

2018

MALAWI

Structural transformation,
employment, production
and society

STEPS



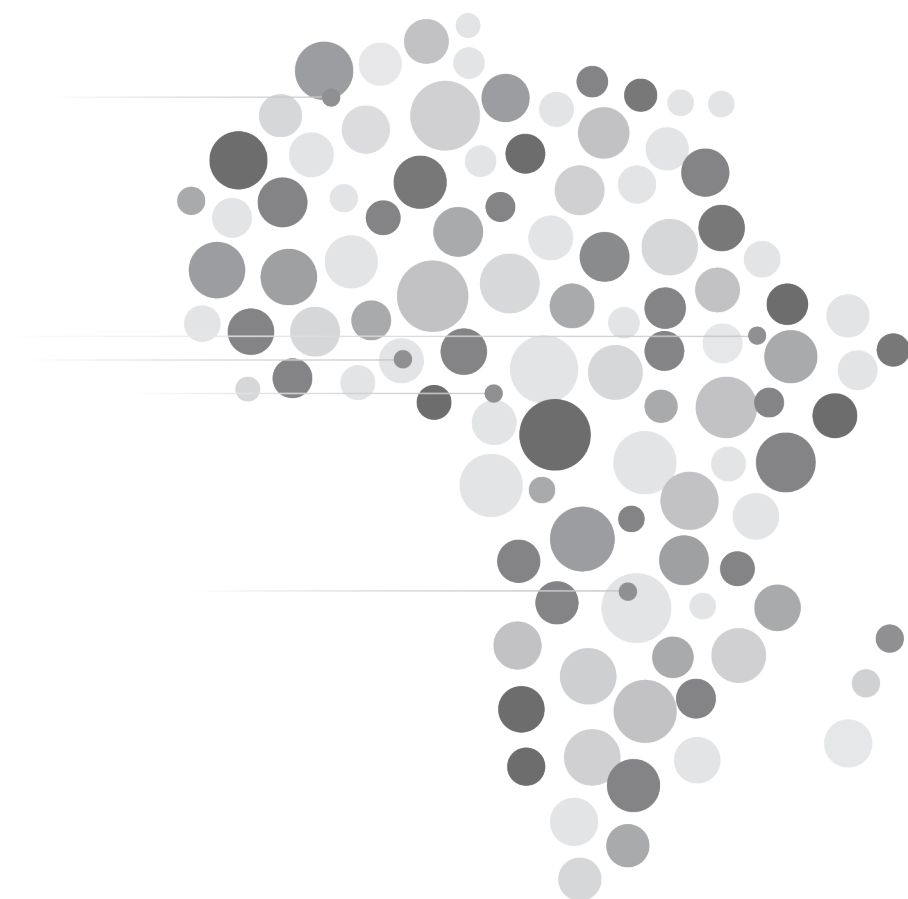
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Content

Definition of structural transformation	vi
Acknowledgements	x
1. Overview	1
2. Context	7
3. Production	14
3.1 Diversification	14
3.2 Linkages	22
3.3 Technology	26
4. Employment	32
4.1 Labour Productivity	32
4.2 Decent work	36
4.3 Education and skills	40
5. Society	45
5.1 Demography	45
5.2 Health	49
5.3 Poverty and Inequality	53
6. Key messages	58
References	62

List of figures

Figure I:	Structural transformation, employment, production and society for sustainable development (STEPS 4 SD)	vi
Figure II:	Economic and social issues relating to structural transformation	ix
Figure 1:	Economic growth and key events	8
Figure 2:	Composition of gross value added (per cent)	17
Figure 3:	Sectoral growth (per cent, average)	17
Figure 4:	Composition of GDP (per cent)	18
Figure 5:	Expenditure growth (per cent, average)	18
Figure 6:	Merchandise exports 2010-17 (per cent)	20
Figure 7:	Merchandise imports 2010-2017 (per cent)	21
Figure 8:	Merchandise exports by end use (per cent)	22
Figure 9:	Merchandise imports by end use (per cent)	22
Figure 10:	Foreign value added in domestic exports (per cent)	23
Figure 11:	Domestic value added in foreign exports (per cent)	23
Figure 12:	Merchandise exports (2016)	25
Figure 13:	Product Feasibility (2016)	25
Figure 14:	Medium- and high-tech in manufactured value added (per cent)	28
Figure 15:	Manufactured exports by tech (%)	28
Figure 16:	Energy intensity of industrial sector (megajoules/2011 United States dollars, purchasing power parity)	30

Figure 17: Sector of employment (per cent)	33
Figure 18: Labour share and productivity (2017)	33
Figure 19: Employment shifts (1991-2017)	35
Figure 20: Growth in gross value added per worker (annual %)	36
Figure 21: Status in employment (per cent)	37
Figure 22: Youth unemployment rate (per cent)	39
Figure 23: Youth literacy rate (per cent)	41
Figure 24: Gross enrolment ratio, secondary (per cent)	42
Figure 25: Mean years of schooling (25+)	43
Figure 26: Total fertility (children per women)	45
Figure 27: Child Dependency Ratio	47
Figure 28: Population pyramid (1990 and 2015)	47
Figure 29: Urban population living in slums (per cent)	48
Figure 30: Prevalence of stunting (per cent)	50
Figure 31: Life expectancy and healthy life expectancy (years)	50
Figure 32: Disease burden by cause (15-49 age group, per cent)	52
Figure 33: Poverty headcount ratio (per cent)	54
Figure 34: Income, poor and non-poor (per cent)	54
Figure 35: Income shares (per cent)	56
Figure 36: Gender parity indices	

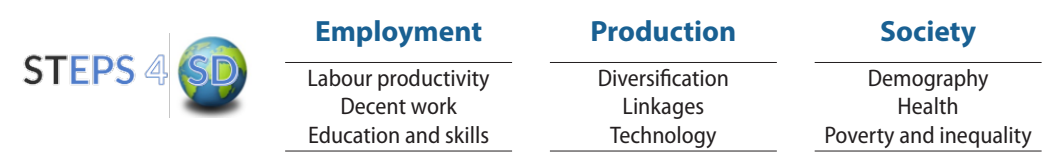
Definition of structural transformation

The Economic Commission for Africa defines structural transformation as the fundamental changes in economic and social structures that advance inclusive and sustainable development* This definition addresses three key questions:

- a) What is structural transformation? It is a fundamental and multidimensional process observed in all countries reaching high levels of development;
- b) How is it achieved? It requires profound economic and social transformation, such as economic diversification and technological upgrading, the creation of decent and productive employment and equitable social welfare;
- c) Why does it matter? It is crucial for implementing the 2030 Agenda for Sustainable Development and Agenda 2063: The Africa We Want.

Within the core objective of accelerating structural transformation (ST), there are three inherent dimensions to be assessed: employment (E), production (P), and society (S). This speaks directly to the need to fundamentally change economic and social structures, with employment playing a key role in linking economic growth (production) and social development (society), in both directions. It is useful to keep in mind the ultimate objective of the analytical framework, namely, to achieve inclusive and sustainable development through accelerated structural transformation. Hence, structural transformation, employment, production and society for sustainable development (STEPS 4 SD) is the framework that shapes the design and implementation of the profiles (see figures I and II).

Figure I: Structural transformation, employment, production and society for sustainable development (STEPS 4 SD)



Within each of the three dimensions considered, there are three outcome areas that are crucial to accelerate structural transformation. With regard to production, the attention is on (supporting) diversification, (strengthening) linkages and (upgrading) technology. For employment, the focus is on (increasing) labour productivity, (promoting) decent work and (enhancing) education and skills. With respect to society, the emphasis is on (managing) demography, (improving) health and (reducing) poverty and inequality. For each outcome area,

* The terms "structural transformation" and "structural change" are often used interchangeably. Narrow definitions are centred on the measurement of the economic gains accrued by shifting labour from lower-productivity to higher-productivity sectors, while broader definitions go beyond shifts in economic structures, such as production and employment, by also encompassing within-sector productivity improvements and changes in other aspects of society. For the purposes of the present document, the use of structural change is avoided and a broad perspective, as described by the STEPS framework, is adopted.

there is a set of core outcome indicators. They illustrate the results (outputs) that are expected to be observed in order to accelerate structural transformation. These are complemented by other metrics pertaining to the relevant outcome area. Given that structural transformation is a gradual process, indicators are tracked over a long period of time: from 20 to 25 years, whenever possible. Below is a brief rationale for each outcome area.

Diversification

Economic diversification is a key feature of countries that have achieved high levels of development. Concentrated economic structures undermine structural transformation by promoting rent-seeking (in mining) and commodity traps (in agriculture). They are also typically associated with high vulnerability to price and demand shocks. Expanding the range of goods and services that are produced and exported, especially towards higher value addition, is therefore an important factor behind structural transformation.

Linkages

Deeper integration into the global economy can contribute to increased value addition and productivity growth, especially through participation in global value chains. A more interconnected economy, with strong backward and forward linkages throughout sectors and firms, can also help to overcome critical structural constraints, sustain economic gains and encourage innovation.

Technology

Technological progress is a catalyst for structural transformation. The creation, improvement, and adoption of technologies contributes to accelerating productivity growth and adding value to production processes. Technological change can be supported through the development of domestic technological capabilities and/or through the importation of foreign technologies, such as those embedded in foreign investment.

Labour productivity

Labour productivity is at the heart of structural transformation. In fact, the academic literature often measures structural transformation as the economic gains accrued by shifting labour from lower-productivity to higher-productivity sectors, also known as between-sector effects, as opposed to within-sector productivity improvements. Positive employment dynamics are therefore necessary to generate these benefits. Labour productivity not only depends on skills and health, from the worker's perspective, but also relies on existing technology and other firm-related characteristics. It is therefore central to this framework. Crucially, labour productivity improvements are necessary to enable economic (and household income) growth and thus help to raise living standards.

Decent work

Decent work entails employment opportunities that provide reasonable levels of remuneration, security and safety. Precarious work conditions, such as low pay and job insecurity, are a key obstacle to raising living standards and often undermine labour productivity. Creating decent work opportunities is critical to engender positive structural transformation, given that economic and social structures may change in ways that do not always promote sustainable development.

Education and skills

An educated and skilled workforce is critical to accelerate structural transformation. Formal and informal education systems provide a range of skills for work and life. In particular, improved skill levels facilitate the reallocation of labour towards higher-productivity sectors. Enhancing demand-driven and work-relevant skills is key to reducing existing skill gaps and mismatches.

Demography

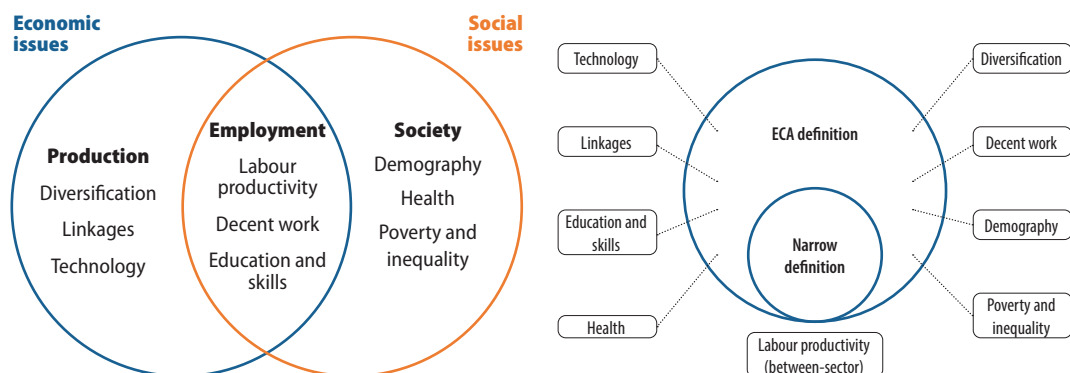
Demographic change can boost structural transformation through the considerable impact that it has on the economy and society. For example, changes in the age composition of the population can yield a significant demographic dividend by easing the economic burden on the working-age population. Urbanization and migration can also produce large economic benefits, although they may also entail significant costs if not adequately managed.

Health

A healthy workforce is central to expanding human capital and enhancing structural transformation. A high prevalence of diseases and other medical conditions undermines economic activity and labour productivity, especially through its impact on an individual's physical and emotional well-being.

Poverty and inequality

Poverty often undermines access to nutritious foods, health care, education and jobs, which, in turn, leads to malnutrition, a high disease burden, low skills and underemployment. Moreover, inequality contributes to economic, social and political instability, which curtails economic growth. Poverty and inequality can therefore prevent people from fully contributing to the transformation of economic and social structures.

Figure II: Economic and social issues relating to structural transformation

Data considerations/implications

When compiling data for the profiles, preference was given to official national sources, such as national statistics offices, central banks and government ministries. It should be noted, however, that data collected from national sources may not be comparable among countries owing to the use of different terminology, methods and classification systems. International sources were therefore used whenever national data either were not available or there was a need to contextualize the analysis with cross-country comparisons. The use of harmonized data from international sources, such as those produced by many United Nations agencies, is key to enabling consistent comparisons among countries. Whenever feasible and pertinent, data have been disaggregated by age, gender and location. Given that structural transformation is a gradual process, the analysis tracks changes over a relatively long period, usually by contrasting values or averages for the periods 1990-1999 and 2000-2009 with those for 2010 onwards.

Acknowledgements

The main objective of the structural transformation, employment, production and society (STEPS) profiles is to produce country-specific data analysis and policy recommendations for structural transformation that will promote sustainable development. The profiles are produced by the subregional offices of the Economic Commission for Africa (ECA), with data validation conducted by the African Centre for Statistics.

The lead author of the Malawi profile was Fatma Sine Tepe of the Subregional Office for Southern Africa. The profile was prepared under the overall coordination and substantive guidance of the Deputy Executive Secretary for Knowledge Delivery of ECA, Giovannie Biha, the direct leadership of the Director, Subregional Office for Southern Africa, Said Adejumobi, and the supervision of the Chief, Subregional Initiatives of the Subregional Office for Southern Africa, Sizo Mhlanga.

The profile benefited from valuable contributions and comments from Allan Mukungu (Macroeconomic and Governance Division of ECA), Komi Tsowou (Regional Integration and Trade Division of ECA), and Benjamin Banda (Division for Africa, Least Developed Countries and Special Programmes of the United Nations Conference on Trade and Development (UNCTAD)). The cooperation of the Malawi National Statistical Office was critical to the successful completion of the profile. In particular, assistance from Hector Master Kankuwe (Assistant Commissioner of Statistics, Regional Statistical Officer (Centre) and National Statistical System Coordinator) is gratefully acknowledged. A special mention goes to the Publications Section of ECA for editing, designing and printing the profile.

1



Overview

Malawi is one of the least developed countries in the world, with an economy highly vulnerable to external factors such as terms of trade shocks, adverse weather conditions and sudden sharp declines of capital inflows, including external aid.

Despite being largely peaceful, Malawi ranks 171 of 189 countries, with a Human Development Index (HDI) of 0.477, placing it below the average of 0.504 for countries in the low human development group and below the sub-Saharan Africa average of 0.537.¹ Women in Malawi fare worse than men on most social and economic indicators, including wage equality, decent employment opportunities, political participation (16.7 per cent of parliamentary seats are held by women), exposure to violence, secondary and tertiary education enrolment, literacy and ownership of land and assets. The implementation of gender-sensitive economic policies has, to a large extent, been ineffective. Consequently, according to the *Human Development Report 2017* of the United Nations Development Programme (UNDP), gender inequality remains high, with a gender inequality index (GII) of 0.619, the country ranking 148 out of 160 countries in 2017.

Since independence, Malawi has developed various development strategies to improve the socioeconomic landscape of the country. However, slow implementation due to macroeconomic challenges and other bottlenecks has negatively affected the country's ability to sustain high levels of economic growth that would meaningfully reduce poverty. The economic performance of Malawi was dismal between 2001 and 2004. Real gross domestic product (GDP) growth averaged 2 per cent per year, with a significant contraction of the economy (5 per cent) in 2001. Saving and investment ratios remained low over the same period, largely on account of low disposable incomes. During the implementation period of the Malawi Growth and Development Strategy (MGDS) I (2006-2011), the economy performed comparatively better, with an average real GDP growth rate of 7.5 per cent, compared to a target of 6 per cent. Economic activity remained moderate, with an average growth rate of 4.5 per cent, except in 2012 when growth slowed to 1.9 per cent, during the implementation period of MGDS II, which ran between 2011 and

1 Human Development Indices and Indicators: 2018 Statistical Update.

2016.. Economic growth slowed from 4 per cent in 2017 to 3.5 per cent in 2018 following two years of depressed economic activity in 2015 and 2016 due to a decline in agricultural production resulting from dry spells and fall armyworm infestation. Economic performance in the industrial and service sectors was also subdued because of erratic energy supply and a generally weak business environment. Economic growth is projected to rise to 6-7 per cent over the medium term, supported by recovery in agriculture and an improved energy supply.²

Malawi has experienced a drastic reduction in the inflation rate; in 2018, average annual inflation fell to single digits for the first time in seven years to 9.2 per cent, down from 20 per cent in 2012. Continued stability of the Kwacha relative to the United States dollar partly helped contain inflation in single digits. Inflation is expected to gradually converge to 5 per cent over the medium term.³ However, the fiscal position has deteriorated and the public debt (as a percentage of GDP) has risen because of larger than expected maize purchases after poor harvests in some parts of the country and increased spending to pay past arrears.

The country has in the last couple of years made efforts towards macroeconomic stability. Malawi needs a sustained growth rate of at least 7 per cent for approximately 17 years to achieve middle-income country⁴ status, with \$1,025 gross national income (GNI) per capita⁵, from the current \$320 GNI per capita. Malawi should take a holistic approach to building economic resilience to address structural vulnerabilities within the country. Advancing structural reforms, reducing dependence on unpredictable and fluctuating aid and moving towards self-reliance, and improving governance and transparency will be critical in this respect.

Production. Efforts to diversify the economy to other productive sectors such as industry, mining and tourism have not been effective because of various structural challenges, including low productivity, a narrow export base, poor infrastructure development and weak energy supply (e.g. increasing energy demand and insufficient power generation capacity due to lack of investment in new power generation units; high transmission and distribution costs, and transmission losses; poor power quality; and insufficient focus on alternative energy sources). As the country aims to strengthen private sector development and industrialization in order to reduce its reliance on foreign aid, it is essential for Malawi to address structural constraints, and attract both domestic and foreign investment through, among others, the provision of a business-friendly environment and strategic incentives in potential productive sectors.

The Malawian economy remains dependent on rain-fed agriculture, which partly explains the low productivity levels in the country, with considerable gaps between current and potential

2 See www.imf.org/en/News/Articles/2019/03/13/pr1976-malawi-statement-at-the-end-of-an-imf-staff-visit.

3 Ibid.

4 Middle-income countries are a diverse group by size, population and income level. They are defined as lower middle-income economies (those with a GNI per capita between \$1,006 and \$3,955) and upper middle-income economies (those with a GNI per capita between \$3,956 and \$12,235) (World Bank, 2018).

5 Atlas Method (current in United States dollars).

yields. According to the *Malawi Investment Projects Compendium 2016*, the agricultural sector generates over 80 per cent of export earnings, providing nearly 65 per cent of raw materials for the manufacturing sector.

