

# Malawi

Malawi



## key figures

• Land area, thousands of km <sup>2</sup>	118
• Population, thousands (2006)	13 166
• GDP per capita, \$ PPP valuation (2006)	653
• Life expectancy (2006)	40.8
• Illiteracy rate (2006)	35.9

# Malawi



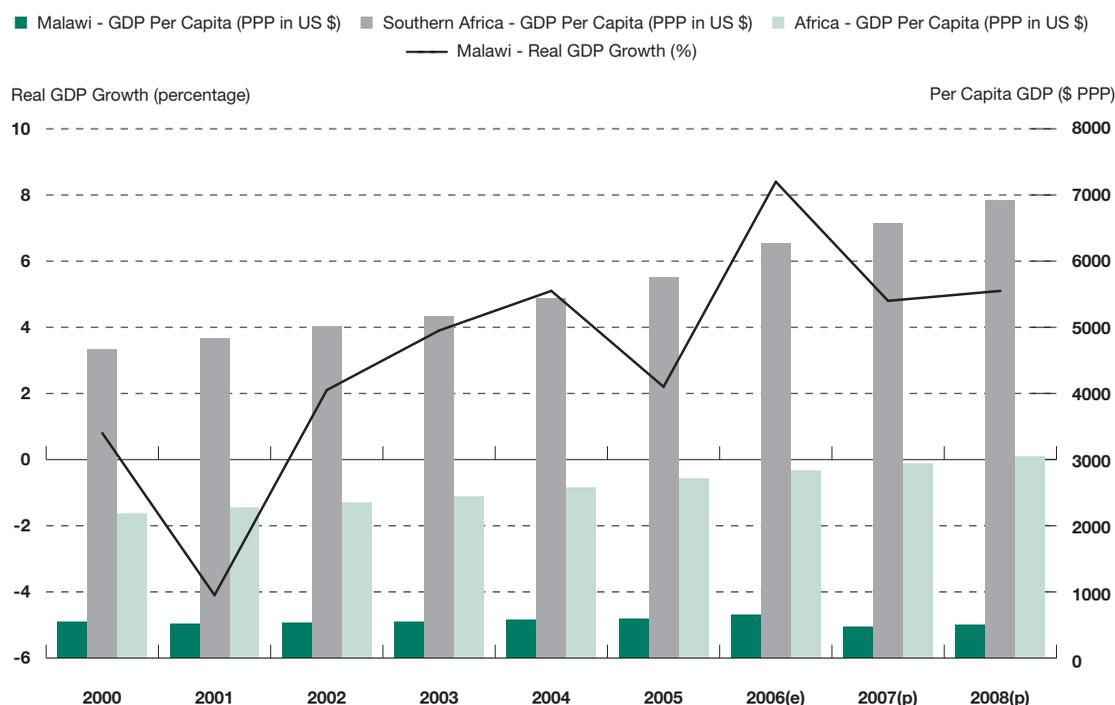
# Malawi

**M**ALAWI IS AMONG THE POOREST countries in the world without a violent internal conflict. While 2005 presented a number of severe challenges, including a major food-security crisis where close to half the population required emergency food support, Gross Domestic Product (GDP) growth rebounded strongly in 2006. A well-managed response to the food crisis by the government and donors ensured timely and large-scale imports of maize in the large quantities required. Good rains in the 2005/06 growing season, coupled with an improved distribution of subsidised fertilizer resulted in a bumper maize crop and improved yields in almost all major agricultural commodities. Continuing budget discipline and macroeconomic stabilisation has won Malawi plaudits from the International Monetary Fund (IMF) and development

partners. The attainment of the completion point of the Highly Indebted Poor Countries (HIPC) Initiative in September 2006 was a landmark event. The proceeds from the debt relief will facilitate implementation of the country's pro-poor development strategy. Much is now being made of so-called "second generation" reforms, and the challenge for Malawi is to capitalise on progress made in 2006 to ensure that solid foundations are laid for growth and development in the years ahead. In this regard, addressing the longer-term infrastructural constraints that hamper trade, tackling the inhospitable legal operating environment for the private sector and re-invigorating the privatisation

**Maize production remains the key to food security and good harvests are reassuring but the economy needs to diversify and poverty remains persistent.**

**Figure 1 - Real GDP Growth and Per Capita GDP**  
(\$ PPP at current prices)



Source: IMF and National Statistics Office data; estimated (e) and projections (p) based on authors' calculations.

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process are matters of some urgency. Malawi has made reasonable progress in providing access to safe drinking water and improving sanitation. However, the high cost of capital and poor management continues to hamper adequate investment in maintaining and rehabilitating water and sanitation infrastructure.

