribed by factors of 2.8 times and 3.05 times, respectively.

12.8.4 During the year, a total of 598.8 million shares valued at K8,353.5 million were transacted in 3,269 deals compared to 359.0 million shares that exchanged hands for a turnover of K5,154.6 million in 2,595 deals in the preceding year. The Malawi All Share Index (MASI) closed off 1,230.60 points higher at 6,080.39 points from 4,849.79 points recorded at the opening of the review period. The increase in MASI was attributed to the rise in Domestic Share Index (DSI) which rose from 3,823.49 to 4,806.96 points during the period under review. The Foreign Share Index (FSI) was static at 521.59 points during the review period. During the same period in the corresponding year, the MASI closed off at 2,310.67 points.

12.8.5 Market capitalisation closed off at K1,838.3 billion from K1,769.2 billion recorded at the close of the preceding year. In the corresponding year, market capitalisation stood at K1,672.1 billion.

Chapter 13

PUBLIC ENTERPRISES

13.1 Overview

13.1.1 Public enterprises are government controlled entities that are mainly engaged in the production of goods and services, with the requirement to substantially operate on commercial basis. They are outside the general government sector and are also separate from the government financial enterprises. Currently, 10 public enterprises are monitored and these undertake a range of activities across six main sectors—electricity, water, transport, communication, housing and agriculture.

13.1.4 The statutory bodies being monitored by the Ministry of Finance comprise the Agricultural Development and Marketing Corporation (ADMARC), Air Malawi (QM), Electricity Supply Commission of Malawi (ESCOM), Malawi Housing Corporation (MHC), Malawi Posts Corporation (MPC), Blantyre Water Board (BWB), Central Region Water Board (CRWB), Lilongwe Water Board (LWB), Northern Region Water Board (NRWB) and Southern Region Water Board (SRWB).

13.1.2 The size of the public enterprises varies substantially and across sectors. In the reporting period to June, 2008, the smallest in terms of asset value was Malawi Posts Corporation with K918 million worth of assets and the largest was Electricity Supply Commission of Malawi with K31 billion worth of assets. ESCOM accounted for 36 per cent of the total asset values of the total commercial public enterprises being reported. Despite the fact that performance of some enterprises was not satisfactory, there has been improvement in the overall financial performance and delivery of service with a relative slide in electricity and water sectors.

13.2 Financial Performance Overview

13.2.1 The financial performance will be affected by variations in operating conditions. Such changes in conditions include variations in the demand for the enterprises' goods and services, costs of production and the regulatory framework dynamics from the shareholder, including operating directives. The existence of non-commercial objectives may also have affected the financial performance of the public enterprises. In addition the prices of goods and services are largely determined by either independent price regulators in the case of electricity or approval by line ministries in the case of the water sector.

13.2.4 The valuation of assets and their periodic revaluation have also affected financial performance of enterprises. For example, Lilongwe Water Board's performance and asset base have increased significantly due to the revaluation exercise in accordance with the International Accounting Standards (IAS16),

13.3 Profitability

13.3.1 Profitability reflects a business's capacity to generate earnings from the capital invested in its activities. Increases in the retained profits add value to the shareholders equity. If equity holders are to obtain a full financial return their investment in SBs, profits need to be sufficient to generate a return similar to that available from alternative investments with similar risk profiles. In this report, the profitability measures include the level of operating profit, the return on assets and equity, and the current ratio. A full financial return would equate at least to the risk free return in the short term on capital plus margin reflecting the non-diversifiable risk inherent in the investment. The risk free results vary from year to year depending on the return from the Government bonds.

13.4 Performance Management Plans and Budgets (PMPB)

13.4.1 During the year 2008/09 Financial Year, the Treasury provided advice to all the commercial parastatal organizations on the shareholders Performance Management Plans and Budgets. The framework provided Government position on management plans and informed overall policy settings and the context of resources allocation. This framework is updated every six months.

13.5 Overview of Performance

13.5.1 Over the reporting period, several enterprises earned negative returns on assets and equity notably in the transport and water sectors. A good proportion of monitored enterprises reported pre-tax operating profits. Given the non-diversifiable risk inherent in any business activity, it was reasonable for Government, as a shareholder to expect that almost all commercial enterprises should be generating returns above the risk free rate of 7 per cent.

13.5.2 As budget estimates are a joint responsibility, preparation of advice, therefore, required extensive liaison with the Office of the President and Cabinet, Department of Statutory Corporations and line Ministries involved in the business of the parastatal in question. Assessment of the budget position and estimates incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date commercial information available.

13.5.3 Out of ten parastatals, only two, that is, Malawi Housing Corporation and Southern Region Water Board had recorded positive operating profits and eight had registered operating losses.

TABLE 13.1: SUMMARISED INCOME STATEMENTS OF THE COMMERCIAL STATUTORY BODIES FOR PERIOD ENDED JUNE 08

Description	SRWB K'million	NRWB K'million	BWB K'million	MHC K'million	CRWB K'million	LWB K'million	MPC K'million	ESCOM K'million	AIR MW K'million	ADMARC K'million
Total Revenue	613	473	1,485	734	416	1,364	822	7,440	3,750	3,239
Total Direct Expenses	457	275	1,589	604	354	1,194	458	7,555	3,173	2,582
Contribution	156	228	(104)	130	62	170	364	(115)	577	2,957
Total Overheads	147	749	197	42	308	529	650	1017	686	3,508
Operating Profit/(loss)	9	(521)	(93)	88	(246)	(359)	(286)	(902)	(109)	(551)

Source: Audited Financial Statements and Management Accounts

TABLE 13.2: SUMMARISED BALANCE SHEET OF THE COMMERCIAL STATUTORY BODIES FOR THE PERIOD ENDED JUNE, 2008

Description	SRWB K'million	NRWB K'million	BWB K'million	MHC K'million	CRWB K'million	LWB K'million	MPC K'million	ESCOM K'million	AIR MW K'million	ADMARC K'million
Total Current Assets	417	319	944	615	191	1,018	312	3,864	907	3,962
Total Gross Fixed Assets	6,671	2,264	2,753	12,294	1,429	10,159	805	28,286	3,579	4,769
Accumulated Depreciation	(150)	(61)	(115)	(25)	(45)	(169)	(199)	(975)	(376)	(56)
Total Net Fixed Assets	6,521	2,203	2,638	12,269	1,384	9,990	606	27,293	3,203	4,713
Total Assets	6,938	2,522	3,582	12,884	1,575	11,008	918	31,157	4,110	8,675
Total Current Liabilities	99	260	1,077	612	524	2,945	551	8,613	1,270	3,973
Non-Current Liabilities	6,188	3,662	913	72	1,647	1,452	440	13,987	2,703	1,471
Total Liabilities	6,287	3,922	1,990	684	2,171	4,397	991	22,600	3,973	5,444
Net Worth	651	(1,400)	1,592	12,200	(596)	6,611	(73)	8,557	137	3,231
Total Liabilities and Equity	6,938	2,522	3,582	12,884	1,575	11,008	918	31,157	4,110	8,675