Malawi's manufacturing sector is underdeveloped, and lacks diversification, with agro-processing being the dominant activity. Although Malawi has made some attempts to promote the manufacturing sector through development reforms and growth strategies, the sector has not yet taken off, as manufacturing firms have not been able to create strong backward and forward linkages with the rest of the economy. The shortfall in energy supply is a major growth constraint, and a factor weakening the competitiveness of local industries, deterring investors and strongly discouraging investment in the sector

Services sectors contribute more than half of GDP (52.4 per cent in 2017, up from 22.3 per cent in 1990), in particular from tourism, real estate activities, financial and insurance activities, information and communication, and wholesale and retail. These activities are expected to be key drivers of growth. Tourism currently contributes about 7 per cent of GDP and has great potential to transform Malawi. Being labour-intensive, tourism can potentially absorb large numbers of unemployed women and youth, and revitalize local economies, although there are various challenges. The most significant of these include missing skills, poor marketing, lack of attention to cultural sites and events, infrastructure challenges (roads, energy) and poor air access.⁶ MGDS III focuses on increasing investment in tourism infrastructure, improving the quality of tourism products and services, and preserving cultural heritage resources to unlock the sector's potential.

Malawi has a narrow export base and export earnings are notoriously volatile. It has failed to boost competitiveness in trade and fully maximize its comparative advantage. Malawi's exports are mainly primary or semi-processed products, which are developed solely for sale to global markets. Agriculture is the country's main source of export earnings, tobacco, sugar, tea, coffee and cotton being the major cash products. Developing a competitiveness strategy that focuses on structural transformation of productive sectors by diversifying export markets and shifting to greater value addition in products and services could create new opportunities for Malawi to integrate into regional and global value chains.

Employment. Malawi has one of the fastest growing populations in the world. Based on the median growth scenario of the United Nations Statistical Division, it is projected to reach 43.1 million by 2050, up from 18.9 million in 2018, which may have negative implications for access to services, land resources and socioeconomic development. It also has one of the youngest age structures in the world, with about 46 per cent of its population under 15 years of age. Malawi can capitalize on the demographic dividend if there is significant investment in empowerment, education and employment of its young people.

6 Malawi Travel and Tourism – Realizing the Potential, World Bank Report No. 62353-MW, December 2010.

According to the 2013 Malawi Labour Force Survey, the employment rate for Malawi was 79.6 per cent; the majority of employed persons were absorbed in agriculture (64 per cent) and wholesale and retail trade (16 per cent). Most persons employed in the agricultural sector face an uncertain future and are highly vulnerable to climate-related shocks and events.

The informal economy⁷ has grown rapidly as Malawi has experienced a high level of unemployment due to insufficient jobs creation in the formal economy. The 2013 Malawi Labour Force Survey estimated that nine out of ten (89 per cent) employed persons in Malawi were predominantly engaged in informal employment, similar to most countries in sub-Saharan Africa, where, on average, between 85 and 95 per cent of employed persons are in the informal economy. Informal employment is more prevalent in rural areas than in urban areas. Women are more likely to be employed in informal employment than males. Informal employment was particularly observed in the agricultural sector (97 per cent), followed by the non-agricultural sector (75 percent) and finally in private households (58 per cent).

The factors that pull people into non-farming sectors have been strengthening. These include growth, albeit modest, variable and volatile, in the Malawian economy; expanding employment in the services sector; increased educational attainment; and regional labour migration. Labour productivity gaps across sectors remain large in Malawi. Most recent data indicate that labour productivity in agriculture and manufacturing remain considerably lower than that of other sectors, mining and utilities in particular. A productive labour force is essential for the promotion of sustainable development. In order to generate productive employment opportunities, the economy has to diversify from low-productivity subsistence agriculture and a narrow export base consisting mainly of tobacco, to other agricultural food and cash crops and non-primary export sectors.

Growing youth unemployment is one of the most pressing policy problems in Malawi. While the number of young people entering the labour force has been growing rapidly, the country's economy has not been growing fast enough to create employment opportunities to meet the demand for jobs. The majority of youth in Malawi live in rural areas and are exposed to disproportionate challenges such as poor-quality jobs, early marriage and difficulties accessing health care. The importance of youth being empowered through skills development and education cannot be overemphasized. The Government has made concerted efforts to address chronic youth unemployment, but access to decent work remains a challenge for Malawi's young workforce. Young people lack sufficient educational attainment or training⁸ (know-how), work experience and access to the social networks that provide job information. Much needs to be done to advance the youth agenda: The Government should strengthen the

7 The International Labour Organization (ILO) defines informal employment as a job where the relationship between the employer and employee is not subject to the national labour economy, income taxation or any social protection or employment benefits.

8 The technical and vocational education system is diverse, with a multitude of private and public providers, but its cost makes it out of reach to the majority.

institutional framework and governance of youth policies; improve the quality and relevance of technical and vocational education to facilitate youth's transition into the labour market; and promote entrepreneurship and small business growth.

Child labour remains a serious and widespread problem in Malawi. The 2015 Malawi National Child Labour Survey⁹ revealed that 38 per cent of children aged 5 to 17 years were involved in prohibited work, technically known as child labour. Among working children (47 per cent of children aged 5 to 17 years), almost eight in every ten (79 per cent) were in child labour. Child labour does not appear to have a significant gender dimension, as boys and girls work in roughly equal proportions. The survey also found that 72 per cent of children aged 5 to 17 years work in the agriculture sector, while 23 per cent are in domestic employment and 3 per cent work in the wholesale and retail trade.¹⁰ Much of this work presents both health and safety risks for the children, who often work long hours for little or no pay. While Malawi does have policies on child labour, these tend to cover industrial labour and commercial agriculture and do not adequately address child labour in subsistence agriculture and the informal economy. Efforts need to be intensified and accelerated to eliminate child labour as soon as possible.

Society. Malawi has made only limited progress towards reducing poverty, with slightly increasing poverty rates in recent years, particularly in rural areas. The Fourth Integrated Household Survey reports that the national poverty rate increased from 50.7 per cent in 2010 to 51.5 per cent in 2016. There is increasing polarization in consumption at the extreme ends of wealth distribution as the gap between the rich and poor widens. The Gini coefficient increased from 0.40 in 2004/05 to 0.46 in 2011. Geographically, the southern region of Malawi has the largest Gini coefficient. In terms of gender, female-headed households are poorer than their male-headed counterparts (57 per cent as against 43 per cent).¹¹ Education and skills development has direct linkages to other sectors of the economy, such as manufacturing, and is a key way to break the generational cycle of inequality. Primary education has been free in Malawi since 1994 and there has also been a big increase in the provision of community day secondary education. Improved education standards will create a more skilled workforce in the long term, resulting in improved productivity, reduced poverty and other socioeconomic benefits.

Malawi is still at the early stages of urbanization. In 2008, only 15.6 per cent of the total population (2.8 million people) lived in urban areas. The annual urbanization rate averaged around 3.7 to 3.9 per cent during the period 1998–2008, a rate lower than that recorded by

9 This was the second National Child Labour Survey conducted in the country. The first was conducted in 2002.

10 In urban areas, less than half of children aged 5 to 17 years work in agriculture, forestry and fishing, 11 per cent in the wholesale and retail trade, 39 per cent in domestic work and 4 per cent in other industries. In contrast, 75 per cent of children in rural areas work in agriculture, forestry and fishing, 2 per cent in the wholesale and retail trade, 21 per cent in domestic work and the rest in other industries.

11 Malawi Economic Development Document, International Monetary Fund (IMF) Country Report. May 2017.

many other African countries.¹² Malawi needs to improve its management of the urbanization process as this will be critical to the country's efforts to reduce poverty and achieve sustainable and inclusive growth.

Malawi continues to face challenges (e.g. the dominance of rain-fed subsistence farming, particularly given the growing population and limited land base; limited early warning systems, low preparedness and recovery capacity) that constrain its capacity to achieve food and nutrition security. In 2010, 32 per cent of households felt they had very low food security and this increased to 61 per cent of households in 2016 (Malawi Fourth Integrated Household Survey, 2016/17). The proportion is higher in rural areas than urban areas (66 per cent and 42 per cent, respectively) and food insecurity is more prevalent in female-headed households than male-headed households (69 per cent and 58 per cent, respectively). Food insecure people find it impossible to build the necessary human, physical and social capital (or assets) that would enable them to raise their welfare level on a sustainable basis. More strategic investment is required in adaptation and resilience mechanisms, promotion of environmental management and conservation, and climate-smart agricultural technologies if there is to be a sustainable agricultural transformation that will result in improved food, nutrition and income security. To help achieve this, the country has been developing new agriculture sector policies in the past few years through the Agriculture Sector Wide Approach Support Project which is supported by the International Development Association, the World Bank fund for the poorest countries, and other donors.¹³

12 Malawi Economic Monitor: "Harnessing the Urban Economy". May 2017, World Bank.

13 See www.worldbank.org/en/news/feature/2017/01/31/new-policies-to-transform-malawi-agriculture-sector.



Context

Malawi, officially the Republic of Malawi and formerly Nyasaland, is a small, landlocked country in south-east Africa. It is bordered by Zambia to the west, the United Republic of Tanzania to the north and Mozambique to the south and south-east. The country covers an area of 118,489 square kilometres, of which 94,276 square kilometres is land, while the rest is water. Malawi is divided into three administrative regions: the northern, central and southern regions. There are 28 districts: six in the northern region, nine in the central region and 13 in the southern region. The official languages of Malawi are English and Chichewa. Lilongwe is the capital city, and the currency is the Malawian kwacha (MK). Malawi has remained peaceful and stable since its independence in 1964, and has had a multiparty, democratic government since the restoration of multi-party democracy in 1994.

Population figures from the National Statistical Office of Malawi show that it one of the most densely populated countries in sub-Saharan Africa, with a population of 18.9 million in 2018, up from 13 million in 2008, and still largely dependent on natural resources for livelihoods. This astounding growth in population is the result of a decline in mortality due to improvements in nutrition and health care and stubbornly high levels of fertility (4.57 children per woman in 2016). Even with a national HIV prevalence of 9.6 per cent of the adult population (aged 15-49),¹⁴ AIDS-related mortality does not offset the results of high fertility.¹⁵ While the land area remains static, population density continues to grow: it has grown from 100 persons per square kilometre in 1990 to 186 persons per square kilometre in 2018.

This exponential population growth¹⁶ is a serious cause of concern for the country's socioeconomic development and environment. Without a reduction in the average

14 According to the Joint United Nation Programme on HIV/AIDS (UNAIDS).

15 The Government has shown commitment to preventing transmission from mothers living with HIV to their infants in recent years. Malawi was the first country to implement the Option B+ approach in July 2011, which means that all pregnant women living with HIV are offered antiretroviral treatment for life – irrespective of CD4 count. See www.avert.org/professionals/hiv-around-world/sub-saharan-africa/malawi.

16 The intercensal growth rate between 2008 and 2018 was 2.9 per cent per annum, compared to 2.8 per cent intercensal growth between 1998 and 2008.

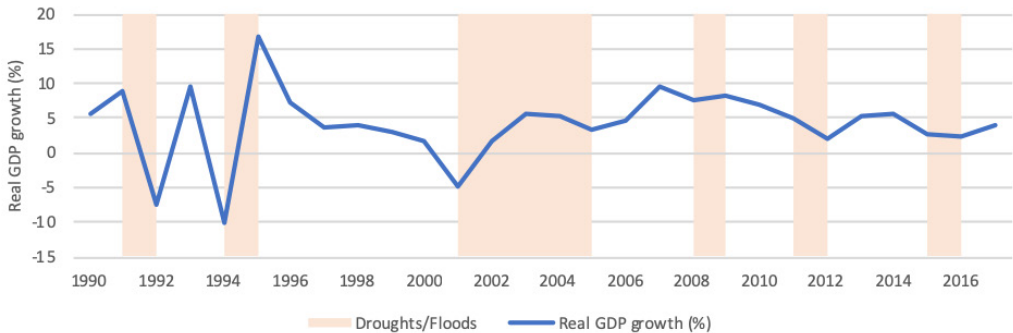
number of births per woman, public services will be overstretched and ultimately that will adversely affect efforts to advance Malawi's economic growth and prosperity.

Malawi is an open economy with a per capita GDP of \$340 in 2017, a figure lower than the sub-Saharan African average of \$1,525, and one of the lowest in the world according to the United Nations Statistics Division.

In recent decades, climate shocks and domestic shocks have left Malawi in a cycle of fragility. Major governance shocks, including a policy-induced recession in 2012 accompanied by fuel and foreign exchange shortages, followed by the “cash-gate” scandal exposed in 2013, dented the international reputation of the country.¹⁷ Severe floods in 2015 and El-Niño-induced drought in 2016 significantly affected the agriculture sector, leaving millions of Malawians food insecure. Consequently, large amounts of maize were imported to support those affected, which put significant pressure on public spending, leading to increased debt and higher deficits. The agriculture sector is the main determinant of economic performance, accounting for almost 30 per cent of GDP. Poor performance in the agriculture sector has an indirect negative affect on the performance of the other sectors, particularly manufacturing, which is agriculture-based. In 2017, improved weather conditions and a good rainy season helped the harvest and supported economic growth. A good performance by the services sector also boosted growth in 2017. Figure 1 below shows the relationship between economic growth and key drought and flood events.

Real GDP growth for 2018 is projected to be 3.7 per cent,¹⁸ down from 5.1 per cent in 2016/17, but higher than the average economic growth rate in Southern Africa (1.2 per cent). Low agricultural output driven by poor rainfall in 2017/18 and the recurrence of fall armyworm in some parts of the country, have contributed to the decline in estimated economic growth for 2018. However, non-agriculture sector growth has been relatively strong

Figure 1: Economic growth and key events



Source: Author's compilation

17 Malawi Economic Development Document, IMF Country Report. July 2017.

18 *African Economic Outlook 2019*, African Development Bank.

in 2018 and slightly above its long-term trend, partly as a result of a better performance by the manufacturing sector, which has been supported by improved electricity supply. Over the medium term, economic growth is expected to rise to 6 per cent: Stable macroeconomic and fiscal fundamentals, improved investor confidence (e.g. increased inward foreign direct investment flows), improved infrastructure and agricultural production improvements are expected to drive this growth.

Monetary policy. Having pursued a hawkish monetary policy stance from 2012 until late 2016, the Reserve Bank of Malawi started to ease monetary policy in the last quarter of 2016 and continued to do so throughout 2017 in response to falling inflation and improving macroeconomic indicators. The Reserve Bank of Malawi rate stood at 14.5 per cent as of January 2018. Inflation¹⁹ has fallen below 10 per cent in 2018²⁰ from high double digits in recent years as a result of the stabilization of food prices,²¹ prudent fiscal and tight monetary policies, and a stable exchange rate that resulted from expanding foreign exchange reserves.²²

The fiscal deficit rose sharply from 4.8 per cent of GDP in 2016/17 to 7.8 per cent of GDP in the financial year 2017/18. The fiscal deterioration since 2013 has largely been due to reduced direct budget support (lower than expected revenues and grants) and domestic expenditure overruns. Expenditures in the lead-up to the May 2019 elections will likely add to the existing fiscal pressure. The current account deficit was 9.8 per cent of GDP in 2016/17, down from 13 per cent in 2015/16, due to reduced food imports following the bumper harvest in 2017. It is estimated that the current account deficit will narrow slightly to 10.9 per cent in 2018/19, down from 11.3 per cent in 2017/18.

Since the Heavily Indebted Poor Country (HIPC) and related Multilateral Debt Relief Initiative (MDRI) debt relief in 2006, Malawi's debt has more than doubled.²³ Between 2012 and 2017, the total public debt of Malawi increased from about 44 per cent to about 60 per cent of GDP (International Monetary Fund 2018). The composition of debt has shifted progressively from external²⁴ to domestic borrowing.²⁵ This is due to the sustained large fiscal deficits incurred during 2013–17. The “cash-gate” scandal affected the implementation of key development

19 Food inflation displays strong seasonal patterns. By contrast, non-food inflation has been influenced by factors, such as import prices and the exchange rate. Food inflation decreased from 29.2 per cent in December 2015 to 4.3 per cent in December 2017. Non-food inflation decreased from 20.7 per cent to 10 per cent during the same time period. Overall inflation in 2017 averaged 11.6 per cent, down from a high of 21.8 per cent in 2016 (author's calculations).

20 Author's calculation.

21 In 2015/16, a combination of droughts and floods resulted in a sharp reduction in the maize harvest and contributed to a sharp increase in food inflation.

22 In May 2012, following the “cash-gate scandal”, Malawi switched from a fixed to a floating exchange rate regime.

23 This is one of the fastest rates of accumulation of debt among countries that received HIPC and MDRI debt relief.

24 Malawi's public and publicly guaranteed external debt stood at about \$1.79 billion (33.1 per cent of GDP) in 2016, compared to \$1.45 billion (30.8 per cent of GDP) in 2013.

25 Gross domestic debt increased from MK 206.6 billion (13.8 per cent of the new rebased GDP) at the end of 2012 to MK 865.3 billion (21.1 per cent of GDP) at the end of 2016.

The “cash-gate” scandal. Cash-gate, which broke in September 2013, is the biggest financial scandal in the history of Malawi and has had lingering consequences for the country and its people.

The scandal involved the misappropriation of government funds through the transfer of funds from government bank accounts to private companies under the guise of payments for goods and services. An investigation discovered that the loopholes in the Government’s financial management system enabled cash amounting to more than \$45 million to be illicitly appropriated.

The cash-gate scandal prompted foreign donors to withdraw aid worth about \$150 million (about 40 per cent of the Government’s budget) annually, which came as a blow to an already struggling country. The Government began borrowing domestically and that led to high inflation and a massive increase in prices for goods and services.

Following the scandal, the authorities tried to restore donor confidence in the integrity of management of public finances. The aid-freeze led the Malawian Government to embark on more stringent auditing procedures and reporting (Strasser, 2016).

initiatives as donors withdrew their budget support. In the absence of alternative sources of financing, the Government borrowed on the domestic market which increased domestic arrears.²⁶

Increased debt service pressures have reduced the fiscal space needed for infrastructure and social spending, and Malawi remains at moderate risk of debt distress.²⁷ Fiscal consolidation will ensure long-term debt and external sustainability.

The Extended Credit Facility provides financial assistance to countries with protracted balance of payments problems.²⁸ It aims to support macroeconomic stability²⁹ and to reduce the external debt, through economic and financial reforms.³⁰ The past Extended Credit Facility arrangement helped Malawi to restore donor confidence following the “cash-gate” scandal. In April 2018, IMF approved a new three-year arrangement for Malawi under the Facility for about \$112.3 million, equivalent to 56.25 per cent of Malawi’s IMF quota, to support the country’s economic and financial reforms over the medium-term. IMF financial support will contribute to closing a projected financing gap of \$363 million in the period 2018-2021.

Between 1970 and 2017, a number of development strategies and plans have been implemented in the form of long-term plans, medium-term plans and short-term plans. The long-term plans included the Development Plan 1971-1980, the Development Plan 1987-1996 and the Malawi Vision 2020, covering the period 1998-2020. Long-term plans had a

26 In the aftermath of the scandal, the fiscal deficit was financed by printing money and issuing government securities to the private sector.

27 IMF Debt Sustainability Analysis, 2017.

28 The Extended Credit Facility is the main IMF tool for providing medium-term support to low-income countries.

29 By the end of the programme, inflation had fallen from 35 per cent at end-2012 to 10 per cent in mid-2017.

30 The Extended Credit Facility which was first approved in July 2012, amounted to \$143.5 million. It was extended for a further two years in 2015, and concluded in 2017. In April 2018, the Malawian Government agreed to a new three-year Extended Credit Facility, amounting to about \$112 million.

planning horizon of more than 5 years. Medium-term plans included 3 to 5-year rolling plans such as the development plans of the 1970s, the Medium-Term Plan 1981-1986, the Malawi Poverty Reduction Strategy 2002-2005, the Malawi Economic Growth Strategy 2004-2008, and the 2006-2011, 2011-2016 and 2017-2022 MGDS.