## Recent Economic Developments

Real GDP growth rebounded to 8.4 per cent in 2006 as the Malawian economy recovered from a drought-induced crisis that had slowed growth to 2.2 per cent in 2005. Growth is expected to continue at the more moderate pace of 4.8 and 5.1 per cent in 2007 and 2008, respectively.

A large component of growth in 2006 represented recovery of agricultural production from the dismal performance in 2005, when drought in the growing season resulted in a 9.3 per cent drop in agricultural output, with the smallholder component of Malawi's agriculture sector contracting by 11.7 per cent. In 2006, the agricultural sector as a whole and the smallholder component in particular bounced back, growing at 11.8 and 14.2 per cent, respectively.

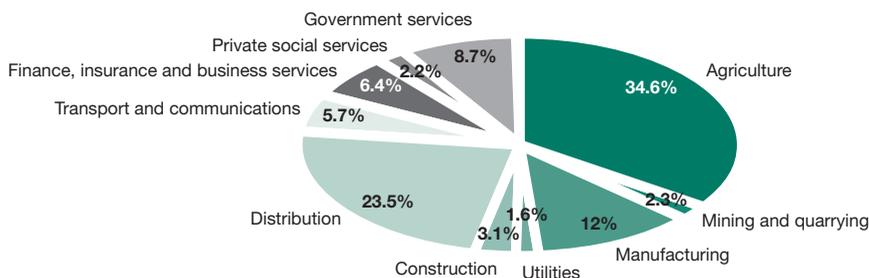
Good rains in the 2005/06 growing season resulted in substantially better yields for almost all crops. Maize production is central to the economy of Malawi, and the success or failure of the crop is crucial for national food security and has a major impact on overall economic performance. A combination of good rains in 2005/06 and the successful implementation of a

fertilizer-subsidy programme led to an impressive 87 per cent increase in maize production compared with the previous year. The total estimated production of 2.35 million metric tonnes was in excess of Malawi's requirements of 2.18 million metric tonnes for consumption, seed requirements and replenishment of the Strategic Grain Reserve, leaving a net surplus of 250 000 tonnes for export. The immediate impact of the bumper harvest was that fewer than 900 000 Malawians required food aid in 2006 ahead of the 2007 harvest – the lowest figure in four years.

The government intends to distribute 150 000 tonnes of subsidised fertilizer during 2006/07 at a total cost of MWK (Malawian kwachas) 5.5 million (about one-third of the total agriculture budget). Smallholder maize and tobacco farmers (in rural areas only) are entitled to one 50-kilogramme bag of fertilizer at a price of MWK 950. In previous years, the importation and distribution of the subsidised fertilizer was limited to parastatal enterprises only – the Agricultural Development and Marketing Corporation (ADMARC) and the Smallholder Farmers Fertilizer Revolving Fund of Malawi – and this policy, together with uncertainty surrounding the extent and/or timing of the subsidy had seriously undermined private-sector producers of fertilizer. The 2006/07 subsidy is being implemented through a coupon system, which has allowed limited participation of the private sector.

Tobacco is the mainstay of Malawi's economy and exports of this cash crop account for more than 50 per cent of foreign-exchange earnings. For the same reasons as in the case of maize, tobacco production also recovered

Figure 2 - GDP by Sector in 2005 (percentage)



Source: Authors' estimates based on National Statistics Office data.

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strongly with the production of 109 800 tonnes in the 2005/06 season, up from 72 500 tonnes in the 2004/05 season, an increase of 52 per cent. Nonetheless, continuing weaknesses in the prices offered on the floors of Malawi's tobacco-auction markets disappointed farmers, and led to an ugly war of words in the press between President Mutharika and the multinational tobacco buyers. Changes in the international terms of trade for tobacco spell an uncertain future for Malawi's main crop, yet attempts to diversify Malawi's economy away from reliance on tobacco have had only very limited results. Farmers suspect that the low prices offered by buyers result from collusion. This is due to the fact that although all tobacco is sold through auction, the vast majority of tobacco is bought by just two buyers. The Government of Malawi has resisted attempts by buyers to shift towards contract-farming, which would reduce uncertainty for farmers and provide for improved yields through the provision of direct extension services to growers. A recent World Bank study has highlighted a number of institutional problems facing Malawi's tobacco sector, and there is significant evidence to suggest that producers bear the weight of sector inefficiencies, conflicts of interest and governance failings.