Source: Audited Financial Statement and Management Accounts

TABLE 13.3: SUMMARISED CASH FLOW STATEMENT OF THE KEY STATUTORY BODIES FOR THE PERIOD ENDED JUNE 30, 2008

	SRWB K'million	NRWB K'million	BWB K'million	MHC K'million	CRWB K'million	LWB K'million	MPC K'million	ESCOM K'million	AIR MW K'million	ADMARC K'million
Operating Cash flow	60	(61)	(56)	134	(365)	114	(28)	1,750	272	(463)
Investing Cash flow	(161)	(395)	(130)	(14)	(207)	(60)	(29)	(2,580)	(5)	(16)
Cash flow Before Financing	(101)	(456)	(186)	120	(572)	54	(57)	(830)	267	(479)
Financing Cash flow	82	514	(29)	0	695	(136)	32	371	(246)	132
Total Cash and Cash Equivalents	(19)	58	(215)	120	123	(82)	25	(459)	22	(347)

Source: Audited Financial Statements and Management Accounts

13.6 Detailed Analysis of Parastatal Organizations

13.6.1 The parastatal organizations vary significantly in size and range of business. These organizations generated K20.3 billion in revenues and controlled assets valued at K90 billion. Despite realising a net loss or a net profit, the enterprises managed to remit just over K2.21 billion to Government, through income-tax equivalent payment and other tax related payments. The overall performance of the ten key commercial organizations is detailed below.

13.7 Electricity Supply Corporation of Malawi (ESCOM)

13.7.1 Government embarked on reforms aimed at improving the efficiency and financial performance of the Corporation. Reforms focused on the competitiveness of the service delivery and the financial restructuring emphasizing on balance sheet restructuring. These reforms are envisaged to have some impact on the financial statements and its associated liquidity position.

13.7.2 The performance of the Corporation with respect to integrated strategic plan targets was generally good except for few critical areas where performance was below the targets. Due to the constrained generation capacity currently experienced by the Corporation, total power that was generated from all serviceable stations was 1.513 million kWh against a revised target of 1.547 million kWh, representing a decline of 3 per cent.

13.7.3 Some progress was made on Optic Fibre Communication (OFC) Project such that tests were carried out. It is envisaged, however, that the commercial operation of the OFC will commence fully in the next financial year. The Corporation still faces challenges with respect to the implementation of major projects in the generation and transmission sub-sectors and this is largely due to financial constraints emanating from low levels of tariff.

13.7.5 The Corporation's efforts are focused on getting Tedzani I & II Hydropower Stations back into operation and this would lead to additional 40MW of energy. Furthermore, considerable efforts are underway towards completion of Kapichira Hydro Power Station Phase II Project which will also add to the generation and this will help address the challenge of power shortage if it is successfully done.

13.7.6 Profitability

13.7.6.1 Profitability is influenced by a number of factors, including unit pricing, business volumes and operating expenses. The corporation closed the financial year with a net loss of K902 million mainly due to general increases in costs of materials and an increase in the provision of bad debts. The corporation actual bad debt provision was K1.1 billion against budgeted K363 million, representing an increase of 203 per cent.

13.7.6.2 Further, the corporation is insolvent as its operating assets are 50 per cent less than operating liabilities. The bank overdraft increased to K854 million from K400 million recorded in the previous year, representing an increase of 113 per cent. The overall financial performance has resulted in aggregate deficit cash and cash equivalents balance of K411 million compared to a positive balance of K47.3 million in the previous year.

13.7.6.3 Of concern is the huge trade receivables amounting to K2.3 billion and this indicates that the Corporation is only collecting 60 per cent of what is billed to its customers. This has, in turn, forced ESCOM to resort to short term borrowing at high interest rates. Total noncurrent liabilities increased to K13 billion from K12 billion in the previous year, representing an increase of 8 per cent.

TABLE 13.4: KEY FINANCIAL PERFORMANCE INDICATORS FOR THE CORPORATION

Size	2007/08	2006/07
Total assets (K'million)	31,157	25,788
Total revenue (K'million)	7, 440	6,404
Profitability		
Return on total assets (%)	-2	-2
Return on equity (%)	7	6
Earnings before Interest and tax (K'million)	-711	-606
Financial management		
Debtors' Collection Current ratio (%)	0.45	0.49
Profit margin (%)	-10	-9
Debtors Collection Days	118	148

13.8 Blantyre Water Board (BWB)

13.8.1 During the period under review, the Board continued with the rehabilitation programme of its electrical and mechanical equipment in order to mitigate water shortages in terms of supply. This aims at improving water pumping capacity. Owing to the decentralisation of its operations, the Board managed to reduce the average non-revenue water (NRW) loss from 53 per cent at the start of the year to 45 per cent against the budgeted of 40 per cent. A total of 1,165 new connections were made as compared to 501 in the previous financial year, representing an increase of 131 per cent.

13.8.2 The Board continued operating with a lot of challenges, ranging from failure to adequately supply potable water for 24 hours every day. This is a result of the aging and poor state of infrastructure as they fail to produce maximum output. Aging of equipment resulted in continuous breakdown at all pumping stations, despite the rehabilitation programme. Heavy siltation at Walkers Ferry intake and Mudi Dam, including frequent pipe bursts and leakages leading to high water losses also contributed to the ineffectiveness of service delivery.

13.8.3 **Profitability**

13.8.3.1 The performance for the year was relatively better. The Board registered a net loss of K93 million, a better position than a net loss of K132 million registered in the previous financial year. This gives a variance of about K93.9 million from the budgeted net profit of K127 million. This is mainly due to high depreciation charges and impairment losses arising from aging equipment and high interest rates from on-lent loans. The interest charge is at K126 million on total loan portfolio of K2.1 billion. There is a pending debt swap currently being pursued by Government and this is expected to reduce the interest charges in the ensuing years.