To support long-term and medium-term plans, there was a series of economic policy interventions by the World Bank and the IMF known as structural adjustment programmes through structural adjustment loans and enhanced structural adjustment facilities, covering a period of less than three years. These programmes were aimed at introducing economic policies that corrected market failures created by the Government, such as fiscal austerity, privatization, deregulation and free trade.

Malawi Growth and Development Strategy, I, II, III

The first MGDS (MGDS I) implemented from 2006 to 2011, built on the Malawi Economic Growth Strategy 2004³¹, which emphasized the need to create a conducive environment for private sector investment to stimulate economic growth. MGDS I incorporated lessons from implementation of the Malawi Poverty Reduction Strategy, which was developed to guide medium-term programmes from 2002-2005. MGDS I aimed to transform the country from a predominantly importing and consuming economy to a predominantly producing and exporting economy as a means of achieving poverty reduction.

The second MGDS (MGDS II) aimed to guide Malawi's development and growth path during the period 2011-2016. The Strategy recognized that Malawi's population is youthful, approximately half of the population being under the age of 15 years, and up to 73 per cent under 30 years, and that strategic investments in human capital could accelerate the development of the country. While Malawi experienced some rapid, unstable economic growth over the implementation periods of MGDS I and II, the gains of that growth were not spread evenly and the gap between rich and poor widened at an alarming rate. MGDS III, the guiding national development strategy between 2017-2022, maintains a balance between economic, social and environmental considerations, and identifies five key priority areas: agriculture, water development and climate change management; education and skills development; transport and information and communications technology infrastructure; energy, industry and tourism development; and health and population to facilitate the achievement of national, regional and global development goals.

Malawi has much room for improvement on governance compared to the rest of the world, and even to the average score of the middle-income country group to which it aspires to graduate. The Malawi Public Service has consistently experienced poor and declining performance that has undermined its ability to effectively implement policies and strategies

³¹ The Malawi Economic Growth Strategy draws on several policy initiatives, including Vision 2020. Its objective is to create an overall macroeconomic environment conducive to broad-based GDP growth of at least 6 per cent per annum that is sustained over the long term.

that are imperative for the transformation of the country. According to the 2018 Ibrahim Index of African Governance,³² for example, Malawi scored 55.8/100 in overall governance, a decline from 57.2/100 in 2008, and ranked 19/54 in Africa. In the Transparency International Corruption Perceptions Index 2017, Malawi ranked 122/180 and scored 31/100, a decline from 2014, when it scored 33/100.

Malawi has taken a number of initiatives to improve its overall business environment, with the aspiration of moving into the top 100 of the rankings. However, competitiveness is stagnating and the overall business climate is still ranked low by the World Bank. According to the *Doing Business 2019 Report*,³³ Malawi ranked 111/190 for all 10 indicators, including those affecting competitiveness: Starting a Business (153/190), Trading across Borders (126/190), Paying Taxes (134/190), and Getting Electricity (169/190).³⁴ Improvement in ease of doing business is yet to be translated into a competitive business environment. The Global Competitiveness Index³⁵ 2018 ranked Malawi 132/137, with a score of 3.1/7, a decline from 2012-13 when Malawi ranked 129/144 and scored 3.4/7. According to the report, the most problematic areas include corruption, access to finance, tax rates and inflation.

Since independence, Malawi has signed trade agreements with other countries at bilateral, regional and multilateral levels, including the recently launched African Continental Free Trade Area, with the objective of providing increased market access for Malawian exports.

Malawi is a member of the World Trade Organization and two regional trade blocs: SADC and COMESA. It has signed bilateral trade agreements with Botswana, Mozambique, South Africa and Zimbabwe in the region, and with China, India and Malaysia, outside the region. Malawi also has bilateral agreements under the Cotonou Agreement between the European Union and the African, Caribbean and Pacific Group of States and the United States-African Growth Opportunity Act initiative for concessional exports to the United States market. Regional integration enables countries within the region, particularly poor countries, to exploit complementarities and entrench competitiveness, thereby attracting the required levels of investment for development.

32 The Ibrahim Index of African Governance is a tool that measures and monitors governance performance in African countries, containing a total of over 100 indicators. It measures country performance in delivering governance across four key components that effectively provide indicators of a country's "Overall Governance" performance. These are "Safety and Rule of Law", "Participation and Human Rights", "Sustainable Economic Opportunity" and "Human Development".

33 The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the poorest and 100 represents the best performance. The ease of doing business ranking ranges from 1 to 190.

34 See www.doingbusiness.org/en/data/exploreeconomies/malawi/.

35 The Global Competitiveness Index tracks the performance of close to 140 countries in relation to 12 pillars of competitiveness, the set of institutions, policies and factors that determine the level of productivity. All data is sourced from the April 2017 edition of the IMF World Economic Outlook Database.

Summaries of Doing Business Reforms in 2016/17

✗ Starting a business: Malawi made starting a business more expensive by increasing the cost of registering a business with the Registrar General. ✓ Dealing with construction permits: Malawi made dealing with construction permits cheaper by halving the fees charged by city councils to process building plan approvals. ✓ Getting credit: Malawi improved access to credit information by establishing a new credit bureau. Malawi also strengthened access to credit by adopting a new law that establishes clear priority rules inside and outside bankruptcy procedures. ✓ Trading across borders: Malawi made exporting and importing easier by upgrading to a web-based customs data management platform, Automated System for Customs Data (ASYCUDA) World. ✓ Resolving insolvency: Malawi made resolving insolvency easier by introducing a reorganization procedure, facilitating continuation of the debtor's business during insolvency proceedings and introducing regulations for insolvency practitioners (Doing Business 2018).

Summaries of Doing Business Reforms in 2017/18

✓ Registering property: Malawi made property transfer faster by decentralizing the consent to transfer property to local government authorities. ✓ Enforcing contracts: Malawi made enforcing contracts easier by adopting new civil procedure rules regulating time standards for key court events (*Doing Business 2019*).

Despite numerous market access opportunities available at bilateral, regional and multilateral levels, Malawian exports have for decades grown at a much slower pace than its high-value imports, and this is reflected in its persistent negative current account position. Key challenges remain in trade competitiveness and development of comparative advantages. For instance, African Regional Integration Index 2016 findings show that Malawi performs average to low within the COMESA and SADC, ranking 11/20 and 12/16, respectively.³⁶

The current account deficit has largely been financed by foreign direct investment (FDI) inflows and current transfers. FDI into Malawi is limited, but has increased in recent years. FDI inflows have gone mainly into mining, agro-processing, energy and railway construction. The Kayelekera uranium mine, which started operations in 2009, has been one of the largest investment projects in recent years.³⁷ Outward FDI remains very limited in the country.³⁸ Transfers have consisted, to a large extent, of official development assistance flows,³⁹ while remittances have played a limited role.

The high rate of population growth (2.9 per cent per year), together with climate change, is expected to increase pressure on the environment. There is therefore an urgent need to promote adaptive technologies (i.e. climate-smart agricultural technologies), strategies and mitigation programmes. The National Climate Change Management Policy (2016), which includes implementation and evaluation strategies, aims to achieve sustainable livelihoods through adaptation, mitigation and capacity-building.

36 See www.integrate-africa.org/rankings/country-profiles/country/malawi/#undefined.

37 In 2014, production at Kayelekera was suspended because of high operating costs and the crash in uranium prices following the Fukushima nuclear accident.

38 UNCTAD, *World Investment Report 2015*.

39 Malawi has traditionally been highly dependent on donor support. On average, about 35 per cent of the State budget had been financed by external donors. This figure declined strongly after a major corruption case ("cash-gate") in 2013.



Production

3.1 Diversification

Upon independence, Malawi adopted an explicit agricultural-export-led development model and placed limited emphasis on the expansion of other sectors. The structure of the country's economy has changed very little since the 1990s. The agricultural sector plays an overwhelmingly important role in the Malawian economy, accounting for about one third of gross value added (GVA). In the years when the economy performed well (2003-2010), agriculture contributed significantly to economic growth thanks to favourable weather conditions, coupled with government projects that supported the sector.

The agriculture sector is dualistic, comprised of two main sub-sectors: large-scale commercial farms (estates) and small-scale farmers. The estates specialize in the cultivation of high-value cash crops, such as tobacco, tea, sugar and coffee, are run by less than 1 per cent of households, but contribute 20 per cent of Malawi's agricultural production. Estates cultivate 1.2 million hectares of land, constituting 15 per cent of the total land under cultivation.⁴⁰ Small-scale farmers focus mainly on producing maize, largely to meet subsistence needs with limited participation in cash crops. Recently, medium-scale farmers have begun to emerge.⁴¹ Malawi's most recent official agricultural survey indicates that these account for over a quarter of all land under cultivation in Malawi. According to a study by Anseeuw and others (2016), the amount of land acquired by medium-scale holdings almost doubled between 2000 and 2015 in the districts of Mchinji, Kasungu and Lilongwe.⁴²

Low agricultural productivity presents a real challenge to food security in the country. Malawi has been allocating substantial resources to increase the production and

40 The World Bank, Malawi Agricultural Commercialization Project 2017. See documents.worldbank.org/curated/en/670281493136458794/pdf/ITM00194-P158434-04-25-2017-1493136454603.pdf.

41 Medium-scale farmers are, usually, defined as farmers with holdings between 5 and 50 hectares, occupying an intermediate position between small-scale, semi-subsistence production and larger-scale, more commercial farming. Some African Governments define medium-scale farms as those between 5 and 20 hectares.

42 The authors show that only 54 per cent of medium-scale holdings resulted from small-scale farmers accumulating land and growing into medium-scale farmers; 46 per cent of medium-scale farmers are (or were) not full-time, often urban-based, and have multiple activities.

productivity of the agricultural sector but the sector has not grown rapidly enough to match growing demand in domestic and export markets. While there are untapped opportunities to exploit in the agricultural sector, there are significant challenges that need to be addressed in order to increase production, especially when poor small-scale farmers are the main actors and beneficiaries of the sector. The Malawian agriculture sector is characterized by overdependence on rain-fed farming (over 90 per cent of agricultural production),⁴³ poor management of land, water and soils and a low level of irrigation infrastructure development, all of which increase vulnerability to weather-related disasters. Other challenges are limited access to new technologies and farm inputs, low mechanization, low technical labour skills and weak linkages to markets, especially among small-scale farmers. The National Agriculture Policy 2016 aims to address current challenges and to expand incomes for farm households, improve food security and increase agricultural exports through sustainable transformation in the sector.⁴⁴

The recent performance of Malawi's manufacturing sector has been dismal (a sectoral growth rate of 1 per cent in 2015/16 and 2016/17). The share of manufacturing in GVA has steadily declined from a peak of 23.8 per cent in 1992 to about 9.8 per cent in 2017. The growth rate of the manufacturing sector was highest between 2007 and 2010.⁴⁵ The manufacturing sector consists mainly of agro-processing, textiles, and the production of clothing and footwear. The narrow productive base has limited the growth of exports and increased the dependence on imports, contributing to a structural trade deficit that continues to widen and constrain output growth. Most manufacturing is for local consumption.

Key challenges for industrial growth and structural transformation in Malawi are low levels of competitiveness, limited investment in physical and human capital and small and fragmented markets.⁴⁶

Malawi's manufacturers have been struggling with costly and unreliable public utilities (e.g. water and electricity shortages), the lack and high cost of financing⁴⁷, an uncertain economic environment and logistical challenges. The Government of Malawi aims to promote an enabling environment for rural industrialization, agro-processing and further investment in the manufacturing sector to enhance value-addition particularly for agricultural products, and adopt new technologies in production processes. The Government has therefore introduced incentives for the sector, including loss carry-forward for six years, 100 per cent capital

43 National Irrigation Master Plan, 2015.

44 The Agricultural Policy is linked to the Agriculture Sector Wide Approach investment plan and all subsectoral policies.

45 Malawi made important strides in its development process between 2006 and 2010, when it recorded average growth of 7.4 per cent, as against a projected target of 8 per cent. This progress was made under the policy framework of MGDS I.

46 Malawi National Industry Policy, 2014.

47 Increased domestic borrowing by the Government resulted in a reduction in financial resources for key sectors of the economy such as manufacturing and wholesale and retail trade.

allowance on new and unused plant and machinery and industrial building, and a 40 per cent capital allowance on used plant and machinery and industrial building.⁴⁸

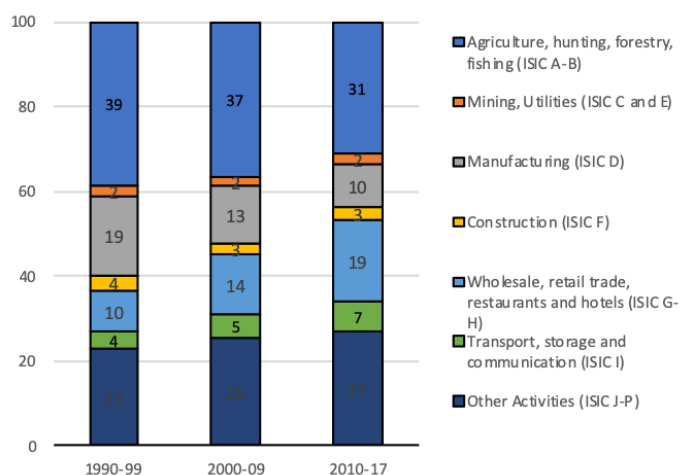
Mining in Malawi has traditionally consisted of small-scale mining of coal, gemstones, lime, limestone, and heavy mineral sands. The GVA share of the mining sector is relatively small (averaging 2 per cent between 1990 and 2017). The growth rate of the sector has been volatile, and was fastest between 2013 and 2014 (almost 17 per cent).

Two sectors, in particular, have significantly increased their GVA shares in the last 20 years: the wholesale and retail trade, and restaurants and hotels; and transport, storage and communication. The growth in construction in the period 2005-2008 mainly reflected an increase in medium- and small-scale construction activities. Figure 2 below shows the GVA percentages of the main national sectors for the periods 1990-1999, 2000-2009 and 2010-2017.

Structural transformation is taking place but needs to be accelerated: the Malawian economy remains largely services-based (value addition of more than 50 per cent in 2017), while experiencing a trend towards deindustrialization as the manufacturing sector has lost ground (a decline in GVA from 19 to 10 per cent between the periods 1990-1999 and 2010-2017). Agriculture is the largest sector in the economy, although its influence has gradually declined (39 per cent in the period 1990-99, 37 per cent in 2000-09, and 31 per cent during the period 2010-17). Malawi's economy will need to diversify to generate employment for its growing youth population. Far too little has been done in this regard, although there are untapped opportunities in the non-agriculture sector (e.g. in manufacturing sector through value addition by processing agricultural produce, as well as in mining and tourism sectors). An unfavourable business and investment climate impedes the development of these subsectors. Investment in human capital and complementary investments in key areas (such as power, access to markets and access to finance) are imperative. Figure 3 below shows sectoral growth in average percentages for the periods 1990-1999, 2000-2009 and 2010-2017.

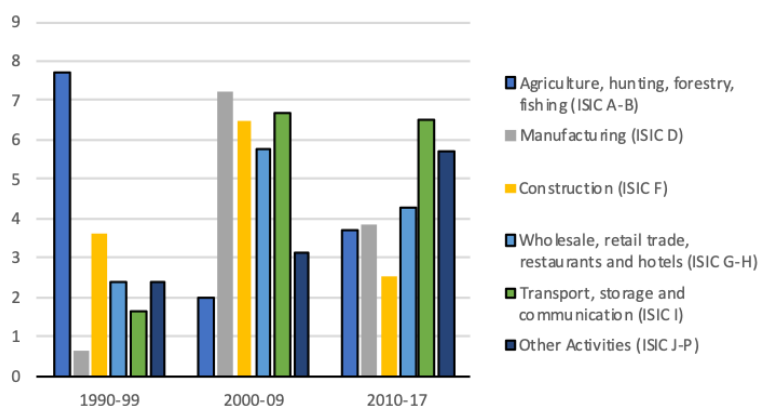
Volatility in agricultural commodity prices, output shortfalls (i.e. poor harvests) and high inflation episodes (e.g. the rapid increase that began in 2012) depressed household incomes and significantly affected private consumption expenditure. The contribution of private consumption to GDP in Malawi declined from 51 per cent in 1990 to 46 per cent in 2016. Figure 4 below shows the relative composition of GDP in percentages and figure 5 below shows expenditure growth in average percentages for exports, imports, investment, public consumption and private consumption over the periods 1990-1999, 2000-2009 and 2010-2016.

48 Malawi Investment Projects Compendium 2016.

Figure 2: Composition of gross value added (per cent)

Source: United Nations Statistics Division

Note: ISIC means the International Standard Industrial Classification of All Economic Activities

Figure 3: Sectoral growth (per cent, average)

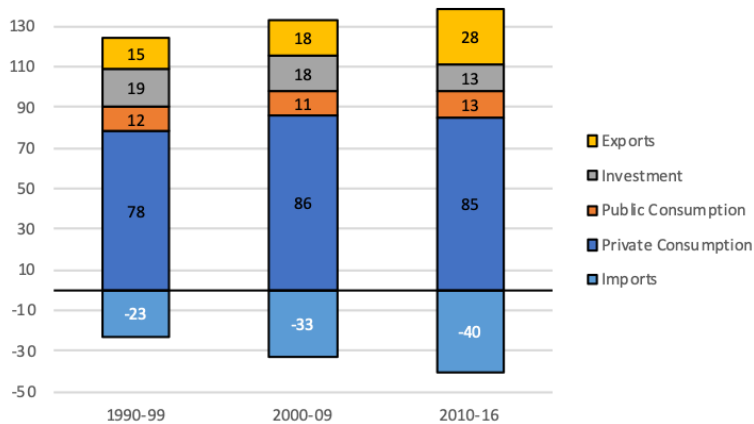
Source: United Nations Statistics Division

Note: ISIC means the International Standard Industrial Classification of All Economic Activities

Malawi has had sustained volatile (and at times negative) savings rates for the past two decades, which place constraints on its capacity to leverage private investment and explain its reliance on overseas development assistance to finance investment projects.⁴⁹ Another factor in low investment has been considerable macroeconomic instability due to the Government's failure to manage external shocks (floods and droughts led to nearly half the population

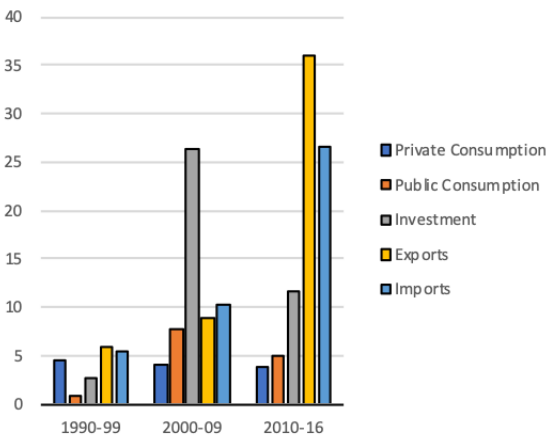
⁴⁹ Essentially, foreign capital inflows financed by concessionary loans from the World Bank, IMF and foreign aid bilateral agreements with Malawi's major donors.

Figure 4: Composition of GDP (per cent)



Source: United Nations Statistics Division

Figure 5: Expenditure growth (per cent, average)



Source: United Nations Statistics Division

requiring humanitarian assistance in 2015-2016) and policy-induced shocks (Record, Richard and others, 2016). The share of total investment in GDP has been shrinking since the 1990s.