Sugar has become increasingly important to the economy of Malawi and exports reached \$46.9 million in 2006. The major determinant for increased export revenues was a rise in Malawi's quota in the lucrative European Union (EU) market. In recent years, Malawi has also managed to make inroads into non-preferential markets in Kenya, Tanzania and Egypt, where prices are barely a quarter of those earned in the EU and the United States. This demonstrates the competitiveness of growing sugar in Malawi, and indeed the proposed reforms to the EU sugar protocol announced in late 2005 (envisaging a 36 per cent drop in the price of sugar within the EU) are unlikely to trouble Malawi's sugar industry as much as other Africa, Caribbean and Pacific country producers. Starting in 2009/10, the EU sugar market will be tariff- and quota-free for all Least Developed Country producers under the terms of the Everything But Arms initiative, and hence there is great potential to increase production and exports of sugar to what will still be a market with restricted access.

Production of groundnuts, paddy rice, sorghum, millet, pulses, cassava and sweet potatoes all recorded improved yields in 2005/06 of a similar order of magnitude to that seen in the tobacco and maize sub-sectors. Only cotton experienced declining output in 2005/06.

Malawi's manufacturing sector is small and accounts for just 11 per cent of GDP, down from a high of 32 per cent in 1992. The manufacturing sector is also inward-looking as shown by the fact that only 14 per cent of output is exported. Evidence from the recently completed Investment Climate Assessment (ICA), 2006, of Malawi, which surveyed 306 manufacturing firms throughout Malawi, suggests that Malawi possess a comparative advantage in the region in terms of low-cost labour. In terms of total factor productivity, however, that is, taking into account the relative costs and returns to both labour and capital together, Malawi's cost advantage evaporates. The ICA survey responses suggest that macroeconomic instability is the biggest perceived constraint to private-sector performance, followed by access to finance, problems in the supply of electricity, the availability of skilled workers, crime and corruption.

While Malawi is not endowed with mineral resources on the scale of neighbouring countries, there is significant potential for natural-resource extraction to play a meaningful role in the economy. Very high transport costs, together with insufficient power capacity, have tended to render Malawi's known mineral deposits unprofitable to develop. Work on a study of the commercial feasibility of extracting uranium oxide from deposits in Kayelekera in the far north, however, is at an advanced stage. Changes in the international environment for nuclear power have driven up uranium prices, and the mean average of various estimates suggests that once extraction is operating at full capacity in 2008, uranium could become Malawi's second biggest export after tobacco, and account for 20 per cent of exports and 5 per cent of GDP.

Regarding the components of final demand, growth of private investment was weak in 2006 and public investment declined. Yet the share in GDP of gross

Table 1 - Demand Composition (percentage of GDP)

	1998	2005	2006(e)	2007(p)	2008(p)
	Percentage of GDP (current prices)		Percentage changes, volume		
<b>GGross capital formation</b>	<b>13.1</b>	<b>11.0</b>	<b>-0.2</b>	<b>24.6</b>	<b>11.1</b>
Public	8.6	7.3	-1.5	26.1	7.4
Private	4.4	3.7	2.4	21.7	18.2
<b>Total Consumption</b>	<b>92.3</b>	<b>122.9</b>	<b>6.6</b>	<b>1.2</b>	<b>3.6</b>
Public	14.4	16.8	6.0	6.5	6.6
Private	77.9	106.1	6.7	0.3	3.0
<b>External Demand</b>	<b>-5.4</b>	<b>-33.9</b>			
Exports	32.1	26.7	-6.5	5.6	4.7
Imports	-37.5	-60.6	-7.3	1.1	4.7

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

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capital formation in the public sector has consistently exceeded capital formation in the private sector. In 1980, Malawi was managing to invest 25 per cent of GDP, while savings were running at 17 per cent of GDP. More recently, however, the overall investment share in GDP has been about half of that. Maintaining annual growth rates of 6 per cent and above would be required to achieve meaningful poverty reduction in Malawi, which in turn would require investment of an intensity, not least in the private sector, much higher than that possible with investment funds provided by development partners. Nonetheless, the outlook is for strong growth in the volume of both public and private investment in 2007 and 2008 as the government directs more funds into capital expenditure and anticipated increases in foreign inflows materialise.

## Macroeconomic Policies

The Mutharika administration has invested significant political capital in restoring macroeconomic stability, something that had eluded Malawi in previous years. Progress since 2003/04 has been relatively good, and fiscal discipline was maintained during the 2004/05 and 2005/06 budgets. This progress was rewarded by the restoration of the Poverty Reduction and Growth Facility support from the IMF in August 2005, and more recently by the attainment of irreversible debt relief under the HIPC Initiative in September 2006.