13.8.3.2 Total revenue generated by the Board was K1.5 billion compared to K1.2 billion realised in the previous year, representing an increase in revenue of 25 per cent. Total operating expenses for the period was K1.4 billion, that is, 93 per cent of total revenue generated and higher by 23 per cent than K1.1 billion recorded in the previous year.

TABLE 13.5: KEY FINANCIAL INDICATORS FOR THE BOARD

Size	2007/08	2006/07
Total assets (K'million)	3,153	3,100
Total revenue (K'million)	1,486	1,195
Profitability		
Return on total assets (%)	5	2
Return on equity (%)	14	5
Earnings before Interest and tax (K'million)	115	55
Financial management		
Debtors Collection Current Ratio (%)	0.73	0.57
Debtors Collection Days	272	200

13.9 **Northern Region Water Board (NRWB)**

13.9.1 The performance of the Northern Region Water Board was satisfactory compared to the previous financial year. This was largely attributed to the continued growth of the customer base over the period as well as the tariff adjustment and the efficiencies built in the processes that resulted in controlled costs in some of the cost lines.

13.9.2 The Board has further improved the level of the population that access potable water in its operating areas from an estimate of 62.4 per cent to 66 per cent. The growth was achieved through the connection of 3,924 new customers by using the resources from the loan contracted from National Bank of Malawi.

13.9.3 The new connections presented a cash flow challenge initially since the Board subsidized the new water connection charges. However, this initiative paid off as the Board was able to increase the volume of its business by 14 per cent by connecting many customers, thereby realizing the goals of the Malawi Growth and Development Strategy.

13.9.4 The Board managed to slightly reduce the level of unaccounted for water to 32.6 per cent from 35.5 per cent recorded in the previous year. However, it still faces the challenges of stuck meters, dilapidated equipment and vandalism that result in water wastage and increasing levels of unaccounted for water.

13.9.5 **Profitability**

13.9.5.1 The board registered a net loss of K521 million in 2008/09 financial year. This is a result of the net severance pay provisions of K29 million paid out in the year. The Board adopted and was using a disclosure method for the severance pay in the previous years as opposed to the full provision adjustment made in the 2008/09 fiscal year.

13.9.5.3 The main challenge for the Board is that water tariff charged is too low to meet the need for capital maintenance, debt servicing and high operating costs in this industry. In addition, the Board is still unable to pay off long-term loans to both Development Bank of Southern Africa and Malawi Government largely due to low revenues.

TABLE 13.6: KEY FINANCIAL INDICATORS FOR THE BOARD AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	2,521	1,978
Total revenue (K'million)	473	372
Profitability		
Return on total assets (%)	19	19
Return on equity (%)	32	35
Earnings before Interest and tax (K'million)	-24	-15
Financial management		
Debtors' Collection Current ratio (%)	1.23	0.42
Debtors Collection Days	52	44

13.10 Malawi Posts Corporation (MPC)

13.10.1 The Corporation achieved almost all license indicators mail delivery as set by MACRA. However, it is struggling financially as a result of loss making post offices, which are operated on low capacity and well much as social entities. Out of 178 post offices, only 58 are profitable entities while the rest are the source of the dismal financial performance of the Corporation.

13.10.2 In addition, the Corporation is selling at postage rate (domestic) of K40 below the base cost of posting a letter of K62.52. Domestic letters constitute 70 per cent of the total postal revenue. Hence, low postage rates contribute significantly to the loss incurred by the Corporation.

13.10.3 In addition, the Corporation is operating with a lot of challenges, including inherited tax bills to be remitted to MRA and debts from defunct Malawi Posts Telecommunication and Communication. As of now, the tax arrears including penalties have grown to K580 million and MRA is consistently threatening to close the Corporation if tax arrears are not settled.

13.10.4 The Corporation was undergoing restructuring with funding from the World Bank and the counterpart funding from the Government of Malawi. Government was supposed to provide counterpart funding to the tune of K145 million. However, the Bank disbursed the funds to the Corporation while the Government has not yet done so. The failure by Government to disburse its funds has resulted in industrial action particularly on unsettled pension claims. However, the corporation is still waiting for Government to meet its obligations as regards the restructuring of the Corporation.

13.10.5 Profitability

13.10.5.1 Malawi Posts Corporation realised a net loss of K286 million arising mainly from loss making post offices and a significant provision of severance allowance. For the Corporation to do better financially, there is need to revise the postage charges upwards or at the time being Government should provide the counterpart funding as agreed with the World Bank under the restructuring programme of the Corporation.

TABLE 13.7: KEY FINANCIAL RATIOS FOR THE CORPORATION AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	922	931
Total revenue (K'million)	822	832
Profitability		
Return on total assets (%)	89	89
Return on equity (%)	155	157
Earnings before Interest and tax (K'million)	-286	-211
Financial management		
Debtors' Collection Current ratio (%)	0.57	0.89
Debtors Collection Days	116	122

13.11 **Malawi Housing Corporation (MHC)**

13.11.1 During the period under review, the Corporation started to fully actualise the programmes outlined in the strategic plan. The activities undertaken in the year demonstrated the implementation of the new direction in terms of provision of new housing units and fully serviced plots both in high and low density housing categories. The year also provided for the validation of the sites and services programs that have proved to be self-sustaining and self-financing.

13.11.3 This has allowed the Corporation to deliver housing infrastructure in lieu of the substantive housing units that the Corporation is expected to deliver. However, the Corporation has not been able to provide housing units to the required numbers due to financing constraints.

13.11.4 **Profitability**

13.11.4.1 In the past five years, the Corporation has enjoyed a remarkable financial success as demonstrated by the impressive financial performance. Malawi Housing Corporation's revenue base is categorised into two sections which are revenues arising from rentals and project account.

13.11.4.2 However, over the years, the rent account has persistently registered deficits mainly as a result of the sub-economic rentals that are charged on houses. However, the financial performance in the year under review was very good after registering a surplus before taxation and revaluation surplus of K123 million compared to K58 million in 2007. Overall operating profit was K88 million mainly arising from reduced overhead costs and the revaluation exercise.

TABLE 13.8: KEY FINANCIAL RATIOS FOR THE CORPORATION AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	12,884	9,475
Total revenue (K'million)	734	737
Profitability		
Return on total assets (%)	6	8
Return on equity (%)	6	8
Earnings before Interest and tax (K'million)	123	58
Financial management		
Debtors' Collection Current ratio	1	1.07
Debtors Collection Days	154	160

13.12 Southern Region Water Board (SRWB)

13.12.1 The Board considers management, development and utilisation of water resources as a priority in its mandate to provide safe and potable water to the population of Southern Region of the country. Hence, the Board embarked on improving customer service through improved customer care and service delivery. This objective was achieved through maximization of existing production, revenue and service coverage.