There is a marked “missing middle” of firms between micro and small enterprises at the bottom (in the informal sector)⁵⁰ and large firms at the top (engaged primarily in agricultural production with limited in-country value addition). The 2009 Economic Empowerment Roadmap notes that “many Malawians remain in unprofitable businesses, while foreign investors dominate in larger, profitable firms, with a lack of vibrant businesses in between to link and eventually upscale enterprises across the country”. According to estimates, rural-based micro and small-

⁵⁰ The informal economy comprises thousands of micro-enterprises, traders, craftsmen and entrepreneurs.

scale economic activities support most of the population and generate nearly two thirds of overall business turnover. These enterprises are, however, poorly served by formal financial and microfinance institutions, and have been suffering from underinvestment and stagnation.⁵¹

Greater infrastructure connectivity is paramount: it is imperative that Malawi overcome the challenge of its geography through appropriate transit arrangements with neighbouring countries in order to access international markets.⁵²

Malawi's exports are primary or semi-processed items, which are produced exclusively for international markets. Despite the growth in the volume of trade, the key challenges remain (e.g. the narrow productive base, lack of a conducive business environment, weak domestic and international trade linkages, and lack of skilled workers). In other words, Malawi has failed to maximize fully its comparative and competitive advantage. The development of export-oriented industries is, for example, constrained by the extremely high cost of long-distance transport, which is many times higher than that of other landlocked countries such as Zambia. Malawi's position, neighbouring Mozambique, Tanzania and Zambia, places it in a strategic position to benefit from regional integration, infrastructure and corridors. Membership of both COMESA and SADC increases available markets for trade and investment. The country could benefit from increasing trade with Eastern and Southern African countries and improved infrastructure by investing in improving corridors.

The country's persistently negative current account balance, which was 11.3 per cent of GDP in 2017/18, is in part a reflection of a large trade deficit (rapid growth of imports relative to exports) and a narrow production base,⁵³ despite the opportunities provided by dynamic trends in global demand. While a low-income country such as Malawi, with a low savings rate, high investment needs and a dependence on imported inputs and foreign goods owing to limited industrial productive capacity, would be expected to import more than it exports, the trade deficit of Malawi will be excessive and unsustainable if the exports sector is not expanded and strengthened (Nkuna, 2013).

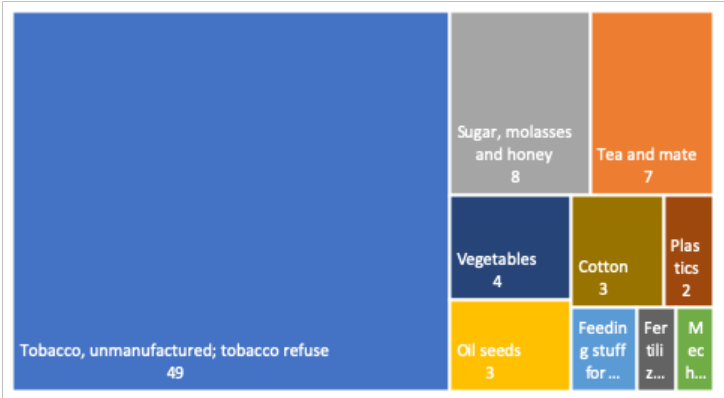
Trade is highly concentrated on agricultural commodities. Malawi's export potential is concentrated in eight sectors (traditional ones like sugar, tea, coffee, oilseeds, wood and vegetable products, pulses and other cereals, and non-traditional ones like animal products

51 See MSME Policy Strategy for the Republic of Malawi: info.undp.org/docs/pdc/Documents/MWI/MALAWI%20MSME%20POLICY%20AND%20STRATEGY%20FINAL%20DRAFT%20AUGUST%202012.pdf. Para 22 of the Strategy reads: "The 2012 MSME survey established that 59 per cent of MSMEs were excluded from financial services, as opposed to 31 per cent that are formally served by some sort of financial system, with the balance relying on informal services. Only 22 per cent are banked. Over three quarters do not borrow funds, primarily because they doubt their ability to repay loans. Of those that borrow, informal credit systems tend to be the primary source of credit."

52 According to the 2018 World Bank Doing Business Index, cross border trade has improved by 2 percentage points.

53 Mainly due to Malawi's high demand for foreign goods and reliance on imported inputs for production.

Figure 6: Merchandise exports 2010-17 (per cent)



Source: UNCTAD (UNCTADStat)

and plastics). Figure 6 provides a breakdown of merchandise exports in percentages for the period 2010-2017.

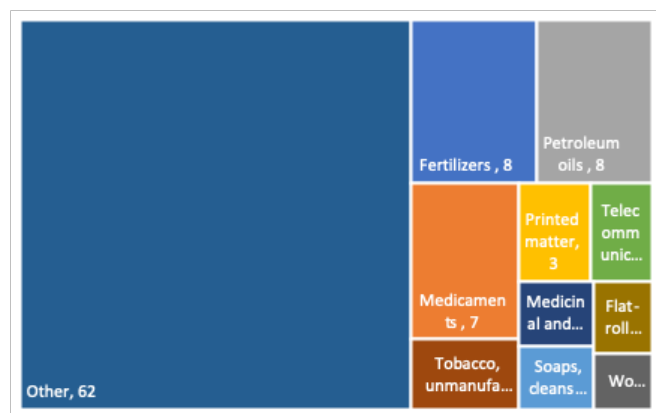
Tobacco dominates Malawi’s export basket, accounting for on average 49 per cent of total exports between 2010 and 2017 (exceeding 50 per cent in some years). In the recent past, the tobacco industry has been affected by the anti-tobacco smoking campaign in addition to volatile and poor average prices. Malawi also depends on a few other cash crops (e.g. tea⁵⁴ and coffee, raw cane sugar, oilseeds, dried peas, nuts and cotton together accounted for about 34 per cent of total exports in 2017) and has struggled to achieve some meaningful crop and product diversification.

Ranging from 0 (perfect diversification) to 1 (concentrated on a single product), the concentration index of exports estimates a country’s reliance on a limited group of commodities as its primary source of foreign exchange income. Malawi has slightly improved the diversification of its export base over the last two decades, the concentration index declining from 0.66 in 1995 to 0.45 in 2017. The lack of sufficient product diversification⁵⁵ has resulted in Malawi’s inability to plug into regional or global value chains. The main challenge seems to be the development of new, non-traditional export products that may, once export-ready, be able to leverage existing market linkages established by the traditional export sectors. The country’s growth and development strategies therefore continue to aim at expansion and diversification of exports.

The top three key export destinations for Malawi, besides Europe, are all SADC members: South Africa, Zimbabwe and Mozambique. The two main markets, South Africa and Zimbabwe,

⁵⁴ Malawi is the second largest tea producer in Africa, after Kenya (Gondwe and Baulch, 2017).

⁵⁵ Malawi’s export basket is relatively diversified when compared to other countries in the SADC region, which are often heavily concentrated in exports of natural resources or cash crops. When compared with developing countries in general, however, Malawi shows a low level of product diversification.

Figure 7: Merchandise imports 2010-2017 (per cent)

Source: UNCTAD (UNCTADStat)

have been in decline, but there has been a significant surge of exports to neighbouring Mozambique. Exports to traditional partners, like the United Kingdom and the United States, have slowed and been concentrated in traditional crops (tea and sugar), while exports to India and the United Arab Emirates are rising. Peas are the dominant export to India. Exports to the United Arab Emirates consist of cotton, tobacco, black tea and other edible vegetables. The Zambian and Kenyan markets have both declined in importance for Malawian exporters; exports to Kenya, in particular, decreased sharply between 2011 and 2015.⁵⁶

During the period 2010-2017, Malawi's main imports were fertilizers (8 per cent of total imports), medicines (7 per cent of total imports), petroleum products (8 per cent on average, but 5 per cent of total imports in 2017) and most manufactured goods (see figure 7).

Greater commodity and market diversification are required for a globally competitive export-led economy. Though most opportunities for product diversification and product expansion lie in products with lower levels of sophistication (e.g. in oilseeds and the vegetable oils sector: crude groundnut oil, palm oil, sunflower-seed oil and soya bean oil; and in the sugar sector: cane molasses and refined sugar products), keeping markets open is key to future market exploration.

Transport costs in Malawi is the highest among countries in the SADC region. This has negatively impacted domestic and export competitiveness. Malawi relies on neighbouring coastal countries to access international markets for both exports and imports, thus the cost of transportation for exports can be as high as 60 per cent.⁵⁷ The importance of transport connectivity cannot be overemphasized. The development of sufficient transport infrastructure would make Malawi more competitive and more attractive to potential investors.

⁵⁶ International Trade Centre (2018). Exploring Malawi's export potential, Geneva.

⁵⁷ Malawi Country Strategy Paper 2018-2022, African Development Bank.

3.2 Linkages

Trade integration can be a powerful driver of growth and poverty reduction, if greater domestic value addition and new export opportunities are actualized. Malawi enjoys a competitive advantage in terms of lower tariffs and unilateral market access under multilateral, regional and bilateral free trade agreements. Due to tariff barriers (in some emerging economies for National Export Strategy priority clusters) and non-tariff barriers and measures (e.g. import or export controls, restrictive rules of origin, and behind the border measures), Malawi still faces challenges to taking full advantage of these market access opportunities, however.

As shown by figure 8 below, merchandise exports of intermediate goods and capital goods, in particular, remained low over the period of this study. Raw materials accounted for the majority of exports (around 70 per cent, on average, over the last two decades), positioning Malawi as a supplier of raw materials in global supply chains. Imports of capital and intermediate goods, on the other hand, remain relatively higher than those of raw materials, which hovered around 30 per cent and 20 per cent, respectively, between 2000 and 2015 (see figure 9).

Figure 8: Merchandise exports by end use (per cent)

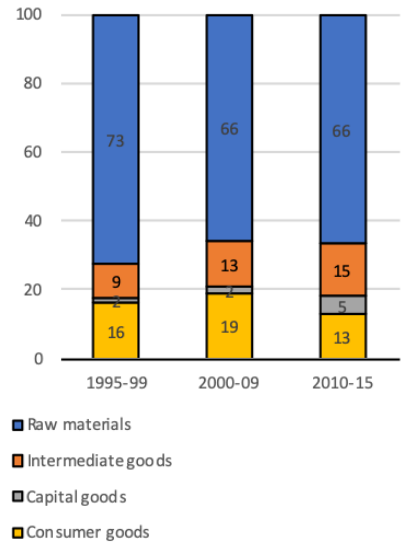
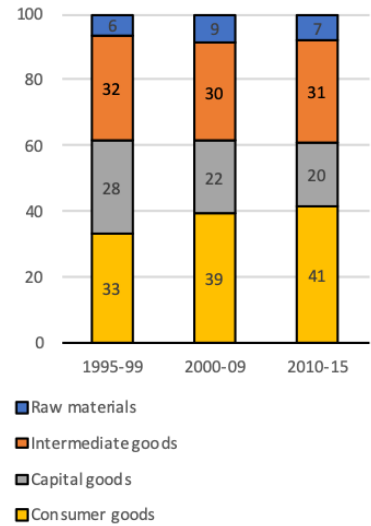


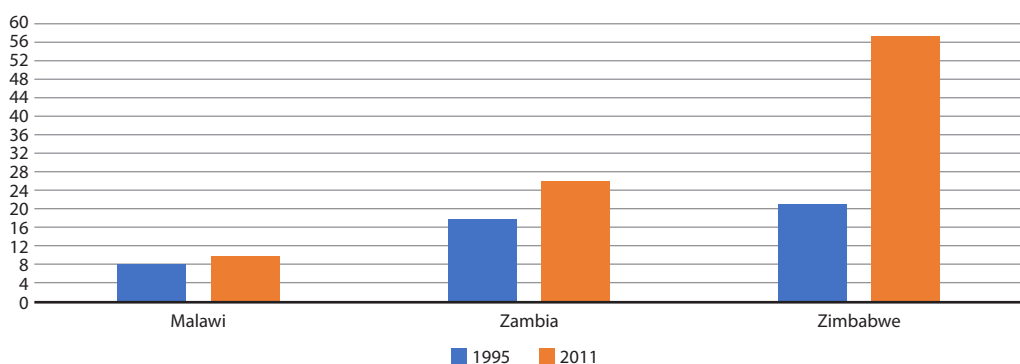
Figure 9: Merchandise imports by end use (per cent)



Global value chains

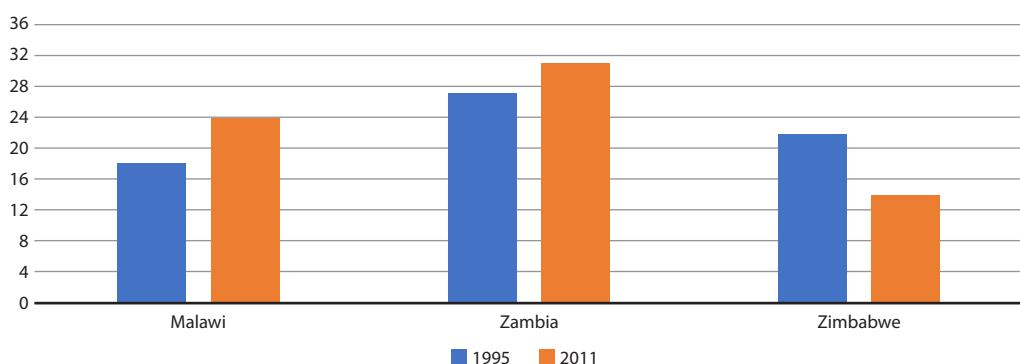
International trade is increasingly shaped by value chains at regional and global levels. Greater division of labour and complexity of products allow countries to participate in value chains by specializing in their respective competitive advantages. Participation in regional value chains is an important step towards participation to global value chains. Malawi has had one of the lowest growth rates in regional value chain participation in Africa over the last decade (less than 60 per cent between 2006 and 2012),⁵⁸ and is yet to reposition itself to exploit opportunities to join global production chains. Malawi's general level of competitiveness compared to other regional suppliers gives it considerable room to increase its trade volume in the region, but high trade costs, poor infrastructure, low skills and a weak business climate stand as major obstacles to value chain development. Value chain participation could be a key driver for supporting the process of structural transformation and placing the country on a more stable and sustainable development path with widespread benefits for the population. Malawi must put in place a coherent framework of domestic and sectoral policies in this regard. Moreover,

Figure 10: Foreign value added in domestic exports (per cent)



Source: African Development Bank, UNDP and Organization for Economic Cooperation and Development, 2014

Figure 11: Domestic value added in foreign exports (per cent)



Source: African Development Bank, UNDP and Organization for Economic Cooperation and Development, 2014

⁵⁸ See "The role of trade policies in building regional value chains – some preliminary evidence from Africa": unctad.org/en/PublicationsLibrary/ser-rp-2017d11_en.pdf.

better coordination between public and private stakeholders would help increase the impact of sectoral policies along the production chain (farmers – processors – exporters).

Malawi's trade remains concentrated in a few markets and products. The absence of significant product diversification over the past decade reflects Malawi's failure to link domestic industries to open and competitive global economic processes. Successfully developing new productive bases requires increasing engagement in international trade both at the regional and global levels. The National Export Strategy therefore aims to enhance competitiveness and promote priority clusters (oilseeds, sugar cane products and agro-manufactures), in addition to already existing clusters, to tap into regional and global value chains. It also recognizes that achieving economic diversification requires a business-friendly environment and a supportive institutional framework.

Figures 10 and 11 show the levels of backward and forward integration of Malawi and its counterparts (Zambia and Zimbabwe) in 1995 and 2011. Malawi and Zambia increased both backward and forward integration between 1995 and 2011. Zimbabwe is the notable exception with exports containing more foreign value added in 2011 than in 1995 (the share of foreign value added in exports being significantly higher than that of Malawi and Zambia), yet with lower forward participation in 2011 than 1995. The share of domestic value added in foreign exports (forward integration) in Malawi is higher than in Zimbabwe but lower than in Zambia.

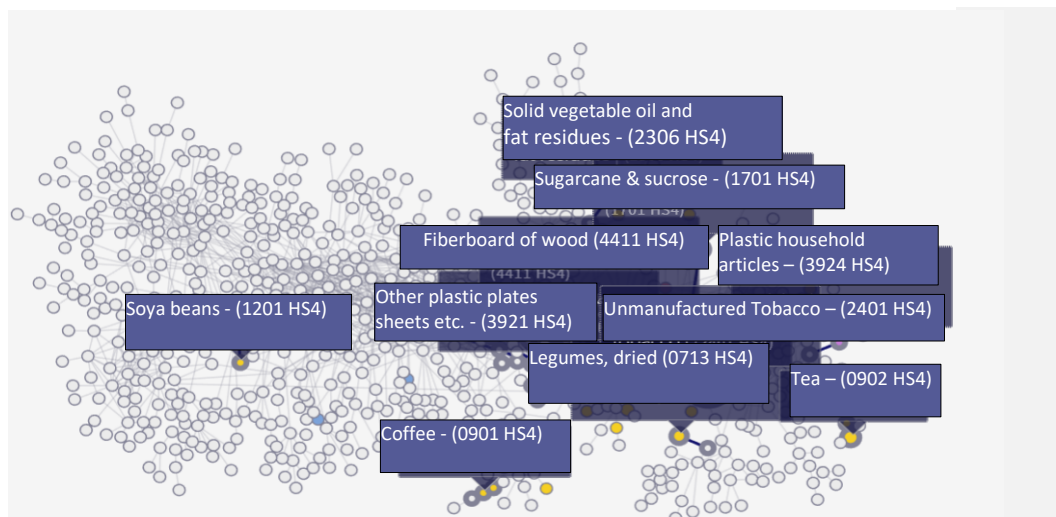
Increased minerals exports by Malawi might be one of the factors explaining the increasing trend in forward participation between 1995 and 2011. The opening of the Paladin uranium mine in 2009 resulted in minerals increasing in importance from 2010, although exports had ceased by mid-2014 as the Kayelekera mine was put in "care and maintenance".⁵⁹ The increased backward participation in Malawi, on the other hand, can be explained by the significant increases in exports of intermediate and capital goods (e.g. plastic, fertilizer and machine and other equipment)⁶⁰ between 1995 and 2011.

Product space

Malawi's exports are concentrated in a few commodities and markets, and are outside the denser parts of the product space (see figure 12: traditional exports like tobacco, sugar, tea, coffee, wood and vegetable products, oilseeds and legumes (e.g. soya beans), and non-traditional export such as plastics). This narrow productive and export base has left Malawi highly vulnerable to exogenous factors such as commodity price fluctuations and aid shocks. From a sectoral point of view, exports are heavily driven by a single successfully exported product. Some products such as plastics and wood are located near the denser network

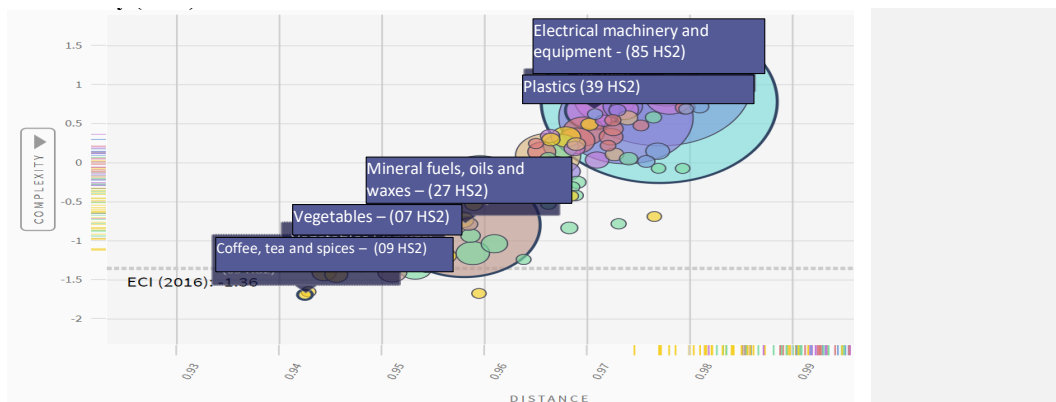
⁵⁹ The Government has decided to harness locally available nuclear energy for electricity generation. The first nuclear power plant is expected to be commissioned by 2035 (National Energy Policy, 2018).