## Fiscal Policy

Malawi's recent fiscal-policy objectives have been to return the primary balance to surplus and to reduce the overall deficit so as to permit a reduction of domestic debt. This policy has been implemented through tight controls on recurrent expenditures. Despite the devastating effects of the food crisis in 2005/06, fiscal objectives were broadly achieved. As a result of good performance of the Malawi Revenue Authority aided by an increase in grants, total revenue increased to 44.1 per cent of GDP up from 37.5 per cent in 2004/05. Malawi has been heavily dependent on outside assistance throughout its history, and it is highly unlikely that this will change in the short or even medium term.

Development assistance accounted for 42 per cent of expenditure in the 2006/07 budget. While the government has placed agriculture, irrigation and infrastructure as key budget priorities in order to support economic growth, donor spending is still overwhelmingly in the social sectors. As of March 2006, some 51 per cent of aid was classified as supporting "social development", 12 per cent supporting "good governance" and only 13 per cent each in support of "sustainable economic growth" and "infrastructure," respectively.

Increased revenue facilitated a significant increase in total expenditure and net lending in 2005/06, much

Table 2 - Public Finances (percentage of GDP)

	1997/98	2002/03	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)
<b>Total revenue and grants<sup>a</sup></b>	<b>21.7</b>	<b>26.7</b>	<b>34.7</b>	<b>37.5</b>	<b>44.1</b>	<b>41.6</b>	<b>39.7</b>
Tax revenue	16.4	17.0	19.5	22.0	21.8	21.2	20.7
Grants	4.2	6.7	12.2	12.5	19.2	17.6	16.0
<b>Total expenditure and net lending<sup>a</sup></b>	<b>28.5</b>	<b>38.3</b>	<b>42.5</b>	<b>43.1</b>	<b>47.1</b>	<b>43.1</b>	<b>46.4</b>
Current expenditure	24.0	30.9	31.4	31.8	34.2	28.2	29.5
<i>Excluding interest</i>	19.8	24.0	20.8	23.1	27.6	23.4	25.9
Wages and salaries	7.6	6.8	6.5	7.5	7.5	7.2	7.1
Interest	4.2	6.9	10.6	8.7	6.6	4.8	3.6
Capital expenditure	3.0	7.4	11.1	11.1	12.0	14.7	16.8
<b>Primary balance</b>	<b>-2.6</b>	<b>-4.8</b>	<b>2.8</b>	<b>3.1</b>	<b>3.6</b>	<b>3.3</b>	<b>-3.1</b>
<b>Overall balance</b>	<b>-6.8</b>	<b>-11.6</b>	<b>-7.8</b>	<b>-5.6</b>	<b>-3.0</b>	<b>-1.5</b>	<b>-6.7</b>

a. Only major items are reported

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

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of which was needed because of an escalation in the cost of maize and fertilizer imports. Nonetheless, the fiscal outturn improved thanks to debt reduction and the consequent reduction in interest payments. This enabled the government to make some headway towards reducing the domestic debt. Having peaked at 25 per cent of GDP in 2003/04, domestic debt is estimated to have declined to 20 per cent of GDP by the end of fiscal year 2005/06, and is projected to fall to 16.5 per cent in 2006/07. For the first time in several years, the government was able to retire some domestic debt at the same time as it cleared arrears to almost all small creditors and a sizeable amount of arrears to the public-utility companies. Recent progress notwithstanding, domestic debt continues to constitute a large burden on government resources. Political pressures on government spending and the country's vulnerability to external shocks could easily reverse achievements in bringing domestic debt under control.

### Monetary Policy

One of the principle objectives of the Reserve Bank of Malawi is to achieve and then maintain inflation at single-digit levels. This policy is anchored by a reserve money target requiring periodic adjustments to base interest rates. Progress in controlling inflation allowed the Bank to reduce the base rate from 25 to 20 per cent in November 2006. And the interest rate spread between commercial bank lending and deposit rates narrowed

by about two percentage points. This was a welcome step in further reducing the cost of finance to the private sector which had faced interest rates as high as 45 per cent in 2004. Monetary policy however remained tight in 2006 as the Reserve Bank used open market operations to reduce liquidity.

The Reserve Bank's policies and the improved food availability in 2006 were significant in moderating consumer-price inflation, which fell to 13.4 per cent in 2006, down from 15.6 per cent in 2005. Food inflation in particular fell sharply in 2006, to 4.2 per cent, with improved food availability, down from 17.2 per cent in 2005. On the assumption of favourable weather conditions and with the mitigating effects of the irrigation programme that the government has put in place, inflation is projected to decline further to 8.2 per cent and 7.2 per cent in 2007 and 2008, respectively.