13.12.3 The Board increased staff and system efficiencies to ensure that customers get value for their money. The distribution network and operation equipment was optimised to improve water supply services. In addition, the Board continued to reduce high levels of unaccounted for water and operational costs.

13.12.4 The deteriorating water infrastructure coupled with inadequate financing poses a threat in the provision of potable water to the customers. The Board annual water loss for the period was 25.5 per cent lower than the budgeted target of 26 per cent.

13.12.5 Profitability

13.12.5.1 During the year under review, Southern Region Water Board realized an operating profit of K156 million against a budget of K144 million. Water sales went up by 8 per cent above the budgeted figure. Total revenue increased to K613 million from K503 million in the previous year, representing an increase of 22 per cent. Total operating expenses were K457 million, which is 75 per cent of total revenue generated.

13.12.5.2 Overall operating profit for the Board was K9 million which was drastically reduced due to high borrowing costs and high levels of direct expenses that stood at 74 per cent of total revenue generated. In addition, the Corporation had provided for huge depreciation charges of K150 million and the Board is also operating with unsustainable long-term debts amounting to K6.2 billion. However, it is envisaged that the debt swap proposal currently being considered by Government would significantly smoothen operations of the Board.

TABLE 13.9: KEY FINANCIAL INDICATORS FOR THE BOARD AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	6,839	6,777
Total revenue (K'million)	613	504
Profitability		
Return on total assets (%)	8.9	7.4
Return on equity (%)	74	61
Earnings before Interest and tax (K'million)	156	69
Financial management		
Debtors' Collection Current ratio	4.2	5.7
Debtors Collection Days	99	179

13.13 Lilongwe Water Board (LWB)

13.13.1 The volume of water sales for the year under review was 18.08 million cubic meters, representing 71 per cent of total water production. The highest water sales were achieved in June and October, 2008. The low performance is mainly due to the failure to fully commission Ngwenya tank as originally expected.

13.13.2 Lilongwe Water Board lost a total of 7.69 million cubic meters in non-revenue water (NRW), representing 29.85 per cent of total production. In an effort to reduce NRW, the Board embarked on data verification project where a team of officials visited each and every property to ensure that the customer database is correct and up to date.

13.13.4 Profitability

13.13.4.1 The Board registered an operating profit of K176 million against a budgeted operating profit of K262 million, representing a decline of 49 per cent. Total revenue realised amounted to K1.4 billion as compared to K1.1 billion realised in the previous year, representing 27 per cent increase. Total operating expenses were K1.2 billion representing 86 per cent of the total revenue generated and an increase of 16 per cent from the previous year.

13.13.4.2 Overall net loss is mainly attributed to high interest charges on on-lent loans amounting to K121 million, exchange losses of K293 million and depreciation charges of K145 million. However, the unsustainable long term loans on lent with Government would be tackled in the ensuing debt swap.

TABLE 13.10: KEY FINANCIAL RATIOS OF THE BOARD AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	11,008	3,927
Total revenue (K'million)	1,364	1,157
Profitability		
Return on total assets (%)	12	29
Return on equity (%)	21	18
Earnings before Interest and tax (K'million)	170	127
Financial management		
Debtors' Collection Current Raio(%)	0.35	0.37
Debtors Collection Days	143	119

13.14 Central Region Water Board (CRWB)

13.14.1 Central Region Water Board is struggling to expand and rehabilitate its pipe network system though it managed to increase its customer base by new connections. The Board is also operating with high levels of unaccounted for water and operating with inadequate resources to enable it expand its network.

13.14.2 Most of water production and reticulation systems are pretty old and insufficient. This, therefore, calls for continual routine maintenance which could not effectively and diligently be done in the reporting period due to poor cash flows.

13.14.3 Water production was 6.48million cubic meters with 4.90million cubic meters billed, representing an aggregate unaccounted for water of 24 per cent. The Board also extended its customer base by connecting 1,108 new customers in all the schemes, representing a 32 per cent increase over the levels recorded the same period the previous year. It is envisaged that the new projects currently underway will increase the revenue base, thereby enabling the Board to operate at full scale.

13.14.5 Nonetheless, the Board operated with serious challenges ranging from delays by Government in approving tariff increase of 15 per cent. This denied the Board K24 million because the tariff increase was effected late, in December, 2008. This was not in proportion to the increase in operating costs, particularly payroll that increased by 13 per cent from the beginning of the financial year.

13.14.6 **Profitability**

13.14.6.1 The financial performance showed a remarkable increase in operating profit before interest and depreciation as compared to the previous year. The Board registered an operating profit of K61 million mainly as a result of 19 per cent increase in operating revenue. The operating expenditure grew by only 10 per cent which is 1 per cent below the budget.

13.14.6.2 However, the Board net loss of K246 million is a result of high borrowing costs arising from loans on lent. Borrowing costs were above the budget because the budget did not include interest on loans from the World Bank and African Development Bank. It should be appreciated that the Board operated with huge interest rates on on-lent loans amounting to K263 million. Therefore, this means that 63 per cent of revenue is allocated to interest charges.

13.14.6.3 The conversion of on-lent loans by the shareholder would improve the financial health of the Board and release resources for pipe network and reticulation system rehabilitation.

TABLE 13.11: KEY FINANCIAL RATIOS OF THE BOARD AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	1,575	1,399
Total revenue (K'million)	416	349
Profitability		
Return on total assets (%)	26	25
Earnings before Interest and tax (K'million)	61	28
Financial management		
Debtors' Collection Current Ratio (%)	0.36	0.23
Debtors Collection Days	46	46

13.15 **Air Malawi (QM)**

13.15.1 The airline is currently operating under serious constrained conditions due to lack of operating capital and shadow of liquidation and this has led the airline operating at high costs as both customers and suppliers deal with it with very caution. These factors, therefore, have negatively affected the operations of the airline.

13.15.2 The airline experienced serious challenges such as lack of operating aircraft as 737-500 was grounded in December 2007 due to engine overhaul. All the four engines of 737-500 aircraft needed an overhaul amounting to K952 million. This made service delivery almost impossible and eventually impaired the image of the airline.

13.15.3 In addition, the airline lost almost all of its pilots and a significant number of engineers due to uncertainty of its future. The staff turnover also extended to other divisions where the best staff in terms of qualification and experience also left the airline.