⁶⁰ Although machinery exports tend to be re-exports of equipment imported to the country as part of construction efforts.

Figure 12: Merchandise exports (2016)

Note: Node size represent export values.

Source: Atlas of Economic Complexity, Harvard Center for International Development

Figure 13: Product Feasibility (2016)

Source: Atlas of Economic Complexity, Harvard Center for International Development

clusters, offering a pallet of products and opportunities for value chain development. Specialization in the production of a narrow set of products where economies of scale could be utilized is a possible path for sustaining production and exports in Malawi. The development of a furniture industry, for example, represents an opportunity for value addition to products that are locally available in Malawi. Product diversification opportunities in the sugar sector could lead to exports of cane molasses and refined sugar. Some sectors might require considerable investment before export and diversification opportunities can materialize, however. For example, for animal products, the establishment of cold chain facilities would allow the development of frozen products. Given the current demand for processed animal

products, such initiatives may represent a strategic step towards adding value to Malawi's export basket.⁶¹

Products with higher complexity (such as electrical machinery and equipment and vehicles) are beyond current production capacities (see figure 13). Malawi remains quite similar to many least developed economies in having a very narrow export base. Its ranking in economic complexity has fallen from 113 in 1995 to 119 in 2016, slightly worse than Zambia.

3.3 Technology

Malawi's geographical location and inadequate infrastructure continue to present obstacles to foreign direct investment. The business climate also suffers from inefficient public institutions and difficulties accessing credit. In a bid to attract potential investors, Malawi has undertaken several macroeconomic policy initiatives and reforms aimed at economic and political stability.

Before the liberalization of Malawi's economy in 1994, the country's annual FDI inflow was inconsistent and averaged \$4.7 million per year between 1980 and 1993; as a proportion of GDP it was a mere 0.28 per cent per year on average over the same period. From 1999 to 2011, the country's FDI inflow stood at an average of \$64 million per year, and the average ratio of FDI to GDP increased to 2 per cent. In recent years, FDI inflows have fluctuated: \$129 million in 2012, \$446 million in 2013, \$599 million in 2014, \$288 million in 2015, \$326 million in 2016 and \$278 million in 2017. The country's total FDI stock in 2017 was estimated at \$1.37 billion (or 22.8 per cent of GDP).

Between 2012 and 2017, Malawi's improved business environment attracted a greater number of investors from within and beyond Africa, yet FDI flows continue to remain below the country's potential, the fluctuations in FDI being an indication that there are many supply-side constraints hindering FDI inflows. Despite a 15 per cent decrease in FDI inflows from 2016 to 2017, Malawi ranked 110 out of 190 countries, up 23 places from the previous year, according to the World Bank *Doing Business 2018* report. This improvement was mainly driven by cheaper construction permits, better access to credit, an updated customs data management platform and a better resolution of insolvency. The improvement in rank puts Malawi among the top 10 African countries that have made significant improvements in the factors of doing business.

UNCTAD (2012) statistics indicate that the infrastructure and energy sectors shared 62 per cent and 33 per cent of total investment in 2012, respectively, with tourism, services and agro-processing making a minimal contribution. As for the origin of investors, 46 per cent came from China and as many (46 per cent) from the United Kingdom, while investors from India, Malawi, Pakistan, South Africa and elsewhere made up less than 4 per cent of the total.

⁶¹ International Trade Centre (2018), op. cit.

Looking ahead, FDI is expected to show some positive growth in the near future. The exploration for rare earth elements near Lake Malawi could attract new investment in the mining sector, and there are investment opportunities in agro-processing, manufacturing and tourism.⁶²

Research and development expenditure

Malawi is one of the poorest countries in the world and spends 1 per cent of its GDP on research and development, one of the highest ratios in Africa. Although research and development expenditure remains low in real terms, Malawian scientists publish more in mainstream journals relative to GDP than researchers in other countries with a similar population size (Lemarchand 2014). Since agriculture plays a key role in the Malawian economy, agricultural research and development has dominated research since the 1940s.⁶³

In a country where almost 88 per cent (the 2014 figure) of the population still lacks access to electricity, and 47 per cent to improved sanitation, there is a great need to strengthen the landscape for R&D. Wang and Wong (2012) show that the inflow of foreign R&D transferred through FDI plays an important role in improving a country's technical efficiency. Thus, it is imperative to attract sufficient FDI to promote technology transfer and encourage private sector activity that will serve as an engine of economic growth.

The technological content of manufacturing products

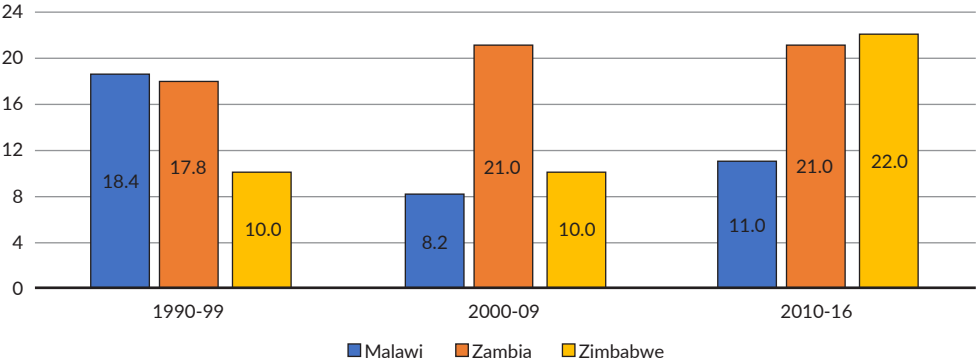
Figure 14 below shows that the share of medium- and high-tech manufacturing value added in total manufactured value added in Malawi has increased slightly since 1999 and been quite stable in recent years (2010-2016), but has remained below that of Zambia and Zimbabwe (since 1999) for most of the period considered. Primary and resource-based products have constituted about 90 per cent of manufactured exports.

The share of technologically sophisticated exports (medium-tech or high-tech) in total manufactured exports increased on average between 2010 and 2016, replacing low-tech exports, particularly after the adoption of the National Export Strategy in 2013. This strategy recognizes that Malawi should increase its access to technology and the findings of the latest international research and development in order to develop the key clusters. It aims to secure the required level of technology and R&D through capital accumulation in private operators (see figure 15).

⁶² See mitc.mw/invest/.

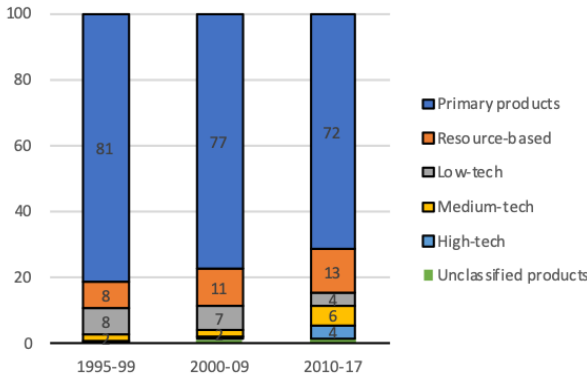
⁶³ The first agricultural research station was established by the research division of the locally administered Department of Agriculture in 1940. At the time of independence in 1964, the research division of the Department of Agriculture became the Department of Agricultural Research.

Figure 14: Medium- and high-tech in manufactured value added (per cent)



Source: United Nations Industrial Development Organization (UNIDO) database on industrial statistics

Figure 15: Manufactured exports by tech (%)



Source: UNIDO database on industrial statistics

Energy intensity by sector⁶⁴

Access to modern, clean and affordable energy services is essential for human well-being, and economic and social development. There is no single internationally accepted and adopted definition and measurement method of access to modern energy. The *World Energy Outlook*⁶⁵ defines modern energy access as “a household having reliable and affordable access to clean cooking facilities, a first connection to electricity and then an increasing level of electricity consumption over time to reach the regional average”.

Expanding access to modern energy is a top priority in Malawi’s energy policy agenda, as energy efficiency measures could bring about direct energy cost and labour time savings for households. A number of programmes and projects have been implemented with varying degrees of success, but the provision of sufficient and reliable energy still remains a major

⁶⁴ Energy Efficiency Brief, Malawi. Copenhagen Centre on Energy Efficiency, March 2018.

⁶⁵ See www.worldenergyoutlook.org/.

challenge in the country, and the overall picture is not so bright in use of renewable energy technologies.

Malawi's primary energy supplies are hydropower, biomass, petroleum products, coal and other renewable energy sources. As in many other sub-Saharan African countries, hydropower is the main source of electricity, generating some 98 per cent.⁶⁶ The remaining 2 per cent comes from stand-by diesel or petrol generators. The electricity generation industry is currently composed of one national company, the Electricity Generation Company. The industry is liberalized but there are currently no private generators operating on the ground.

The electricity generation capacity has remained stagnant for a long time, resulting in an increasing deficit of grid electricity. Malawi has one of the lowest electrification rates in the region, estimated at about 12 per cent in 2014. The major energy source is biomass (over 80 per cent of Malawians depend on traditional use of biomass, mainly in the form of firewood and charcoal, putting great pressure on the environment and farmland), which unfortunately is not utilized sustainably. The deforestation rate in Malawi is one of the highest in Africa at about 2.8 per cent per year.⁶⁷

The key challenges in electricity generation are inadequate capacity in power generation – an installed capacity of 361 MW against an estimated demand of over 700 MW; a lack of independent power producers to help fill the gap; overdependence on the Shire River for hydropower generation; and a lack of electricity grid connectedness with neighbouring countries.⁶⁸

The country's electricity distribution network is owned, operated and maintained by a national utility company, the Electricity Supply Corporation of Malawi. As of 2016, the country's national utility supplied electricity to about 250,000 customers (corresponding to about 10 per cent of the national population), categorized as domestic, general, commercial and industrial. Under the National Energy Policy of 2003, the Government of Malawi planned to increase the number of people with access to electricity from 4 per cent to 10 per cent of the population by 2010, 30 per cent by 2020, and 40 per cent by 2050. Low coverage of the distribution network and the high cost of connection to the grid (including the cost of transformers) are major challenges to access to electricity in the country.⁶⁹

Accounting for only 0.4 per cent of the total number of electricity consumers, industrial customers⁷⁰ consume 47 per cent of the electricity generated in Malawi. The industrial sector also uses large quantities of solid and liquid fossil fuels, coal being the main energy source for

66 Hydropower is a renewable resource so there is very little or no emissions reduction potential when supplying renewable energy to the grid.

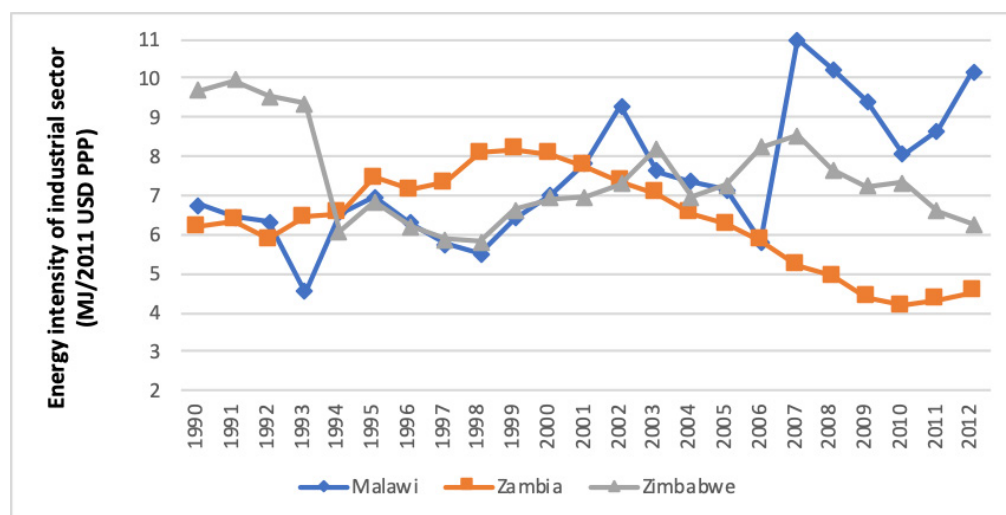
67 Malawi Neglected Tropical Diseases Master Programme 2015-2020.

68 Government of Malawi, National Energy Policy, 2018.

69 Ibid.

70 Industrial customers are defined as those clients who have a power rating of at least 50kW.

Figure 16: Energy intensity of industrial sector (megajoules/2011 United States dollars, purchasing power parity)



Source: World Bank, World Development Indicators

Note: PPP means purchasing power parity; MJ means megajoules

process heating. Frequent power rationing means that industry also uses large quantities of diesel for standby power generation.

Although Malawi benefited from a Canadian-funded industrial energy management programme in the mid-1990s, there is little adoption of energy efficiency and conservation activities in industry. According to the Malawi Confederation of Chambers of Commerce and Industry, which covers most industries in Malawi, the energy efficiency levels of industries have been low when compared to Zambia and Zimbabwe (particularly since 2006), and only a small share of industrial enterprises are taking energy efficiency and energy conservation actions. The amount of energy used per unit of economic output has nonetheless declined over time (see figure 16), and stood at an average of 6 megajoules in the period 2010–2014. In 2015, energy intensity in Malawi was 4 megajoules per dollar of GDP. This trend might be explained by the more efficient use of energy in other sectors, such as transport⁷¹ and services.

Carbon dioxide (CO₂) emissions in Malawi have declined with increases in GDP per capita, and emissions per capita were estimated to be as low as 0.07 tons per annum in 2014. This figure excludes the emissions caused by deforestation, however, which on a national scale corresponds to about 22 million tons of CO₂.⁷² The National Energy Policy (2003) aimed to promote diversification of energy sources and supply, in the form of a shift from an energy

⁷¹ The transport sector, in spite of consuming very little energy (about 5 per cent) needs significant amounts of the country's foreign currency earnings to purchase this energy from abroad.

⁷² Assuming 25,000 tons of CO₂ emitted per square km of deforestation (based on figures for neighbouring Mozambique (Intergovernmental Panel on Climate Change - IPCC).

sector that relies heavily on biomass to one making more use of the various other energy sources in the country. The policy was followed up with National Energy Acts/projects to address various aspects of the energy sector. For example, during the period 2012-2016, Malawi implemented a Sustainable Energy Management Project that sought to facilitate a significant shift from direct burning of wood to cleaner, safer and sustainable use of modern energy.

Malawi is well-endowed with renewable energy resources (including year-long sunshine, reasonable wind speeds, a number of rivers with hydropower potential, reasonably large quantities of biomass materials for electricity generation and hot springs for geothermal power generation) that can be sustainably exploited for energy use, but utilization of these resources is still in its infancy. Greater efficiency in the consumption of energy is an attractive option for emissions reduction because it has the dual benefit of reducing both emissions and the size of the energy bill. The availability of renewable energy resources in remote and the most rural areas will provide potential for electrical energy supply to the people living in such areas who generally face energy supply challenges because they cannot be supplied with energy from the national electricity grid.

4



Employment

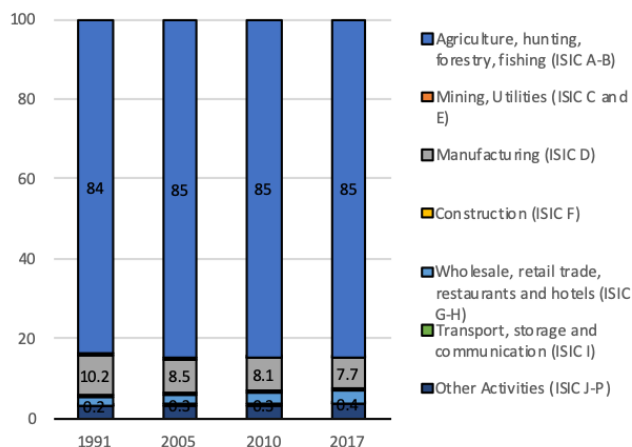
4.1 Labour Productivity

Comprehensive employment and labour market statistics in Malawi are weak. The first stand-alone labour force survey was conducted in 1983 but the results were not published. Labour market statistics since then have been collected as part of population censuses and other small household surveys. However, these data sources have not sufficed to provide a clear picture of the labour market. The 2013 Malawi Labour Force Survey is the second stand-alone labour force survey conducted in the country.

89 per cent of employed persons are engaged in informal work, again reflecting the prevalence of small-scale farming in the country. The 2013 Malawi Labour Force Survey estimated that agriculture was the sector with the highest level of informal employment, at 97 per cent, while in the non-agricultural sector it was 75 per cent. It is worth noting that there are significant gender differences, women being less likely to be engaged in the formal sector than men. Industry and the service sector employ more men than women.

The Malawian economy shows limited changes in the structure of employment.⁷³ **The agricultural sector is the largest employer in Malawi.** The share of employment in agriculture increased only marginally during the period 1991-2017 and remains higher than that of the other two sectors (in particular the services sector), despite the fact that the services sector is the main contributor to GDP (see figure 17 below). According to the most recent ILO estimates, about 85 per cent of the total labour force in Malawi is employed in the agriculture sector, with the share of men and women workers in the sector being 80 per cent and 90 per cent, respectively. Increasing pressure from rapid population growth, land scarcity, unsustainable environmental practices (i.e. human-induced land degradation) and climate change may, however, present challenges to improving the productivity and competitiveness of agriculture in the country.

⁷³ Structural change is typically associated with the shift of labour towards activities with higher levels of productivity and technological content. In the empirical literature, this has mainly been associated with the expansion of manufacturing industries and, within them, the expansion of high-tech industries.

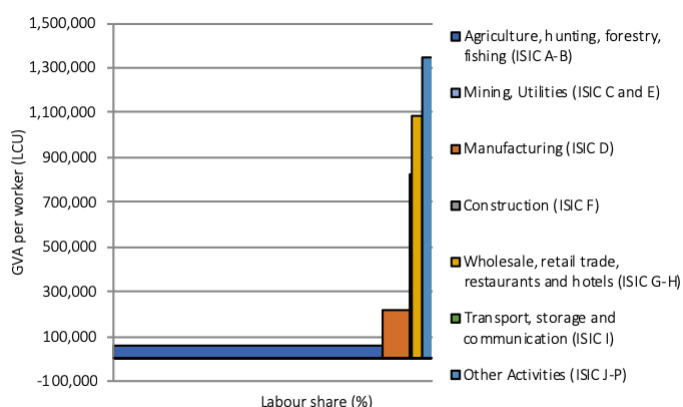
Figure 17: Sector of employment (per cent)

Source: ILOSTAT

Note: ISIC means the International Standard Industrial Classification of All Economic Activities

The share of employment in manufacturing has steadily declined from 10.2 per cent in 1991 to 7.7 per cent in 2017, whereas that of services (including wholesale and retail) has increased during the same period. More males than females are engaged in manufacturing industry, about 9 per cent and 6.3 per cent, respectively.

Labour productivity gaps across sectors remain large. Data indicate that labour productivity in agriculture and manufacturing remain considerably lower than that of other sectors, “mining and utilities” in particular (see figure 18).

Figure 18: Labour share and productivity (2017)

Source: Author's calculation, ILOSTAT

Note: ISIC means the International Standard Industrial Classification of All Economic Activities

Indeed, labour productivity in mining and utilities, a capital-intensive sector, increased significantly, by 67 per cent, between 1991 and 2010, which can be explained by increased added value due to uranium production in the late 2000s. Unlike the United Republic of Tanzania, with its large gold reserves, and Zambia, a major copper producer, Malawi was not seen as a mining country until the late 2000s. Uranium oxide was mined for the first time at the Kayelekera mine and on a significant scale. Since then, interest in Malawi's mining sector has grown, leading to an expansion in mineral exploration. The Malawian Government plans to establish more mines over the next decade.