### External Position

Malawi's trade performance has deteriorated continually, contributing to a steadily worsening current-account deficit. Little change is expected in 2007 (see Table 3) but in 2008, improvements in services, grants and net factor payments are expected to cause the current account to improve despite little change in the balance of trade in goods. The main reason behind the dismal situation is an export

Table 3 - Current Account (percentage of GDP)

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	2.3	-14.2	-16.4	-18.3	-22.1	-21.3	-22.1
Exports of goods (f.o.b.)	30.3	24.6	26.3	24.2	22.0	22.2	21.9
Imports of goods (f.o.b.)	27.9	38.8	42.6	42.5	44.1	43.5	44.0
Services	-7.7	-8.5	-8.8	-9.8	-8.9	-8.8	-9.0
Factor Income	-2.2	-1.9	-2.4	-1.9	-1.4	-1.3	-0.9
Current transfers	-0.8	9.9	15.1	14.4	13.6	12.1	19.1
<b>Current account balance</b>	<b>-8.5</b>	<b>-14.7</b>	<b>-12.5</b>	<b>-15.6</b>	<b>-18.9</b>	<b>-19.3</b>	<b>-12.9</b>

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

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performance that has remained essentially flat for the past seven years. Sustained export growth in real terms has not been achieved; when the performance of one sector has improved, the performance in other sectors has worsened. A new bilateral trade agreement with Mozambique (signed in December 2005) and a renegotiated agreement with Zimbabwe (signed in July 2006) present opportunities for improved export performance with two of Malawi's main trading partners.

Average export prices for tobacco at the border fell from \$2.29 in 2005 to \$2.22 in 2006. This weakening of the international market for tobacco is at least part of the reason for the lower prices for leaf tobacco on the auction floors that attracted so much attention during the year. The volume of tobacco exports in 2006 actually increased marginally, rising from 121 700 tonnes to 122 600 tonnes in 2006. Gross tobacco export revenue fell, however, from \$279 million to \$271.7 million due to lower prices.

The performance of tea exports improved slightly in 2006 as average prices increased slightly, up to \$1.13 per kilogramme in 2006 from \$1.10 per kilogramme in 2005, and stable volumes translated into a small increase in gross export receipts. Tea regained its position as the second most important export product for Malawi in 2004 and remained in that position in 2006 with total export revenues of \$48.5 million.

The sugar sector recorded a strong performance during 2006 as rising prices and rising volumes translated into a significant increase in export revenues.

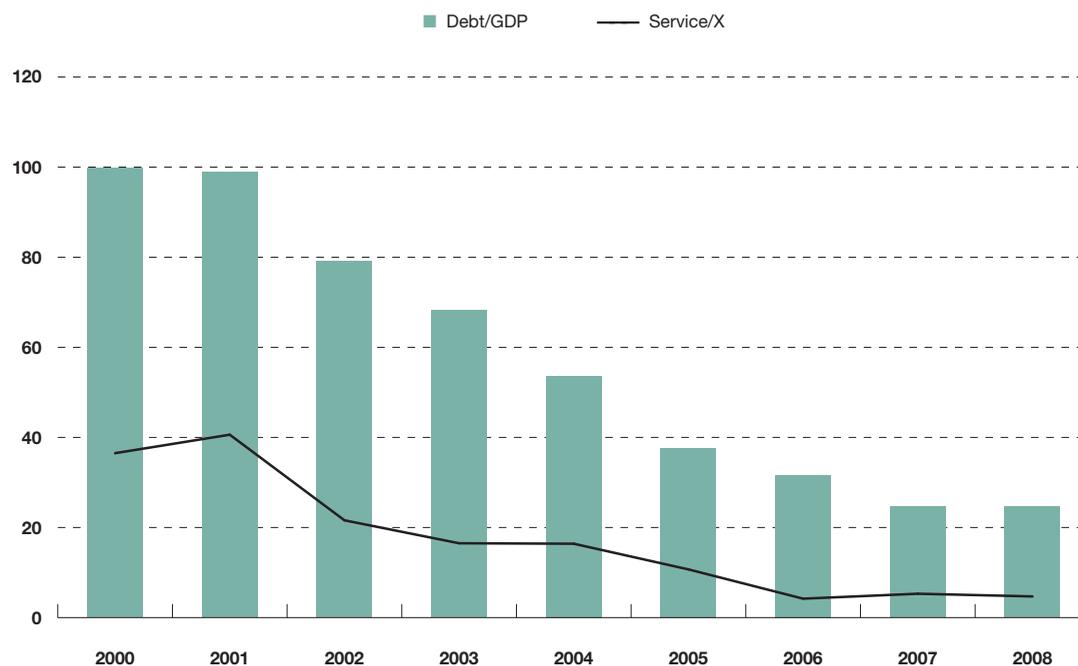
Average export prices rose from \$0.46 to \$0.49 per kilogramme while export volumes increased from 88 800 tonnes to 95 400 tonnes. Total export receipts were \$46.9 million.