13.15.4 **Profitability**

13.15.4.1 Air Malawi realised total revenue of K3.6 billion which is 93 per cent of the revised budget of K3.7 billion. This was as a result of failure by the airline to implement some of the strategic activities such as scheduled maintenance of the aircraft and cancellation of some flights due to unavailability of aircraft.

13.15.4.2 However, the airline realised a net profit before depreciation of K267 million which is 148 per cent below the budgeted one. The net loss amounting to K109 million is indicative of the heavy equipment costs faced in the airline industry. Despite closing the year with net loss, the airline operated with a positive cash and cash equivalent of K22 million and this was inadequate in this capital intensive industry.

TABLE 13.12: KEY FINANCIAL RATIOS FOR THE AIRLINE AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	4,110	4,585
Total revenue (K'million)	3,750	3,080
Profitability		
Return on total assets (%)	91	67
Earnings before Interest and tax (K'million)	314	623
Financial management		
Debtors' Collection Current Ratio (%)	0.71	0.75
Debtors Collection Days	46	59

13.16 Agricultural Development and Marketing Corporation (ADMARC)

13.16.1 The Corporation operated in a regulated environment amid a number of serious challenges. It operated on the premise of a restructured institution though in practice the restructuring and operation were not implemented. For instance, was based on a restructured ADMARC with a limited number of markets. The downsizing, however, did not take place and the current structure includes 250 additional loss making markets in rural areas throughout the country.

13.16.2 The overall operating and financial results for the Corporation was dismal. For instance, the Corporation actual purchases were 93,000 mt against a budgeted tonnage of 175,000 mt, representing only 53 per cent of the budget. The shortfall on actual purchases had a direct impact on the gross profit contribution due to the fixed nature of the ADMARC cost structures. Secondly, the competition, particularly during the buying season resulted in significant increase in actual buying prices of maize over the original budget figures. This in turn brought about a lot of financial constraints as the buying cash was depleted way before the targets were met.

13.16.3 The purchase price of other commodities that could have cushioned the maize produce was slightly high with no big increases in selling prices due to low demand as well as regulatory limitations. For instance, maize was budgeted as K20.00 per kg; but it was was bought at K23.25 and sold at K28.47, representing a margin of K5.22. Other produce like groundnuts and beans were bought at K71.42 and K95.62, respectively, and sold at K100.55 and K110.00. As a commercial entity, prices in cash crops could have cushioned the losses in maize trading but the gross loss was high at the end of the reporting period. In addition, the Corporation also incurred huge costs related to subsidy programme which were not budgeted for. The Corporation handled 80 per cent of the subsidy programme. Government to a certain extent subsidised part of the costs related to the implementation of the programme by disbursing only K58 million out of the K400 million.

13.16.5 **Profitability**

13.16.5.1 ADMARC posted a net loss of K551 million against a budgeted net profit of K181 million mainly due to the above stated reasons. Total revenue generated was K3.2 billion compared to K 2.0 billion generated in the same period the previous year. The core business is able to generate enough revenues to meet all of the operating expenses of the corporation.

13.16.5.2 The net loss realised mainly resulted from the excess expenditure due to the implementation of the subsidy programme. The Corporation incurred extra K342 million from its resources to successfully implement subsidy programme. Debt portfolio at the end of the financial year stood at K2.4 billion for the 2008/09 buying season and is expected to be repaid during the 2009/10 financial year. The Corporation has managed to repay back part of its loans.

13.16.5.3 ADMARC at the end of the 2008/09 fiscal year had stock of agricultural produce amounting K2.1 billion and is expected to bankroll the purchase of agricultural produce in the ensuing buying season and repay back the loans owed to different financial institutions.

TABLE 13.13: KEY FINANCIAL INDICATORS AS AT 30TH JUNE, 2008

Size	2007/08	2006/07
Total assets (K'million)	8,675	4,910
Total revenue (K'million)	3,239	2,017
Profitability		
Return on total assets (%)	37	41
Earnings before Interest and tax (K'million)	-551	101
Financial management		
Debtors' Collection Current Ratio (%)	0.99	1.22
Days 92	304	

13.17 **Outlook for 208/09 Financial Year**

13.17.1 The 2008/09 may slightly be different as regards performance of the key commercial organizations. The enterprises are anticipating relatively stable revenues and reduced operating costs which will mostly be a result of the debt swap. The debt swap that has been highlighted particularly in Water Boards is expected to trigger improved financial performance and position of the Boards.

13.17.2 There are anticipations of high allocative and production efficiencies through close monitoring of Performance Management Plans and Budgets (PMPB). Management is now allocating resources to the core areas of the business and focusing on maintaining the capital base so as to increase productivity and improve service delivery.

13.17.3 The stable revenues and growth are expected to result in distribution of profits through dividends to shareholder. This will be enhanced by restructuring of the balance sheets, among others.

13.18 **CONCLUSION**

13.18.1 Of all the ten key commercial parastatal organizations that have been monitored during the period under review, profitability measured by weighted average return on assets fell significantly and was not in tandem with the philosophy of commercial trading. Total returns on equity and assets in these organizations were below accepted levels.

13.18.2 However, this decline in their performance was largely due to a decrease in profitability. Paramount to the decline in net profit particularly on Water Boards was the high borrowing costs arising from loans on-lent to the corporations, which have significantly reduced the net losses.

13.18.3 In addition, the aggregate profit from operations increased marginally in all the organizations with few exceptions. The Northern Region Water Board, Malawi Posts Corporation, Central Region Water Board and Air Malawi had strongest returns on assets.

13.18.4 The average financial obligation, both operating and non-current obligations of all monitored key commercial organizations increased by 254 per cent to K55 billion compared against the same period in the previous year (K33,686 billion). The increase was largely due to accumulated interest arrears and increase in operating liabilities as a result of uncollected trade receivables.

Chapter 14

PUBLIC FINANCE

14.1 Introduction

14.1.1 This chapter reviews Central Government budgetary operations for the 2009/10 fiscal year vis-à-vis the 2008/09 fiscal year and outlines the functional and economic classification of estimates for the 2009/10 financial year. Specifically, the chapter is in sections on summary of Central Government Budgetary Operations, domestic revenue, recurrent expenditures, development budget, 2009/10 budget and implementation challenges of the 2009/10 budget as presented below.