The transport, storage and communication sector improved its labour productivity by 4.6 per cent between 2010 and 2017.

Malawi has allocated considerable resources to agriculture over the years,⁷⁴ but the productivity of the sector has generally been below the country's potential. GVA per worker actually declined by 2.5 per cent between 2010 and 2017, while the share of employment in the sector has not changed significantly, certainly not enough to match growing domestic demand and export markets.

The stagnation of agricultural productivity is the result of many factors, including undercapitalization of the sector, low adoption of agricultural technologies, low access to farm inputs, low mechanization, low technical labour skills and low quality of investments. One area with potential to spur agricultural growth is irrigation and water management,⁷⁵ encouraging small-scale farmers to modernize and commercialize agriculture. Furthermore, land for agriculture in Malawi is becoming limited. Small-scale farmers cultivate small and fragmented areas and consequently have lower crop yields than the estates.⁷⁶

The industrial sector in Malawi is characterized by a large number of informal micro and small enterprises and a few large firms. Large firms are often engaged in agro-processing. Given Malawi's highly rural population, micro and small enterprises are in one way or another linked to the agricultural sector and operate on small pieces of land.

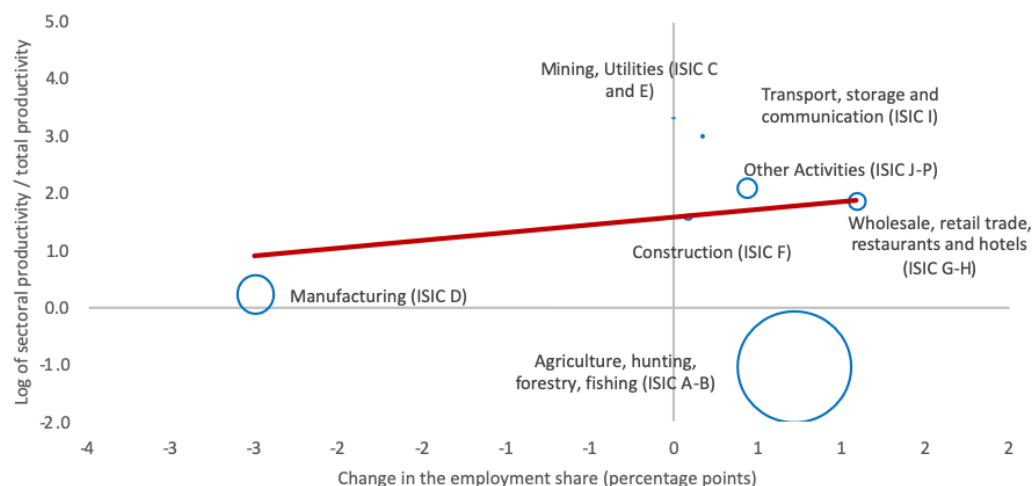
The 2012 Malawi FinScope MSME Survey estimated that there were almost a million MSMEs in the country employing a total of more than a million people and that over 80 per cent of those employed worked for micro enterprises (those with one to four employees).⁷⁷ Malawi's

74 The Malawian Government, through the Ministry of Agriculture and Food Security, has implemented the Agriculture Sector Wide Approach Support Project I and II, with financial support from the International Development Association, the World Bank's fund for the poorest countries, and other donors.

75 The Shire Valley Transformation Project and other greenbelt irrigation projects aim to increase irrigated land, which will help reduce dependency on rain-fed agriculture.

76 Land productivity (total output per unit of land and crop output per unit of land) and labour productivity (output per worker) are frequently used as partial productivity measures. More often, labour and land productivity measures are used to stand for agricultural productivity.

77 The total income of MSMEs was equivalent to a sum greater than 30 per cent of annual GDP in 2011.

Figure 19: Employment shifts (1991-2017)

Source: Author's calculation

Note: ISIC means the International Standard Industrial Classification of All Economic Activities

industrial workforce does not have the necessary skills and expertise, while the HIV/AIDS epidemic has greatly affected employment prospects⁷⁸ in the sector. It is essential to upskill the labour force to improve sectoral productivity and meet the demands of the industrial sector. Improved access to and utilization of technology are important in this regard. Employment shifts for the period 1991-2017 as shown in figure 19.

Reallocation of labour from the industrial sector to services

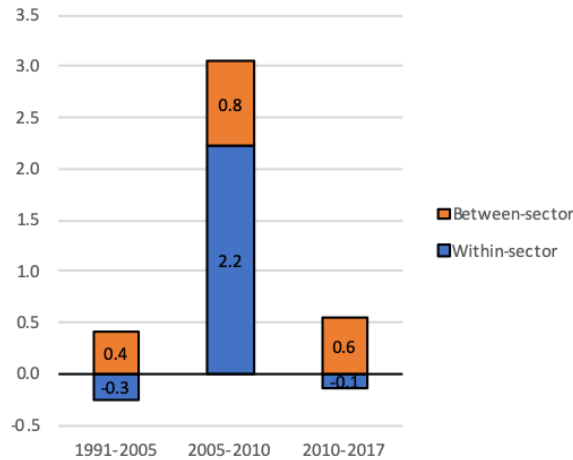
The growth in average GVA per worker (see figure 20) declined in the period 2010-2017, compared to 2005-2010.⁷⁹ This can be attributed mainly to a decrease in within-sector productivity.⁸⁰ Since most Malawians work in agriculture, agricultural productivity has a strong influence on overall labour productivity. Within-sector productivity decreased quite significantly between 2010 and 2017, possibly as a result of inefficient resource allocation (e.g. imperfections in the land market, fluctuations in input prices or poor product management practices) in the agricultural sector and technical inefficiencies (i.e. low skills levels or low levels

78 The workers and workdays through AIDS-related illnesses and care demands can result in significant declines in productivity, loss of earnings, and attrition in skills and experience. Another concern is the reduction in the quality of the labour force. Many of those infected with HIV are experienced and skilled workers in their productive prime, representing significant human capital losses.

79 Malawi experienced rapid growth between 2004 and 2009. This may be explained by the new government policies, the improved macroeconomic outlook of the country and reduced real interest rates, which allowed the expansion of private sector credit and investment.

80 During the period 2005-2008, the Agricultural Input Subsidization Programme, in combination with good rains, increased productivity in maize production substantially.

Figure 20: Growth in gross value added per worker (annual %)



Source: Author's calculation

of human capital)⁸¹ and the availability of inputs (i.e. poor infrastructure) in the manufacturing sector (Please see Figure 20).

The contribution of between-sector productivity on annual labour productivity decreased only marginally from 0.8 per cent to 0.6 per cent between the periods 2005-2010 and 2010-2017. This may be explained in part by the release of labour from the manufacturing sector to the agricultural and informal sectors, within which most unskilled labour finds opportunities.

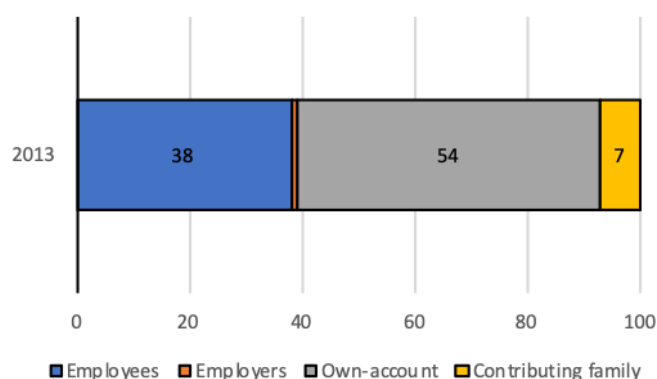
Wages in Malawi are low by international standards⁸² and compared with other countries in the region because of low labour productivity. Sectoral wage differences reflect differences in human capital to some extent at least, educational levels being much higher in well-paid sectors (i.e. average years of education completed tend to be highest for services sector workers and lowest for agricultural sector workers). Land-labour ratios are small in Malawi and agricultural inputs are expensive. Availability of land and inputs play a key role in agricultural productivity so wages depend on yields per worker and prices paid for crops and inputs.

4.2 Decent work

While the Government of Malawi is trying to establish a solid policy framework for inclusive growth and employment generation, job instability and a lack of decent work affect the poor, particularly in rural and remote areas of the country.

81 The results of the 2006 Enterprise Survey show that the share of unskilled workers in Malawian firms was, on average, larger than in most other sub-Saharan African countries.

82 Minimum wages are, in general, below the poverty line for a normal family. One reason for the low minimum wage is the long interval during inflation adjustments. In many cases, actual pay is even less than the minimum wage, since most workers are subsistence farmers or work in the informal sector. There is also some evidence that some formal firms pay even less than the minimum wage (ILO Employment Diagnostic: Analysis on Malawi, 2010).

Figure 21: Status in employment (per cent)

Source: 2013 Malawi Labour Force Survey

Available data is limited to the 2013 Malawi Labour Force Survey. Based on that, self-employment contributes about 55 per cent of total employment. People in self-employment can be classified as either own-account workers or employers. Own-account workers account for 54 per cent of workers, while employers constitute 1 per cent of all persons employed.

Self-employment is an alternative source of livelihood for job seekers, particularly when the number of paid jobs falls behind the growth in labour supply. Women are more likely than men to be self-employed. The level of self-employment also varies by region and educational level: it is higher in rural areas than urban areas and higher among persons with less education than among persons with more education.

Contributing family workers account for 7 per cent of workers, while almost 4 in every 10 employed persons work as paid employees (see figure 21).

Time and income-related underemployment

Underemployment⁸³ and working poverty⁸⁴ are common, particularly in the rural areas where the seasonality of labour demand is more frequently pronounced.

The 2013 Malawi Labour Force Survey shows that 27 per cent of the employed population of Malawi is underemployed. Females are more likely to be underemployed than males, though

⁸³ Underemployment is underutilization of the productive capacity of the employed population. There are two aspects of underemployment. One is time-related, the other is an earnings or skills mismatch. The former represents a situation where persons are currently working for fewer hours than they would like to, while earnings and skills mismatch means there is a discrepancy between their level of education and their occupation.

⁸⁴ The working poverty rate reveals the proportion of the employed population living in poverty despite being employed, implying that their employment-related incomes are not sufficient to lift them and their families out of poverty and ensure decent living conditions. The global poverty line set by the World Bank in 2015 was \$1.90 per capita per day (using 2011 prices).

the difference is only marginal (27.6 per cent as against 26.1 per cent). Underemployment is more prevalent in rural areas, where 24 per cent are underemployed, as against 27 per cent in urban areas. No specific pattern can be observed in underemployment by age.

The wages for workers in rural areas⁸⁵ are often below the poverty line determined by the World Bank, indicating that most rural jobs are neither productive nor gainful.

In the formal sector, there is a large wage gap between the lowest- and highest-paid jobs, indeed Malawi has the largest gap in the countries of Southern Africa. For example, in 2010, monthly earnings for executives were 107 times more than those of the lowest-paid workers (Pricewaterhouse Coopers South Africa, 2010). Women are highly economically active, but have more difficulty translating their labour into paid work. They are overrepresented in the most unstable, lowest-paid and lowest-skilled agricultural and non-agricultural rural work, as well as in unpaid care work (Food and Agriculture Organization of the United Nations (2011).

Malawi has one of the fastest-growing populations in the world. Estimated at 17.5 million in 2018, the population has more than quadrupled since Malawi achieved independence and is projected by the United Nations Statistics Division to reach about 43 million by 2050. Between 2008 and 2018, the population increased by 35 per cent, representing an intercensal growth rate of 2.9 per cent per annum. The population growth rate has remained high in Malawi except for the period 1987-1998 when the country experienced mass repatriation of refugees to Mozambique. The observed rise in total population was accompanied by an increase in the number of persons of working age, which has led to a growing concern about the capacity of the Malawian economy to create enough jobs to match a steadily increasing labour supply.

According to the 2013 Malawi Labour Force Survey, the labour force participation rate for Malawi was 89 per cent. The rate for males was slightly higher than for females: 91 per cent and 88 per cent, respectively. Rural areas had a higher labour force participation rate (90 per cent) than urban areas (85 per cent). The labour force participation rate was positively correlated with level of education. Those with primary education had the lowest rate (87 per cent), and those with tertiary education had the highest rate (95 per cent). The youth labour participation rate rose fast in the early 2000s, but has fallen since 2010 with increased enrolment in secondary school. The youth participation rate in 2017 was estimated at 30 per cent, based on ILO calculations. Employment in agriculture makes up the largest share of total youth employment (58.4 per cent), followed by employment in wholesale and retail trade (9.8 per cent) and manufacturing (7.7 per cent). More young females (60.3 per cent) work in the agricultural sector than young males (56.6 per cent).

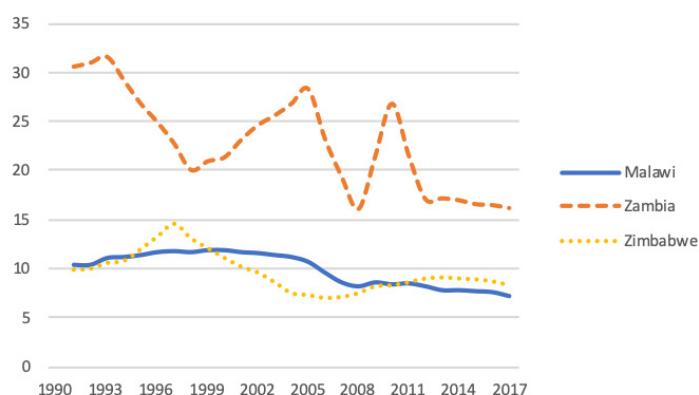
⁸⁵ About 30 per cent of all workers in rural areas are in paid employment, usually as agricultural workers on large estates, often supplementing their own farm earnings.

ILO estimates for the youth unemployment rate (see figure 22 below) are close to the 2013 survey assessments of the “strict” youth unemployment rate (i.e. young persons aged 15-24 years, actively looking for work). Based on a “broader” youth unemployment interpretation, however – those who want to work but are not actively searching for a job, want to work but there are no jobs in the area or are unable to find work that requires their skills – the youth unemployment rate is estimated at 27.5 per cent (higher than that of the working population, 20.4 per cent), with a significant gender gap of about 7 per cent between young women (30.6 per cent) and young men (23.8 per cent).

Since 2012, the youth unemployment rate has been stable at around 8 per cent and lower than that of both Zambia and Zimbabwe.⁸⁶ There is a gender difference to the disadvantage of young women in youth unemployment rates: the unemployment rate for young women was 14.8 per cent in 1990 and 15.2 per cent in 2015; in contrast, for young men, the unemployment rate was 11.1 per cent in 1990 and 12.4 per cent in 2015.

Youth unemployment remains a challenge for Malawi, especially as young people are seeking full-time, formal and decent employment in urban areas. Nearly one third work fewer than 10 hours per week, and 71.7 per cent work part time, or less than 30 hours per week. The short working hours are a strong indication of the precariousness of earning options for young workers. The 2013 survey results suggest that the lowest youth unemployment rates were among individuals who had completed the highest level of education. Young people who complete secondary education and do not proceed to tertiary education are usually unemployed because they lack the necessary skills (underqualification) for the job market. In

Figure 22: Youth unemployment rate (per cent)



Source: ILOSTAT

Note: Youth is defined differently across countries. Malawi (15-25 years), Zambia (15-35 years), Zimbabwe (15-24 years)

⁸⁶ Widespread informal employment along with underqualification substitutes for unemployment and therefore youth unemployment rate remains low for Malawi.

fact, 83 per cent of young people in Malawi do not have skills corresponding to labour market demand; this affects slightly more women than men (85 per cent as against 80 per cent).⁸⁷

This skills gap needs to be addressed if Malawi is to harness the idle labour force for sustainable development.

Child labour. The 2015 National Child Labour Survey⁸⁸ reveals that 52 per cent of children aged 5 to 17 years had been involved in economic activities⁸⁹ in the previous 12 months. Children aged 5 to 9 years were less likely to be working than children aged 14 to 17 years (30.2 per cent and 68.5 per cent, respectively). In general, male and female child involvement in economic activities differed only marginally (49.6 per cent and 46.6 per cent, respectively). Involvement in economic activities was higher in rural areas (about 50 per cent) than in urban settings (38 per cent). The survey results further indicate that 72 per cent of children aged 5 to 17 involved in economic activities worked in the agriculture sector, 23 per cent in domestic work, and 3 per cent in wholesale and retail trade. There is a significant spatial difference in economic activities. For example, in urban areas, 46 per cent of children (aged 5 to 17 years) were involved in agriculture, forestry and fishing, 11 per cent were in wholesale and retail trade, and 43 per cent in domestic work in their household or another household or in other industries. In rural areas, 75 per cent of children (aged 5 to 17 years) worked in agriculture, forestry and fishing, 2 per cent in wholesale and retail trade, and 21 per cent in domestic work and/or other industries.

4.3 Education and skills

Malawi's human capital development plans are clearly set out in Vision 2020 and MGDS II and III, in which lack of entrepreneurial and business skills are identified as a major strategic challenge. These documents also stress the importance of vocational skills and science-based training for bringing about a productive and export-led economy.

The Malawian education sector has been guided by national development policies, surveys and studies since independence. In 2008, the Government developed the National Education Sector Plan (2008-2017), which aims for equitable access, relevant quality and improved governance and management in the education system.

87 ILO School-to-work transition survey 2014. The National Statistics Office of Malawi was commissioned to undertake the two rounds of the survey in Malawi. The first round was conducted in June 2012 and interviewed 3,102 youth aged 15–29 years. The second round was conducted in 2014, and involved 3,097 youth aged 15–29 years.

88 The 2015 National Child Labour Survey was a nationwide survey designed to collect data on the demographic and socioeconomic characteristics of working children aged 5–17 years. It is a second national child labour survey conducted in the country. The first survey was conducted in 2002. See www.ilo.org/ipec/Informationresources/WCMS_IPEC_PUB_29055/lang--en/index.htm.

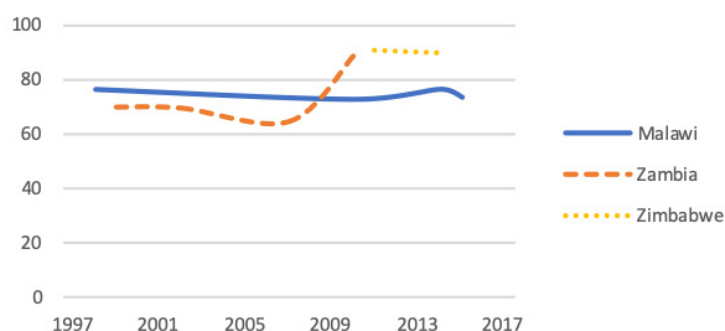
89 Children (aged 5 to 17 years) are defined as working (or in employment) if they are engaged in any activity falling within the production boundary in the United Nations System of National Accounts for at least one hour during the reference period. These activities are called economic activities.

The formal education system in Malawi comprises of three levels: primary, secondary and post-secondary (tertiary). Recognizing the important role that human capital development plays in increasing productivity and fostering economic growth, the Government introduced free primary education in 1994, which greatly increased enrolment rates.⁹⁰ However, while primary school enrolment increased, there was a national shortage of qualified teachers to deal with the sudden increase and so the quality of education fell. Twenty years on, challenges in the education sector persist. Today, most primary schools in Malawi are either underresourced (lack of classrooms), understaffed and/or underfunded, creating unfavourable learning conditions for both students and teachers. The primary school net enrolment ratio⁹¹ increased from 82 per cent in 2004 to 91 per cent in 2010 (Malawi, Ministry of Education, Science and Technology, 2013).