Cotton exports continued to decline in 2006, falling from \$15.6 million in 2005 to \$7.6 million in 2006. Average export prices fell slightly from \$1.06 to \$0.97, but the major cause of declining revenues was a continued drop in volumes. Export volume in 2006 was 7 800 tonnes, down from a high of 25 600 tonnes in 2004.

Garments exports also declined slightly in 2006. Undoubtedly, the expiration of the Multifibre Arrangement – the World Trade Organisation Agreement on Textiles and Clothing – in January 2005, which has made the US African Growth and Opportunity Act market more competitive, had an impact. The Malawian garment sector may remain under pressure in the coming years given the uncertainty surrounding the future of the South African market under the Malawi, Mozambique, the United Republic of Tanzania and Zambia – Southern African Customs Union agreement.

Despite problems in accessing the US and EU markets due to difficulties in ensuring that Malawi horticultural products pass sanitary and phytosanitary regulations, Malawi actually enjoys positive trade relations with most partners in the developed world. The main difficulties with accessibility are with nearer trading partners in the region, principally South Africa, Mozambique and Zimbabwe.

**Figure 3 - Stock of Total External Debt** (percentage of GDP)  
**and Debt Service** (percentage of exports of goods and services)



Source: IMF.

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In line with expectations, the kwacha depreciated gradually during the first half of 2006 falling from around MWK 124 per \$ to around MWK 140 per \$ by the middle of the year, when inflows of tobacco earnings stabilised the currency. The depreciation had the effect of slowing growth in import demand somewhat, as a result of which international reserves were expected to increase somewhat and to be sufficient to cover two months of imports by the end of 2006. It is official policy to operate a more transparent and flexible exchange-rate regime.

As a result of the HIPC and Multilateral Debt Relief Initiatives, the net present value of external debt declined from 229 per cent of exports at the end of 2005 to 32 per cent at the end of September 2006. HIPC debt relief can be seen as a massive vote of confidence in Malawi's fiscal management, but the impact in financial terms is more limited given that the greater part of the country's debt burden is kwacha-denominated domestic debt.

## Structural Issues

### Recent Developments

Improvements in macroeconomic performance and budgetary discipline have resulted in improvements in the private-sector-enabling environment. Similarly, the greater private-sector focus in the Malawi Growth and Development Strategy (MGDS) represents a clear improvement on the previous Malawi Poverty Reduction Strategy, which provided only scant coverage of private-sector issues. However, addressing the longer-term infrastructural issues that hamper trade such as high transport costs and the poor quality of utilities will take more time. Similarly, while the government has made commitments to improving the investment climate, its signals have been mixed and dialogue between the public and private sectors remains weak.

As in many developing countries, the legal operating environment for private-sector enterprises in Malawi

is rather inhospitable. Enterprises face numerous hurdles in terms of red tape, regulations and requirements in carrying out everyday business activities. By the World Bank – International Finance Corporation *Doing Business* indicators, Malawi is ranked 96th out of 155 countries, and 9th out of 36 countries in sub-Saharan Africa. While such qualitative surveys only give an indication of the enabling environment for business, it is clear that the private sector in Malawi suffers from a heavy regulatory burden.

Excessive regulation creates obstacles to the process of market development by raising the costs of business entry and growth. In particular, excessive regulation and inadequate institutions for property rights and the rule of law create barriers to transition from the subsistence and very small-scale economy to the modern more productive sector. Many entrepreneurs in Malawi remain trapped in the informal private sector due to the high costs of formalisation. Such enterprises are therefore not able to grow and benefit from economies of scale or access the additional benefits of formalisation, such as access to commercial-bank finance and business-development services. Malawi's private sector is characterised by a "missing middle" with very few enterprises in between the micro-enterprises sector and larger companies.

Malawi's privatisation programme continues to be implemented, although at a very slow pace. In 2006, the government took a number of key steps to reform and restructure Malawi's parastatal enterprises. The highlight was the privatisation of Malawi Telecommunications Limited (MTL) in January 2006. Despite a "stop-start" process, legal challenges to the sale of MTL and significant political opposition to the process, the government finally agreed to the sale of 80 per cent of MTL to a consortium led by Press Corporation for \$30.7 million. Ownership of MTL will remain in domestic hands, although technical-management services will be provided by a unit of Deutsche Telecom. Malawi has one of the lowest fixed-line telecommunications density rates in Africa and it is expected that independent private-sector management will be able to expand the provision of telecommunications services.