14.2 Summary of Central Government Budgetary Operations

14.2.1 The main objective of the 2008/09 budget was to provide a framework for reducing domestic debt stock, interest rates, inflation and stabilise the exchange rate. In addition, Government continued to implement medium term policies of promoting economic growth, ensuring food security in the country and implementation of the civil service wage reform in the 2008/09 fiscal year. Government continued to align expenditure with the priorities of the MGDS. Furthermore, fiscal and financial policy was aimed at emphasising development against consumption expenditure.

14.2.2 The fiscal performance of the Central Government budgetary operations was less impressive during the 2008/09 fiscal year than the previous year. The year was characterised by high petroleum prices which adversely affected the prices of fertilizer, resulting in a high fiscal deficit compared to the previous year. In 2008/09 fiscal year, a fiscal deficit including grants was at 4.2 per cent of GDP which was 1.5 per cent higher than the previous fiscal year.

TABLE 14.1 CENTRAL GOVERNMENT BUDGETARY OPERTATIONS 2006/2007-2009/2010

	2006/07 Actual	2007/08 Actual	2008/09 Approved	2008/09 Revised	2009/10 Estimate
Total Revenue and Grants	135,656	167,360	208,071	224,112	250,813
Domestic Revenue	81,718	107,554	118,166	135,731	169,720
Grants	53,938	59,806	89,905	88,381	81,093
Total expenditure and net lending	128,360	153,086	226,825	251,356	258,769
Recurrent expenditure	99,419	121,284	169,604	193,495	190,181
Development expenditure	53,101	64,089	57,221	57,861	66,588
Net lending	566				2,000
Deficit					
Excluding Grants	-46,642	-45,532	-108,659	-115,625	-89,049
Including Grants	7,296	14,274	-18,754	-27,244	-7,956
Spending Directly Related to Privatisation					
Augmented Balance Including Grants	7,296	14,274	-18,754	-27,244	-7,956
Financing	9,184	14,793	23,093	24,217	13,558
Foreign Loans	5,980	7,975	24,503	20,460	20,443
Borrowing	11,067	7,975	24,503	20,460	20,443
Repayment	-5,087	-	-	-	
Domestic Borrowing (net)	190	6,818	1,410	2,204	-6,885
Privatisation Proceeds					
Other Financing (Include Special T-Bills	3,394	-		1,553	
(as a per cent of GDP)					
Revenue (Excluding Grants)	17.6	19.4	18.1	20.8	22.6
Revenue (Including Grants)	29.2	30.2	31.8	34.3	33.4
Total Expenditure	27.6	27.6	34.7	38.5	34.5
Recurrent expenditure	21.4	21.9	25.9	29.6	25.4
Development expenditure11.4	11.6	8.8	8.9	8.9	
Deficit (Excluding Grants)	-10.0	-8.2	-16.6	-17.7	-11.9
Deficit (Including Grants)	1.6	-2.6	-2.9	-4.2	-1.1
GDP at Current Market Prices	**464,537**	**553,820**	**653,709**	**653,709**	**750,069**

Source: Ministry of Finance

14.2.3 Total revenue and grants increased to 34.3 per cent of GDP in the 2008/09 financial year compared to 30.2 per cent of GDP in 2007/08 financial year. This was mainly on account of better performance in tax revenues and improved tax administration. Tax revenues grew by 20.6 per cent from the previous year. As a result, domestic revenues increased to 20.8 per cent of GDP in 2008/09 financial year from 19.4 per cent of GDP in 2007/08 financial year while grants registered an increment of 2.7 per cent of GDP from 10.8 per cent.

TABLE 14.2 CENTRAL GOVERNMENT REVENUE 2006/2007-2009/2010

	2006/07 Actual	2007/08 Actual	2008/09 Approved	2008/09 Revised	2009/10 Estimate
A. GROSS TAX REVENUE	74,480	98,971	107,300	119,398	146,400
1. TAXES ON INCOME AND PROFITS	30,748	40,069	44,790	48,638	61,500
Companies	8,538	11,564	12,830	14,350	17,700
Individuals	22,210	28,262	31,720	33,738	43,200
Non Resident Tax	320	506	720	750	700
P.A.Y.E	16,000	21,354	23,200	24,588	32,500
Withholding Tax	5,000	5,264	6,300	6,700	8,000
Fringe Benefits	890	1,138	1,500	1,700	2,000
Other*		244	240	550	600
2. TAXES ON GOODS AND SERVICES	34,940	46,893	49,550	57,100	68,900
Surtax	25,410	33,109	33,800	38,700	45,500
Excise Duties	9,530	13,784	15,750	18,400	23,400
3. INTERNATIONAL TRADE TAXES	8,792	12,009	12,960	13,660	16,000
Customs Duties	8,792	12,009	12,960	13,660	16,000
Import Duties	8,602	11,921	12,800	13,500	15,800
Miscellaneous Duties	190	88	160	160	200
4. *Less*: TOTAL TAX REFUNDS	2,352	2,600	3,000	3,000	6,520
5. NET TAX REVENUE	72,128	96,371	104,300	116,398	139,880
6. NET NON TAX REVENUE	7,238	8,583	10,866	16,333	23,320
7.TOTAL NET DOMESTIC REVENUE	79,366	104,954	115,166	132,731	163,200
B. NON TAX REVENUE	**7,238**	**8,583**	**10,866**	**16,333**	**23,320**
Treasury Fund Receipts					
Rents					
Departmental Receipts	4,412	4,280	5,144	5,145	6,644
Reimbursements					
Other Revenue		16	30	250	320
Receipts from PIL	2,826	4,287	5,692	10,938	16,356
Transfers to RBM Profits					
GRAND TOTAL	81,718	107,554	118,166	135,731	169,720
(as a per cent of GDP)					
GROSS TAX REVENUE	16.0	17.9	16.4	18.3	19.5
Taxes on Income and Profit	6.6	7.2	6.9	7.4	8.2
Taxes on Goods and Services	7.5	8.5	7.6	8.7	9.2
International Trade Taxes	1.9	2.2	2.0	2.1	2.1
NET TAX REVENUE	15.5	17.4	16.0	17.8	18.6
NON-TAX REVENUE	1.6	1.5	1.7	2.5	3.1
GRAND TOTAL	17.6	19.4	18.1	20.8	22.6
GDP at Current Market Prices	**464,537**	**553,820**	**653,709**	**653,709**	**750,069**

Source: Ministry of Finance

* includes dividend taxes

14.3 **Domestic Revenue**

14.3.1 Gross tax revenues in nominal terms increased from K99 billion in 2007/08 financial year to K119.4 billion in 2008/09 financial year. This represents an increase of 0.4 per cent of GDP from 17.9 per cent of GDP registered in the previous year. There was a significant growth registered under taxes on goods and services as well as taxes on income and profits. Similarly, non-tax revenue registered a 90.3 per cent increase from K8.6 billion in the previous year. This solid performance was buoyed by sound performance in fuel levies. The performance of the domestic revenue collections continues to mirror the overall growth of the economy.