The youth literacy rate in Malawi (see figure 23) stood at about 73 per cent in 2015, significantly lower than that of Zimbabwe.

The introduction of tuition-free primary education has put pressure on secondary education, which has not expanded at the same rate as primary. Socioeconomic inequalities are particularly pronounced during the transition from primary school to secondary school, where tuition and other school fees constitute a financial barrier to enrolment⁹². Barriers to entering and completing secondary school may limit the long-term economic development of positive policy changes in education as few young adults without secondary schooling are able to access waged employment.

Figure 23: Youth literacy rate (per cent)



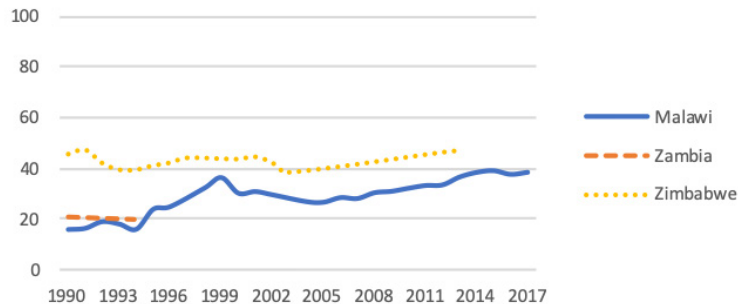
Source: UNESCO Institute for Statistics

90 With free primary education, parents no longer have to pay fees for the primary education of children who attend public schools. Private primary schools continue to charge fees. Increasing access to primary and secondary education in the country has been one of the main priority areas identified in all development policies, including Malawi Growth and Development Strategies.

91 When the net enrolment ratio is compared with the gross enrolment rate, the difference between the two highlights the incidence of underaged and overaged enrolment. If the net enrolment ratio is below 100 per cent, then the complement, i.e. the difference with 100 per cent, provides a measure of the proportion of children not enrolled at the specified level of education.

92 Transition rates to secondary school remain low, particularly for girls due to early pregnancy, early marriage and family and cultural responsibilities, among other factors.

Figure 24: Gross enrolment ratio, secondary (per cent)



Source: UNESCO Institute for Statistics

The percentage of males and females with some secondary education (for gross enrolment ratio in secondary school see figure 24) has increased over time, reaching 39.3 per cent and 37 per cent, respectively. This growth is partly due to the expansion of the private school sector (World Bank, 2010, Education System in Malawi).⁹³

One way to address unemployment is through targeted vocational training programmes that provide young people with opportunities to acquire technical and vocational skills and obtain employment. In order to achieve this goal, the Technical, Vocational and Entrepreneurial Education and Training Authority was established in 1999 to promote an integrated, skills-based technical, vocational and entrepreneurial education and training system, and to fill identified skills gaps in the labour force. Such training is provided in public and private institutions. The findings of a 2016 study suggest that its largest potential clientele in Malawi is urban-based youth educated to secondary school level. However, most potential beneficiaries are unaware of the availability of technical vocational and entrepreneurial education and training activities due to a lack of sufficient publicity and outreach activities (Manda, 2016). More than 50 per cent of the workforce in Malawi is self-employed in small businesses and household enterprises (as opposed to waged employment), making effective implementation of entrepreneurship and vocational training programmes particularly important.

The findings of the ILO School-to-Work Transition Survey 2014 show that 93 per cent of youth had attended school or a training programme at some point in their lives, but that 7 per cent of youth had no education at all, while 47.3 per cent had left school prior to completion primarily for economic reasons, down from 62.6 per cent in 2012. Young women remain marginally disadvantaged in terms of access to education.

⁹³ Rapid privatization of secondary education has been common in all low-income countries in sub-Saharan Africa in the last 20 to 30 years. Most new private secondary schools built in the region were established partly as a response to increased demand for secondary education in the years following the implementation of free primary education policies.

Enrolment of students in the higher education system in Malawi is the lowest in the SADC region. Only very few students from low-income families access higher education. Most students enrolled in universities come from the elite. Higher education in Malawi faces challenges such as: insufficient qualified staff; inadequate teaching and learning resources; irregular curriculum reviews; and low and uncoordinated research output (National Education Policy, 2008-2017). Given its growing need for highly-skilled labour, Malawi will be dependent on expatriate skilled labour for the foreseeable future unless higher education expands overall.

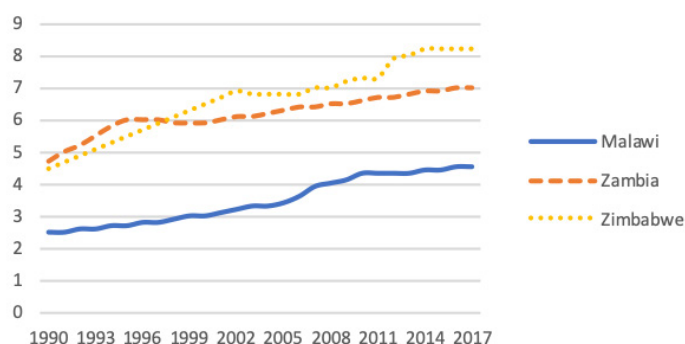
Mean years of schooling (see figure 25 below) have improved, reaching 4.5 years in 2017, an increase of 2 years over 1990, but lag far behind the levels observed in Zimbabwe (8.2 years in 2017) and Zambia (7 years in 2017). Between 1990 and 2017, expected years of schooling⁹⁴ increased by 5.4 years.

Data from the 2013 Malawi Labour Force Survey indicate no significant difference in employment rates between those with secondary education and those with less than secondary education. Only 4 per cent of employed persons were managers, professionals, technicians and associated professionals. As might be expected, urban areas have a higher percentage of managers, professionals, technicians and associated professionals than rural areas (9.1 per cent as against 3.1 per cent).

Education is currently high on the development agenda of the Government of Malawi. However, total available resources are far short of what is required to meet the national goals contained in the National Education Sector Plan.

The education sector share of the budget has been increasing at a rate lower than overall government expenditure. Nominal spending on education increased by approximately 21 per

Figure 25: Mean years of schooling (25+)



Source: UNDP (Human Development Data)

⁹⁴ Expected years of schooling for children of school-entry age is the total number of years of schooling a child of school-entry age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life.

cent in the 2016/17 budget, but the sector share of the total budget decreased from 18 per cent in 2015-16 to 17 per cent in 2016-17 as a result of debt repayment, interest payments and reduced budget support by donors. Malawi is one of the lowest spenders on education in sub-Saharan Africa, along with a few countries such as Ethiopia and the Democratic Republic of Congo. Malawi's per capita spending was estimated at just \$85.75 in 2013. Considering the current pressures on the budget, it remains crucial for the Malawian Government to maintain inflation-adjusted current levels of per capita spending.⁹⁵

95 See Education Budget Brief of the United Nations Children's Fund (UNICEF): www.unicef.org/esaro/UNICEF_Malawi_2017_Education_Budget_Brief.pdf.

5



Society

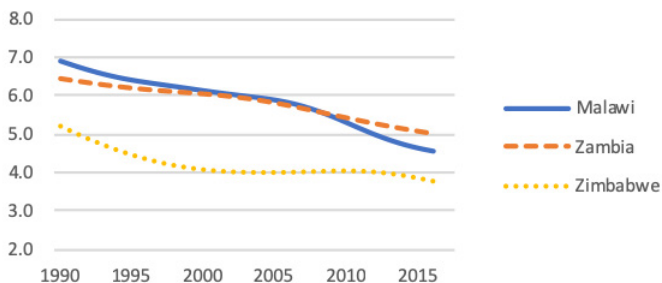
5.1 Demography

Fertility rate

As of 2017, women in Malawi have an average of 4.6 children. Since 1990, fertility has decreased from 6.9 children per woman, demonstrating a dramatic decline of 2.3 children. As shown in figure 26, the fertility rate in Malawi was higher than in Zambia and Zimbabwe until 2009, when it fell slightly below the rate in Zambia. The trend in fertility rates can probably be explained in part by increased access to family planning and contraception over the last two decades. Indeed, lessons from other Southern African countries that have experienced rapid fertility decline, such as Botswana and Mauritius, show that enhancing female education, strengthening efforts to reducing child mortality and access to family planning are the most critical determinants of voluntary fertility decline.

The fertility rate varies spatially in that women in rural areas have an average of 4.7 children, while those in urban areas have 3 children. Fertility also varies with education and economic status. Women with no education have more children than women with more than secondary education (5.5 children per woman as against 2.3 children per woman). The fertility rate decreases with wealth, such that women living in the poorest

Figure 26: Total fertility (children per women)



Source: World Bank, World Development Indicators

households have an average of 5.7 children, compared with 2.9 children among women living in the wealthiest households (2015-2016 Malawi Demographic and Health Survey).

The high adolescent fertility rate results from low levels of educational attainment and early marriage among women.

Child dependency ratio

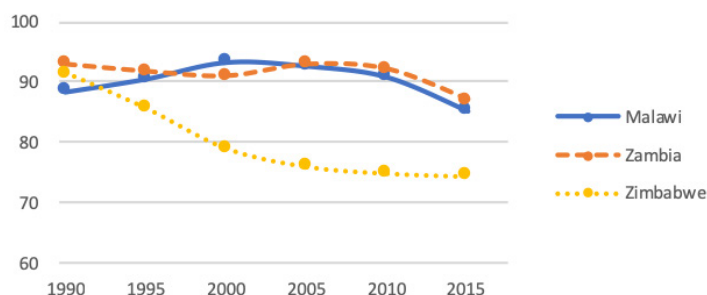
According to the demographic transition theory, there is a strong correlation between childhood mortality and fertility: a decline in childhood mortality is often a prerequisite for fertility decline. In Malawi, the fertility rate has declined more slowly than the steady decline in child mortality over the past two decades (see figures 27 and 28 below). Under-5 mortality declined from 234 deaths per 1,000 live births in 1992 to 63 deaths per 1,000 live births in 2015-2016, a 73 per cent decrease over a 24-year period. Infant mortality declined from 135 deaths per 1,000 live births in 1992 to 42 deaths per 1,000 in 2015-2016. However, fertility declined only marginally, from 6.7 births per woman in 1992 to 5.3 in 2010 and 4.6 in 2016. The still-high fertility rate contributes to rapid population growth overall, and also to an age structure that is heavily concentrated in children. Consequently, the number of children entering school and the number of young people seeking employment are growing every year.

During the period 1990-2000, the child dependency ratio increased, although the fertility rate decreased, probably due to a comparatively lower percentage decline in child and infant mortality during the same period, compared to, for example, 2000-2005.

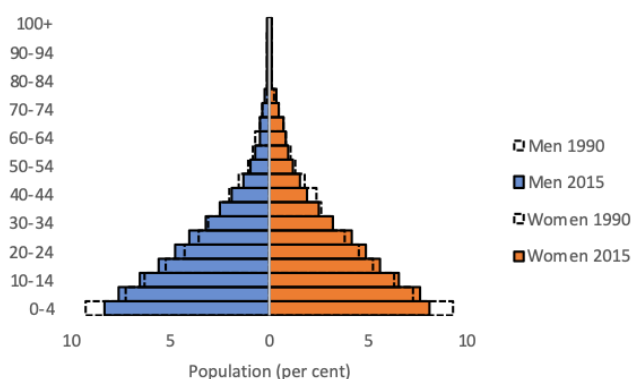
Malawi has a high child dependency ratio of 85.3 dependents for every working age person (aged 15-64 years) and about 45 per cent of the population is under 15 years of age, a 1 per cent increase over 1990. The increase in the share of the population age group under 15 comes from a 3 per cent increase in the population share of the 10-14 age group in 2015 compared to 1990, even though the population share of the group aged 0 to 9 years decreased by 2 per cent between 1990 and 2015.

The Malawi Population Policy (2013) recognizes that the high child dependency ratio in the country is one of the main impediments to the attainment of sustainable socioeconomic development. High fertility rates make it difficult to improve the quality of education and health care and to accumulate savings for future investments. If Malawi could make the necessary investments to facilitate rapid fertility decline, the age structure would change to one dominated by people of working age, enabling the country to benefit from the demographic dividend.⁹⁶ Indeed, the demographic dividend framework could provide a critical impetus for Malawi to reform its economy (higher productivity, mass job creation and rapid

⁹⁶ The demographic dividend is a temporary window of opportunity for accelerated economic growth that arises from a significant decrease in the child dependency ratio.

Figure 27: Child Dependency Ratio

Source: Department of Economic and Social Affairs, World Population Prospects

Figure 28: Population pyramid (1990 and 2015)

Source: Department of Economic and Social Affairs, World Population Prospects

economic growth), and eventually achieve its long-term development aspirations.⁹⁷ A recent study (Government of Malawi, United Nations Population Fund, and the African Institute for Development Policy, 2016) found that if Malawi prioritized policies to fast-track fertility decline, per capita GDP could increase to as much as \$9,351 in 2054. This would represent a demographic dividend of \$2,957 per capita, a figure more than the per capita income level the country would reach if it focused on economic reforms while maintaining slow progress in demographic transition.

Urbanization creates opportunities for economic development, so increased urbanization could also benefit rural areas. In Malawi, urban areas refer to the four major cities of Blantyre, Lilongwe, Mzuzu and Zomba and other urban areas, which consist of *Bomas* and gazetted town-planning areas.⁹⁸ Based on the preliminary results of the 2018 Population and Housing

⁹⁷ This could earn the country a substantial demographic dividend, as it did the Asian Tigers between the 1960s and 2000s.

⁹⁸ See www.mw.one.un.org/wp-content/uploads/2014/04/Malawi-Population-and-Housing-Census-Main-Report-2008.pdf.

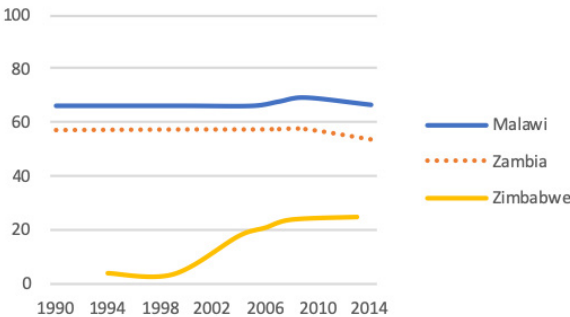
Census, people living in urban areas account for 16 per cent of the population (15.3 per cent in 2008, 14.5 per cent in 1998), while those living in rural areas account for 84 per cent of the total population. This indicates that Malawi's population is still predominantly rural. The number of males and females living in urban areas is only marginally different, though significantly more females than males live in rural areas.

From a sectoral perspective, agriculture is heavily concentrated in rural areas, whereas the industrial and service sectors predominate in urban areas. This sectoral-spatial pattern defines rural-urban consumption linkages whereby urban areas export services (financial, transportation, etc.) to rural areas, while importing most of their agricultural products from them. These rural-urban linkages need to be carefully assessed for public policy options in the long-term.

There are five main factors of urbanization: natural increase by urban dwellers; internal rural-urban migration; international migration into urban areas; reclassification of settlements; and metropolitanization (Dretcher and Lanquinta, 2002). In Malawi, the major factors or drivers of urbanization have been rural-urban migration (the main driver), natural increase and reclassification of settlements.⁹⁹

Because Malawi's growth strategies focus heavily on rural development, there are insufficient funds for investment in urban area expansion and infrastructure development. As a result, urbanization in Malawi is characterized by a high proportion of urban poor living in slums (see figure 29). The share of the urban population living in slums has barely changed over time, standing at around 66 per cent. The urban poor living in slums tend to lack basic urban services such as access to sanitation, clean water, energy and solid waste disposal. Their living conditions make them particularly vulnerable to disease and natural disasters.

Figure 29: Urban population living in slums (per cent)



Source: United Nations Human Settlements Programme (UN-Habitat)

⁹⁹ Malawi Urban Situation Analysis Report.

Unless the capacities of local government are strengthened and investment needs (particularly for infrastructure and basic service delivery) in the urban areas are met, a rapid rate of urbanization could result in increased poverty.

5.2 Health

Malnutrition in childhood has many adverse consequences for child survival and long-term well-being, and significant consequences for human capital, and hence economic productivity.

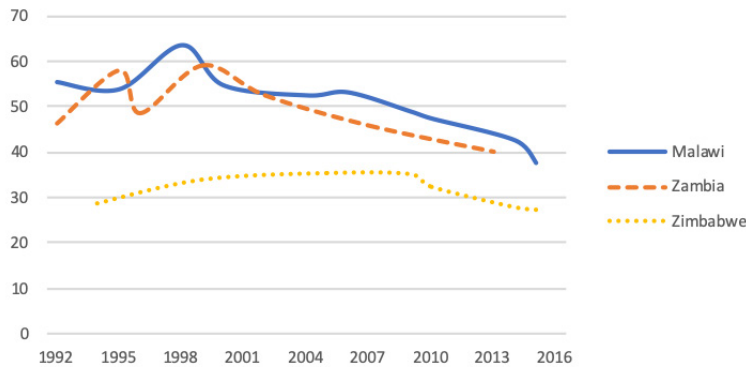
Malnutrition is a significant problem in Malawi, with a large percentage of children suffering from various forms of malnourishment. A study (World Food Programme 2015), estimates that “almost 60 per cent of the working age population in Malawi suffered from stunting when they were children”, and that, as the “country continues to urbanize, and an increasing number of people enter skilled labour, this loss in human capital will be reflected in reduced productive capacities of the population”. Overall, the “total loss in productivity for 2012 represents 9.3 per cent of Malawi’s GDP, largely due to reduced productivity associated with undernutrition-related mortality”.

According to the 2015-2016 Malawi Demographic and Health Survey, the prevalence of stunting has decreased markedly since 1992, with the greatest decrease taking place between 2010 (47 per cent) and 2015-2016 (37 per cent) (see figure 30). Stunting is higher among children in rural areas (39 per cent) than urban areas (25 per cent). Maternal education and wealth levels result in differences in stunting levels such that stunting ranges from 12 per cent among children whose mothers have more than a secondary education to 42 per cent among those whose mothers have no education. Similarly, 46 per cent of children in the lowest wealth quintile are stunted, compared with 24 per cent in the highest wealth quintile. In addition to high stunting levels overall, 63 per cent of children under 5 are anaemic, as are 33 per cent of women.

Exclusive breastfeeding among children under 6 months increased from 4 per cent in 1992 to 44 per cent in 2000 and 72 per cent in 2010. However, between 2010 and 2015-2016, the percentage of exclusive breastfeeding fell by 11 percentage points (to 61 per cent). Feeding practices continue to deteriorate as children get older. While 61 per cent of children under 6 months are exclusively breastfed, this figure drops to 34 per cent among children of 4 to 5 months (compared with 80 per cent of infants aged 0 to 1 month and 69 per cent of infants aged 2 to 3 months).

Three per cent of children under 5 years of age are wasted (too thin for their height), a sign of acute undernutrition, while 5 per cent of children under 5 years are overweight, a sign of overnutrition. During the period 1992-2015/16, there was little change in the prevalence of wasting and overweight, although the prevalence of both has attained its lowest point since 1992.

Figure 30: Prevalence of stunting (per cent)



Source: UNICEF

Inadequate breastfeeding and nutrient intakes and poor feeding and care practices undermine children’s growth and development. Malawi’s commitment to improving nutrition is outlined in its strategic plans, which are aligned with MGDS III and Vision 2020. Food insecurity intervention programmes should be strengthened to bring about fundamental improvements in child malnutrition and hence in socioeconomic development.