Restructuring of the ADMARC also moved to an advanced stage during 2006. The intention of the government is to separate the ADMARC into two distinct parts: a public-sector, service-delivery part, and a private-sector, commercially independent part.

In addition, the loss-making Malawi Development Corporation was liquidated in 2006 and ceased all operations. The government is currently negotiating with the private sector and the World Bank for the establishment of a new Malawi Development Fund, which would focus on providing support to small and medium-sized enterprises.

The drafting of a policy for public-private partnerships (PPPs) began in late 2006 with a view to establishing a PPPs unit in the Ministry of Finance tasked with facilitating private-sector investment into public infrastructure.

### **Access to Drinking Water and Sanitation**

Malawi is a country that has recently begun to experience a certain degree of water stress due to its high population density. Its renewable water resources per capita are estimated to be 1374 m<sup>3</sup> in 2003-07. Clearly, the sector requires careful management, but a comprehensive programme does not yet exist. The expansion of irrigated agriculture in order to reduce the effects of weather shocks on agricultural output is a key component of the government's development plans, and it is not yet clear how water and sanitation for household purposes will be affected by this approach.

Formal water and sewerage services in Malawi are provided by five government-owned, parastatal water boards for Blantyre, Lilongwe and the Northern, Central and Southern regions. All five water boards are loss-making and are generally characterised by weak governance and political interference.

Access to safe drinking water is one of the key MDGs and an area where Malawi has made reasonable progress in recent years. Data from the 2004/05 Integrated Household Survey shows that 66.4 per cent of households in Malawi have access to an "improved water source"

(defined as being piped into the dwelling, piped outside, from a communal standpipe, or from a hand pump, borehole or protected well). This is slightly above the average for sub-Saharan Africa (58 per cent), but more progress will be required for Malawi to meet the MDG

target of 75 per cent of all households having an improved water source by 2015. Piped water supplies are the most common form of water supply in urban areas, but much less prevalent in rural areas where boreholes and protected wells are the main source of drinking water.

**Table 4 - Proportion of Households with Access to Safe Water and Distribution of Households by Main Source of Drinking Water, 2005**

	Household proportion with access to improved water source	Source of drinking water				
		Piped into dwelling	Piped outside / communal standpipe	Hand pump / borehole / protected well	Unprotected well	River, spring, lake and other
<b>Malawi</b>	<b>66.4</b>	<b>2.2</b>	<b>17.7</b>	<b>46.5</b>	<b>25.4</b>	<b>8.2</b>
Urban	85.1	12.6	62.3	10.2	11.1	3.8
Rural	63.9	0.8	11.7	51.4	27.3	8.8
North	63.7	0.5	13.1	50.1	24.2	12.1
Centre	54.3	0.5	9.2	44.6	38.6	7.1
South	74.9	3.7	24.2	47.0	16.9	8.2

Source: Integrated Household Survey 2005.

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The same survey indicates that 61.9 per cent of households in Malawi have access to improved sanitation facilities (defined as being either a flush toilet, a ventilation-improved (VIP) latrine or a traditional latrine with a roof). This is significantly above the

36 per cent coverage average for sub-Saharan Africa. As with access to potable water, access to improved sanitation is higher in urban areas. Some 16.9 per cent of all households have no toilet facilities.

**Table 5 - Proportion of Households with Proper Toilet Sanitation and Distribution of Households by Type of Toilet Facility, 2005**

	Household proportion with access to improved sanitation	Type of toilet facility					
		Flush toilet	VIP latrine	Traditional latrine with roof	Latrine without roof	None	Other
<b>Malawi</b>	<b>61.9</b>	<b>2.8</b>	<b>1.8</b>	<b>57.4</b>	<b>20.9</b>	<b>16.9</b>	<b>0.3</b>
Urban	78.3	14.0	3.9	60.4	18.8	2.9	0.0
Rural	59.7	1.2	1.5	56.9	21.2	18.8	0.3
North	53.7	0.8	0.9	52.0	35.0	11.1	0.2
Centre	63.9	1.4	1.0	61.5	15.1	20.7	0.3
South	62.0	4.0	2.5	55.5	22.3	15.4	0.3

Source: Integrated Household Survey 2005

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The MGDS (Malawi's new national development plan, launched in 2006) addresses water and sanitation issues as a key sub-theme under the infrastructure

component of the strategy. The medium-term expected outcome listed in the strategy is to increase access to water to within 500 metres for all people by 2011, thereby

ensuring that the basic water requirements of every Malawian are met while the country's natural ecosystem is preserved. The main water and sanitation strategies for achieving this expected outcome, as listed in the MGDS document include: empowering national authorities to manage water resources using integrated water-resource management approaches; establishing good monitoring systems; improving the quality of surface and ground water and developing a system for pollution control; improving sustainable access to water supply and sanitation in urban, peri-urban and rural areas by, amongst others, establishing water-supply and sanitation systems using demand-responsive and demand-driven approaches; establishing contingency water-supply reserves and sanitation backups; and integrating rural water supply with participatory hygiene and sanitation approaches.