14.4 **Central Government Recurrent Expenditures**

14.4.1 Total expenditures increased from 27.6 per cent of GDP in 2007/08 to 38.5 per cent in 2008/09 financial year (Table 14.1). This is mainly attributed to increased cost of the input subsidy programme and one-off expenditures on May 2009 general elections and 2008 population census.

14.4.2 Tables 14.3 and 14.4 present the functional and economic classifications of the recurrent budget, respectively. As a proportion of GDP, recurrent expenditure was 31.1 per cent of GDP during the 2008/09 financial year, a increase from 26.1 per cent of GDP registered in 2007/08. Total expenditure is expected to decrease to 29.1percent of GDP in 2009/10 financial year. General Public Services and Social Community Services continued to account for the largest share of total recurrent expenditure in 2008/09 financial year with respective shares of 15.6 and 9.5 per cent of GDP. This trend is expected to continue in 2009/10 with General Public Services and Social and Community Services accounting for 12.4 and 9.2 per cent of GDP, respectively. The decline in public services reflects the continued Government commitment to fiscal prudence. The gains from these savings are expected to be channelled to economic services which are projected to register an increase of 0.3 per cent from 6.0 per cent of GDP registered in 2008/09 fiscal year.

14.4.3 The Economic Services has registered an increase from 5.3 per cent of GDP in 2007/08 financial year to 6.0 per cent of GDP in 2008/09 financial year. This reflects sustained efforts by Government to strike a balance between the Social and Economic Sectors for sustainable economic growth as set out in the MGDS. It is thus expected that the share of economic services will rise to 6.3 per cent of GDP in 2009/10 on account of increased expenditures in infrastructure development and agriculture sectors in line with the MGDS.

TABLE 14.3 FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE 2006/2007-2009/2010

	2006/07 Actual	2008/09 Actual	2007/08 Approved	2009/10 Estimate
General Public Services	**36,326**	**65,939**	**86,247**	**88,719**
General Administration	28,739	57,722	77,102	81,283
Defence Affairs	3,654	3,911	4,523	3,800
Public Order and Saftey Affairs	3,933	4,305	4,622	3,636
Social and Community Services	**30,171**	**30,589**	**52,886**	**60,218**
Education Affairs and Services	11,625	14,645	15,741	27,654
Health Affairs and Services	8,653	14,136	34,928	29,052
Social Security and Welfare Affairs	7,363	542	637	678
Housing and Cummunity Amenity Services	1,781	862	1,039	1,163
Recreational, Cultural and Other Social	211	154	213	747
Broadcasting and Publishing Affairs	538	249	327	924
Economic Services	**18,167**	**24,756**	**33,172**	**41,244**
Energy and Mining Services	128	1,021	1,063	80
Agriculture and Natural Resources	16,033	20,549	24,960	28,222
Tourism Affairs and Services	0	542	545	429
Physical Planning and Development	509	-	-	-
Transport and Communication Services	804	1,965	5,852	10,620
Industry and Commerce	268	327	400	610
Labour Relations and Employment Services	302	251	252	1,235
Scientific and Technological Services	123	-	-	-
Other Economic Services	0	100	100	48
Unallocable Services	**0**	**0**	**0**	**0**
Total Recurrent Expenditure	84,664	121,284	172,304	190,181
Plus Debt Amortisation	14,755	-1,435	5,231	5,031
GRAND TOTAL	99,419	119,849	177,535	195,212
(as a per cent of GDP)				
GENERAL PUBLIC SERVICES	9.2	14.2	15.6	12.4
SOCIAL AND COMMUNITY SERVICES	7.6	6.6	9.5	9.2
ECONOMIC SERVICES	4.6	5.3	6.0	6.3
UNALLOCATED FUNDS	0.0	0.0	0.0	0.0
TOTAL RECURRENT EXPENDITURE	21.4	26.1	31.1	29.1
GDP at Current Market Prices	4645,37	553,820	653,709	750,069

Source: Ministry of Finance

14.4.4 Large proportion of funds under the recurrent expenditure were allocated to gross consumption covering compensation of employees, consumption of goods and services and interest payments. Gross consumption accounted for 20.6 per cent of total GDP in 2008/09 fiscal year, an increase from 18.2 per cent of

GDP in 2007/08 financial year. In 2009/10, gross consumption is expected to account for 18.1 per cent of GDP. On the other hand, interest on debt which accounted for 2.9 per cent of GDP in 2008/09 will marginally increase in 2009/10 to 3.0 per cent of GDP.

TABLE 14.4 :ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE 2006/2007-2009/2010

	2006/07 Actual	2007/08 Actual	2008/09 Approved	2009/10 Estimate
Gross Consumption	**55,401**	**84,751**	**114,117**	**118,327**
Compensation of Employees	27,261	30,661	37,326	44,060
Use of Goods and Services	28,140	54,090	76,791	74,266
Less: Fees, Sales and Recoveries				
Net Consumption	55,401	84,751	114,117	118,327
Interest on Debt	15,984	13,040	16,169	19,795
Pensions and Gratuities	4,763	5,337	6,282	7,320
Grants, Subventions and Transfers	1,362	12,218	24,999	31,577
Local Authorities	101	1,628	11,178	3,265
Public Bodies	1,239	2,925	8,860	26,880
Private	1	7,629	4,910	1,369
Abroad	21	36	50	63
Gross Fixed Capital Formation	4,350	5,772	6,780	5,497
Loans and Capital Transfers	2,804	166	3,957	7,665
Total Recurrent Expenditures	**84,664**	**121,284**	**172,304**	**190,181**
Plus: Debt Amortisation	14,755	-1,435	5,231	5,031
Grand Total	**99,419**	**11,9849**	**177,535**	**195,212**
(as a per cent of GDP)				
Gross Consumption	14.0	18.2	20.6	18.1
Interest on Debt	4.0	2.8	2.9	3.0
Pensions and Gratuities	1.2	1.1	1.1	1.1
Grants, Subventions and Transfers	0.3	2.6	4.5	4.8
Gross Fixed Capital Formation	1.1	1.2	1.2	0.8
Total Recurrent Expenditures	21.4	26.1	31.1	29.1
GDP at Current Market Prices	**464,537.0**	**553,820.0**	**653,709.0**	**750,069**

Source: Ministry of Finance

14.5 Development Expenditure

14.5.1 Total development expenditure decreased from 13.8 in 2007/08 financial year per cent to 10.3 per cent of GDP in 2008/09. The decrease is largely on account of a decline as a percentage of GDP in social and community services as well as economic services. The 2008/09 capital budget decreased mainly on account of coming to an end of some donor funded projects.

14.5.2 Total resource envelope and expenditure for the development budget is expected to slow down further to 10.2 per cent of GDP in 2009/10 fiscal year. Development budget, however, is expected to register a nominal growth of 16.4 per cent. However, the development budget resources will be largely channelled to the economic sector which will account for 4.7 per cent of GDP with transport and communications services taking the largest share. This shows government's commitment to providing better transport and communication infrastructure. In the social and community services, education, health and housing and community amenity services will utilise much of the resources.

TABLE 14.5: FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE 2006/2007-2009/2010

	2006/07 Actual	2007/08 Actual	2008/09 Approved	2009/10 Estimate
General Public Services	**11,544**	**11,100**	**12,696**	**15,311**
General Administration	10,566	9,876	11,979	14,736
Defence Affairs	300	752	363	281
Public Order and Saftey Affairs	678	472	354	295
Social and Community Services	**22,342**	**31,444**	**22,115**	**20,640**
Education Affairs and Services	4,749	5,324	3,580	3,713
Health Affairs and Services	12,156	16,577	6,871	4,970
Social Security and Welfare Affairs and Services	609	832	1,437	246
Housing and Cummunity Amenity Services	4,451	8,641	9,743	11,167
Recreational, Cultural and Other Social Services	287	70	484	399
Broadcasting and Publishing Affairs and Services	90	-	-	145
Economic Services	**19,215**	**21,544**	**22,409**	**30,636**
Energy and Mining Services	830	390	906	180
Agriculture and Natural Resources	6,236	5,469	7,274	5,784
Tourism Affairs and Services	0	332	711	722
Physical Planning and Development	-	-	-	-
Transport and Communication Services	11,732	13,939	12,380	23,187
Industry and Commerce	407	327	787	724
Labour Relations and Employment Services	10	1,087	351	26
Scientific and Technological Services	-	-	-	-
Other Economic Services		0	0	13
Unallocable Services	**0**	**0**	**0**	**0**
Total Development Expenditure	**53,101**	**64,089**	**57,221**	**66,588**
(as a per cent of GDP)				
GENERAL PUBLIC SERVICES	2.9	2.4	2.3	2.3
SOCIAL AND COMMUNITY SERVICES	5.6	6.8	4.0	3.2
ECONOMIC SERVICES	4.8	4.6	4.0	4.7
UNALLOCATED FUNDS	0.0	0.0	0.0	0.0
TOTAL DEVELOPMENT EXPENDITURE	13.4	13.8	10.3	10.2
GDP at Current Market Prices	464,537	553,820	653,709	750,069

Source: Ministry of Finance

14.5.3 In the economic classification, gross consumption continued to dominate and this was followed by gross fixed capital formation. In 2008/09 financial year, gross fixed capital formation stood at 3.9 per cent of GDP while gross consumption was 5.2 per cent of GDP. Gross consumption is expected to increase to 6.0 per cent of GDP while gross fixed capital formation is projected to decline to 3.7 per cent of GDP in the 2009/10 financial calendar.

TABLE 14.6: ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE 2006/2007-2009/2010

	2006/07 Actual	2007/08 Actual	2008/09 Approved	2009/10 Estimate
Gross Consumption	**26,764**	**32,292**	**28,881**	**38,931**
Compensation of Employees	1,828	2,206	1,966	715
Use of Goods and Services	24,936	30,086	26,915	38,216
Grants	6,289	7,601	6,775	3,227
Gross Fixed Capital Formation	**20,048**	**24,196**	**21,565**	**24,430**
Building	8,035	9,698	8,643	11,732
Construction of Works	4,883	5,893	5,253	4,100
of which: Airport and Habours				
Roads and Bridges	4,541	5,481	4,885	1,124
Services	2,712	3,273	2,917	2,460
Equipment	4,418	5,332	4,752	6,138
Other	-	-	-	-
Loans and Capital Transfers	-	-	-	-
Total Development Expenditures	**53,101**	**64,089**	**57,221**	**66,588**
(as a per cent of GDP)				
Gross Consumption	6.8	7.0	5.2	6.0
Compensation of Employees	0.5	0.5	0.4	0.1
Use of Goods and Services	6.3	6.5	4.9	5.8
Gross Fixed Capital Formation	5.1	5.2	3.9	3.7
Total Development Expenditures	13.4	13.8	10.3	10.2
GDP at Current Market Prices	**464,537**	**553,820**	**653,709**	**750,069**

Source: Ministry of Finance

14.6 **Highlights of the 2009/10 Budget**

14.6.1 The 2009/10 budget has been formulated in a way that it should continue to stick to the priorities within priorities as outlined in the MGDS. Through the budget, Government is committed to ensuring that stable macroeconomic environment prevails while focussing on domestic debt reduction, food security, infrastructure development and energy generation, among others. On the revenue side, Government will continue with various improvements in tax administration and enforcement. One notable reform is to encourage tax payers to go for self assessment. Regarding non-tax revenue, the introduction of the appropriation-in-aid facility produced significant improvements in revenue collection.

14.6.2 Comparative statistics of the fiscal aggregates shows that total revenue and grants will decline to 33.4 per cent of GDP in 2009/10 from 34.3 per cent registered in 2008/09. However, domestic revenue is estimated to increase by 1.9 per cent from 20.8 per cent of GDP in 2008/09 while grants are projected to decline to 10.8 per cent of GDP in 2009/10 from 13.5 per cent of GDP registered in 2008/09 financial year.

14.6.3 The 2009/10 budget will continue to implement the input subsidy programme, whose cost is expected to reduce as fertilizer prices have slowed down on the international market.

14.7 **Major Challenges of the Budget**

Within a background of the economic and functional analysis undertaken above, the budget still faces a few challenges. These include the ongoing global financial crisis which may negatively affect donor inflows, delays in disbursement of funds for budgetary support, particularly on donor funded projects which accounts for a substantial part of the nation's development budget. Ultimately, these challenges continue to restrict smooth implementation of the budget on one hand while the high domestic debt service costs continue to divert a lot of scarce budgetary resources away from financing current development plans and improving public service delivery on the other.

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