Lack of resources has undoubtedly had a negative impact on the ability of water boards to invest in maintaining water and sanitation infrastructure. Lack of power-generating capacity and frequent blackouts also have an impact on the delivery of water services where water has to be pumped. The poor performance of the Blantyre Water Board in particular has become a major political issue, partly due to private-sector frustration over the intermittent supply of water, which is especially damaging to Malawi's food-processing industries. However, poor management is probably the most significant factor in the poor performance of Malawi's water boards. Some 50 per cent of Blantyre Water Board's piped water is "unaccounted for", and reducing the share of this by even a fraction would have a significant impact on the board's ability to reinvest. Although the backlog of unpaid bills by public-sector customers is being gradually addressed by the Ministry of Finance, the lack of operational independence and continued political interference means that it will be some time before public- and private-sector customers will be treated equally.

## Political Context and Human Resources Development

Political issues continue to dominate the national agenda and divert high-level attention from addressing

the more serious development challenges that Malawi faces. President Mutharika was elected in May 2004 under the auspices of the United Democratic Front (UDF) party but within a year had left the party and established a new Democratic Progressive Party (DPP), allegedly due to UDF opposition to his anti-corruption campaign. The annual fertilizer subsidy remains one of the most political contentious issues in Malawi, and the successful delivery of the subsidy will probably be one of the most important determinants for Mutharika's re-election prospects in 2009.

Although by-elections in late 2005 and early 2006 produced the first six directly elected DPP members of parliament (MPs), Mutharika continues to govern without a parliamentary majority. This has made it difficult to pass legislation, and has held up the budget process and created a large backlog of parliamentary bills awaiting approval.

The impeachment motion launched by opposition MPs in October 2005 fizzled out, but the legal wrangling surround the use of Section 65 of the constitution, which provides for the Speaker to declare vacant the seat of any opposition MP who has crossed the floor to side with government, hangs over government operations.

With GDP growth averaging below 3 per cent (below 2 per cent since 2000), this has translated into a modest 1 per cent increase in per capita income over the past ten years. Malawi has a highly unequal income distribution, with a Gini coefficient of 50.3. The proportion of the population with income less than \$1 per day was 54.2 per cent in 1997/98 and has hardly changed since the last household survey was undertaken in that year. Social indicators are also very poor. Malawi's maternal-mortality rate is currently 984 maternal deaths per 100 000 live births and is also one of the highest in the world.

The national adult-literacy rate is still low at 63 per cent. It is higher amongst males (76 per cent) than females (50 per cent). The overall youth literacy rate is 76 per cent, which is higher than the adult literacy rate. Interestingly, there is not much disparity between

the literacy of young females and males. The primary gross enrolment ratio is 137 per cent. The rate is significantly higher for boys (144 per cent) than for girls (130 per cent). These high enrolment numbers indicate that a large proportion of primary school pupils are over age for their grade. This could partly be explained by delayed enrolment and high drop-out as well as high repetition rates.

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

Malawi, like the rest of southern Africa, has very high levels of HIV prevalence. HIV prevalence at rural clinics increased from 12.1 per cent in 1999 to 14.5 per cent in 2003. Much remains to be done for behavioural

change to take place in Malawi. In 2004, only 5 per cent of women and 15 per cent of men who had sex in the past year reported having used a condom during their last sexual intercourse with any partner. At 1.8 per cent, condom use is alarmingly low amongst married women. This may point to the difficulty that women face in negotiating the use of a condom with their husband. Better-educated persons are more likely to use condoms. For example, while 2 per cent of women with no education used a condom the last time they had sexual relations with any partner, the corresponding proportion for women with secondary or higher education is 14 per cent. The proportions for men are 6 and 27 per cent, respectively.

The total fertility rate for women aged 15 to 49 has declined from 7.6 births per woman twenty years ago to 6 in 2004. Contraceptive use, especially use of modern methods, has continued to rise since the early 1990s and is one of the principal causes of the fertility decline. The prevalence of modern contraceptive methods amongst married women aged 15 to 49 has increased from 7 per cent in 1992 to 33 per in 2004. The most popular contraceptive methods amongst married women are injectables, followed by female sterilisation and oral contraceptives.