Life expectancy

Despite dramatic rises in life expectancy¹⁰⁰ and healthy life expectancy,¹⁰¹ Malawi has not yet achieved optimal health outcomes (see figure 31). Life expectancy remains low at 63 years,

Figure 31: Life expectancy and healthy life expectancy (years)



Source: World Health Organization (WHO)

Note: LE means life expectancy; HALE means healthy life expectancy

¹⁰⁰ Life expectancy at birth reflects the overall mortality level of a population. It summarizes the mortality pattern that prevails across all age groups in a given year – children and adolescents, adults and the elderly.

¹⁰¹ Healthy life expectancy is a form of health expectancy that applies disability weights to health states to compute the equivalent number of years of good health that a newborn can expect.

while healthy life expectancy stands at 56 years. The gap between the two, the implied loss, widened by 1 year between 2000 and 2016 (See Figure 31).

The Ministry of Health has initiated a number of health sector reforms to improve the efficiency and quality of health services. Implementation of these reforms has faced challenges, however, including: planning and implementation gaps; inadequate institutional coordination; limited data collection; and lack of sustained community engagement.

Going forward, it is essential to build a strong community health system (i.e. the provision of basic health services in rural and urban communities) if health and livelihoods are to be improved. Community health activities have improved, but more progress is needed as the community health system continues to face significant resource constraints to improving the quality of services. For example, Malawi has a shortage of at least 7,000 health surveillance assistants and does not currently meet the recommended benchmark of 1 per 1,000 inhabitants. In addition to the shortage, health surveillance assistants are unevenly distributed across districts, and half do not reside in their catchment area.¹⁰²

Recognizing the importance of the community health system, the Ministry of Health has developed the country's first National Community Health Strategy for the period 2017-2022. It is in line with the Health Sector Strategic Plan, which underscores primary health care and community participation as its main principles. Implementation of the National Community Health Strategy is projected to generate significant socioeconomic returns, such as: prevention and mitigation of health risks; saving more than 9,000 child lives each year; and empowering women and communities.¹⁰³

The disease burden

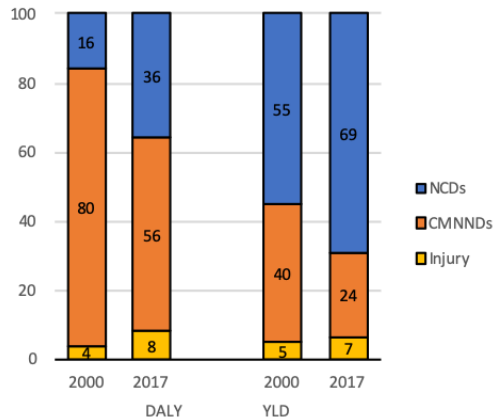
Malawi has a significant and diverse burden of non-communicable diseases and injuries, while still suffering from devastating communicable conditions such as tuberculosis, malaria and HIV/AIDS and other tropical diseases (see figure 32). Estimates suggest that, accounting for all diseases, Malawi lost about 54,000 disability-adjusted life years per 100,000 population in 2017 (about 37,000 of them for persons aged 15-49).

Communicable, maternal, neonatal and nutritional diseases continue to account for a significant proportion of disability-adjusted life years, but one that has declined from 80 per cent in 2000 to 56 per cent in 2017, in part due to significant improvements in HIV/AIDS treatment. HIV/AIDS has not been eradicated but the introduction of affordable and accessible antiretroviral drugs has prolonged lifespans. Malawi has one of the highest rates of HIV prevalence (9.4 per cent in 2017) in the world, despite the impressive progress it has made in controlling its HIV

¹⁰² National Integrated Community Case Management, Malawi Micro-planning report, 2015.

¹⁰³ See National Community Health Strategy 2017-2022: www.healthynewbornnetwork.org/hnn-content/uploads/National_Community_Health_Strategy_2017-2022-FINAL.pdf.

Figure 32: Disease burden by cause (15-49 age group, per cent)



Source: Global Burden of Disease Study 2018, Institute for Health Metrics and The Lancet

Note: DALY means disability-adjusted life years; YLD means years lived with disability; NCD means non-communicable diseases; CMNNDs means communicable, maternal, neonatal and nutritional diseases

epidemic in recent years.¹⁰⁴ The Malawian HIV epidemic varies greatly across the country. HIV prevalence and density is high in the urban districts of Lilongwe, Blantyre and Zomba and in the southern region of the country.¹⁰⁵ The HIV epidemic plays a critical role in the country's low life expectancy. HIV/AIDS accounted for 34.6 per cent of the total disability-adjusted life years burden in 2000, but only 17.5 per cent in 2017. Malawi is on track to achieve the UNAIDS targets, by 2020, of 90 per cent of people with HIV knowing their status, 90 per cent receiving treatment, and 90 per cent of those receiving treatment being virally suppressed.

With changes in lifestyles, non-communicable diseases once regarded as diseases of wealthy, urban or older populations are increasingly becoming significant causes of morbidity and mortality in adults in developing countries. Non-communicable disease deaths are often caused by cardiovascular diseases, cancer, diabetes and chronic respiratory disease. In Malawi, however, about 69 per cent of non-communicable diseases are other severe, chronic diseases. Mental health and substance abuse, for instance, is the third largest contributor to the non-communicable diseases disability-adjusted life years burden in Malawi, with other conditions such as musculoskeletal disorders, neurological disorders, digestive diseases and injuries such as self-harm, road traffic accidents, and unintentional injuries, also accounting for a large proportion.

The most recent Global Burden of Disease Study data show a growing non-communicable diseases burden in Malawi: the share of non-communicable diseases in disability-adjusted life years increased from 16 per cent in 2000 to 36 per cent in 2017. In 2017, non-communicable

¹⁰⁴ See UNAIDS data 2017: www.unaids.org/sites/default/files/media_asset/20170720_Data_book_2017_en.pdf.
¹⁰⁵ Malawi National AIDS Commission (2015) 'Malawi AIDS Response Progress Report 2015'.

diseases accounted for almost 70 per cent of total years lived with disability, an increase from 55 per cent in 2000. Non-communicable diseases are thought to be the second leading cause of death after HIV/AIDS, accounting for approximately one third of all deaths and disabilities (Malawi, Ministry of Health, 2018).

Community-level interventions directed towards lifestyle risk factors are of critical importance in fighting non-communicable diseases and injuries. However, other considerations, such as malnutrition, or poverty-related social factors must also be addressed as part of a prevention scheme in Malawi.

Health financing in Malawi remains largely donor-driven. In the period 2012-2015, for example, the Government and individuals contributed to about 38 per cent of total health expenditure, while donor contributions made up a little over 60 per cent. The situation for non-communicable diseases and injuries is dire. Between 2012 and 2016, less than 2 per cent of targeted programme funding was assigned to such conditions. As a consequence, out-of-pocket spending by patients with these conditions is 34 per cent higher than average household spending on health (Malawi, Ministry of Health, 2018). Funding needs to increase substantially as non-communicable disease and injury conditions continue to grow and affect all segments of the population, placing great financial burden and morbidity on the poor.

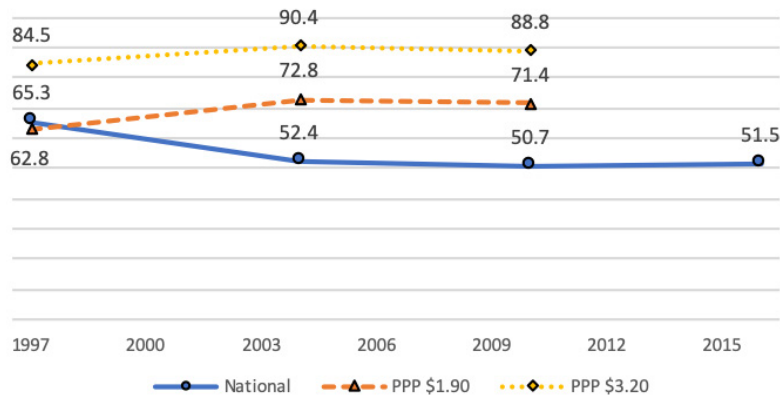
5.3 Poverty and Inequality

It might be expected that the strong economic growth performance between 2004 and 2010, mainly driven by the growth in the agricultural sector and the very high proportion of Malawians working in it (about 90 per cent) would result in significant reductions in poverty. Poverty estimates demonstrate, however, that, although the percentage of the population living below the national poverty line declined during the period 2004-2010, the reduction was only marginal, and poverty remains a serious challenge.¹⁰⁶ The floods in 2015 and the drought in 2016, both of which had a major impact on the economy, have probably caused poverty to increase further.

Poverty statistics for 2010 indicate that 50.7 per cent of the population still lived below the national poverty line, though that was less than the 65.3 per cent in 1997 and the 52.4 per cent in 2004 (see figure 33). There were considerable and increasing geographic disparities in the poverty headcount ratio during the period 2004-2010. While poverty was already lower in urban areas and had fallen significantly since 2004, it remained stagnant in rural areas. The poverty headcount in rural areas increased marginally from 55.9 per cent to 56.6 per cent, while urban poverty declined significantly from 25.4 per cent to 17.3 per cent. In sum, poverty in Malawi remains a mainly rural phenomenon.

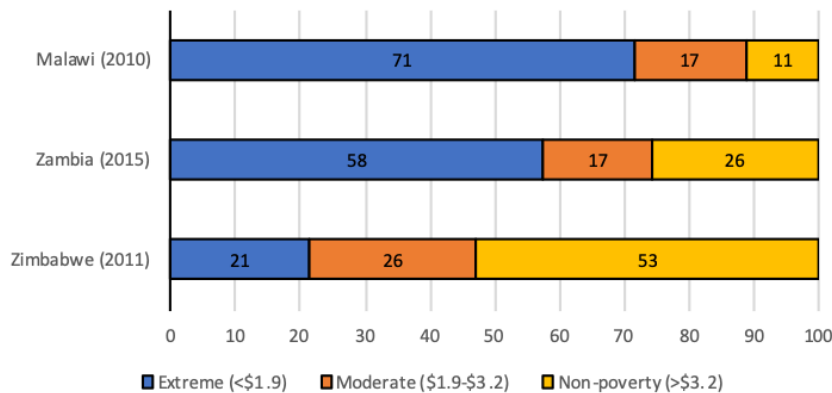
¹⁰⁶ Interestingly, the Farm Input Subsidy Programme was adopted and implemented during this period. It provides low-cost fertilizer and improved maize seeds to poor smallholders, particularly rural smallholders. Implementation began in the 2005/6 cropping season and, in the 2012/13 financial year, the programme represented 4.6 per cent of GDP or 11.5 per cent of the total national budget.

Figure 33: Poverty headcount ratio (per cent)



Source: World Bank, World Development Indicators

Figure 34: Income, poor and non-poor (per cent)



Source: World Bank, World Development Indicators

The incidence of extreme poverty is worryingly high in Malawi compared to Zambia and Zimbabwe, while the ratio for moderate poverty in Malawi is quite close to the figure in Zambia.

Recent severe shocks negatively affected welfare of households. Welfare is defined as the availability of resources and the presence of the conditions required for reasonably comfortable, healthy, and secure living. According to the results of the Malawi Fourth Integrated Household Survey, a sizeable majority of Malawians consider themselves poor or very poor (74 per cent, a figure significantly higher than the 51 per cent living below the national poverty line). The results of the survey further indicate that, during the survey period (2016/17), about 68 per cent of the population were affected by inflated food prices (urban areas were more affected

than rural areas), 58 per cent by irregular rains and 46 per cent by the unusually high cost of agricultural inputs. Very few households (less than 1 per cent) were affected by earthquakes.¹⁰⁷

Income inequality¹⁰⁸

Economic growth in Malawi has not been inclusive. It has benefited the rich and left the poor in poverty.

Inequality rose after Malawi gained its independence until the late 1980s as a result of the policies adopted by the Malawian Government. The agricultural export-led development model created a “dualism within the dualism” by favouring the estate sector. Between the early 1990s and the mid-2000s, inequality in Malawi declined, partly due to strategies and programmes focussing on improving small-scale farmers' livelihoods (Cornia and Martorano, 2017). Malawi's Gini coefficient increased from 0.40 in 2004/05 to 0.46 in 2011, showing that the disparity between rich and poor has widened.. Geographically, inequality was more pronounced in rural areas, where the Gini coefficient increased from 0.34 in 2004/05 to 0.38 in 2011, while the urban Gini coefficient rose from 0.48 to 0.49 over the same period. It can thus be concluded that rural households were more excluded from the benefits of economic growth than their urban counterparts.

Nationally, income distribution (see figure 35) is skewed towards the wealthiest. In 2010/11, the wealth held by the top 20 per cent was almost 52 per cent, while the lowest 20 per cent held only 6 per cent.

From a consumption standpoint, during the period 2004-2011, the consumption of the wealthiest 10 per cent rose from about three times higher to about four times higher than that of the poorest 40 per cent. The share of consumption attributable to the top 10 per cent increased from 46 per cent in 2004/05 to 53 per cent in 2011, and that for the bottom 40 per cent declined from 15 per cent to 13 per cent during the same period.¹⁰⁹

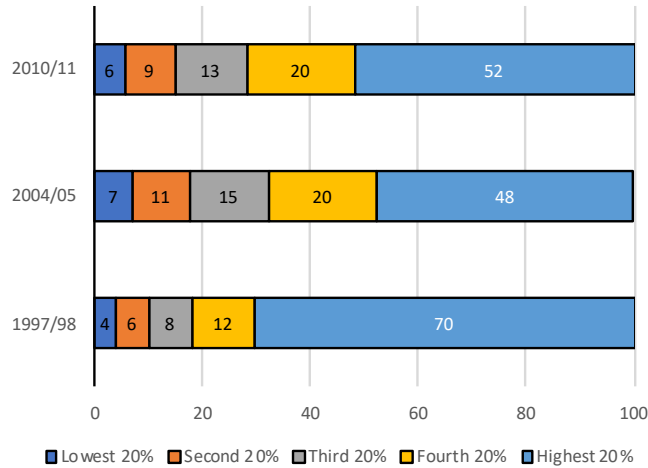
“Without deliberate policy interventions, high levels of inequality tend to be self-perpetuating. They lead to the development of political and economic institutions that work to maintain the political, economic and social privileges of the elite” (United Nations Research Institute for Social Development, 2010). Malawi's poverty reduction efforts could be more pro-poor and

107 As in other countries of sub-Saharan Africa, in Malawi small-scale farmers with insufficient land sell part of their crops at low prices immediately after the April harvest and buy food at higher prices for the next 6 to 9 months by selling goats, pigs and chickens and doing *ganyu* (casual labour on the estates or elsewhere in exchange for food or cash). Smallholders are therefore vulnerable to fluctuations in *ganyu* wages and maize prices, both of which have a dramatic effect on income inequality and the distribution of real purchasing power (Cornia and Martorano 2016).

108 The Gini coefficient is the most common measurement of inequality. A Gini coefficient of 0 indicates perfect equality, that is, a situation in which everyone has the same income. A Gini coefficient of 1 indicates complete inequality, that is, a situation in which a single person accumulates all the income.

109 The consumption of the wealthiest 10 per cent was about 22 times higher than that of the poorest 10 per cent in 2004; by 2011 it had risen to 34 times higher.

Figure 35: Income shares (per cent)



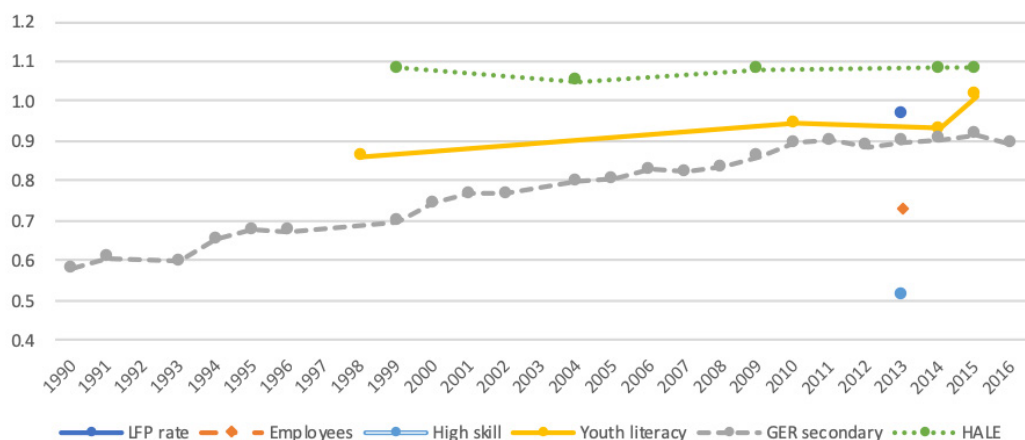
Source: World Bank, World Development Indicators

inclusive if deliberate policies (on fair taxation, reduced corruption, stronger public services, and decent salaries and wages) are instituted.

Group-based inequalities

With respect to education and health qualifications, there is a three-way interaction between gender and economic and spatial inequalities. There is a clear trend towards gender equality in literacy rates and gross secondary education enrolment over time (see figure 36), while healthy life expectancy at birth for females continues to be higher than that for males by an average of 4 years.

Moving across space, when it comes to school enrolment, it is the interaction between economic and spatial inequalities that is the strongest. Secondary school enrolment levels for girls and boys from the poorest urban families are about three times higher than those for children from the poorest families living in rural areas. On the other hand, secondary school enrolment levels for girls and boys from the richest urban households are still about twice as high as those for rural children from the richest households.

Figure 36: Gender parity indices

Source: 2013 Malawi Labour Force Survey, ILOSTAT, UNESCO Institute for Statistics, WHO

Note: LFP means labour force participation; GER means gross enrolment ratio; and HALE means healthy life expectancy.

Education can play an important role in reducing inequality, as it determines access to jobs and level of pay. Educational inequality, particularly regarding tertiary education, is a significant contributor to overall inequality in Malawi; tertiary qualifications are unequally distributed in favour of the rich.

Access to decent health care is a strong weapon in the fight against inequality,¹¹⁰ but the rich have better access to quality health services in Malawi. The quality divide between the public and private health-care systems in Malawi drives the rich to higher quality private clinics. The low quality of public health services (i.e. under-resourced in terms of staff and equipment) stems from inadequate and unreliable funding.

Monitoring trends in equity in education and health is imperative so that scarce public resources can be channelled to those whose needs are greatest, i.e. the poor. Addressing the inequality challenges Malawi faces and bringing about an inclusive economy shall be at the core of all development strategies and policy interventions.

¹¹⁰ Inequality in access to health care deprives low income households of the ability to stay healthy, affecting accumulation of human capital, labour productivity and hence the economic growth.



Key messages

- **The quality of economic growth matters.** The Malawian economy is increasingly services-based, with a low level of industrialization. Malawi has experienced little in the way of structural shifts in production and employment (i.e. declining shares of GVA and employment in industry, declining GVA in manufacturing etc.); weak levels of, and growth in, labour productivity within sectors; substantial differences in productivity levels between sectors; concentrated export baskets; and lack of diversification. Malawi needs to use a combination of policies that are 'horizontal', improving fundamentals (human capital, infrastructure, information and communications technology, the investment/business environment etc.); and more targeted and aimed at boosting/promoting specific economic activities. Successful implementation of these policies will depend on political will and institutional readiness, coordination and collaboration.
- **Regional integration to reach global markets is critical for economic growth.** Because Malawi is a landlocked country, problems affecting the ease of doing business (i.e. limited access to regional and global markets) are felt more acutely, and have a direct impact on the capacity of the Government to generate the revenue base necessary to meet its key public policy objectives. Malawi has thus far made efforts to enhance regional integration. It is engaged in various integration schemes with important global trade players as a party to regional (i.e. COMESA-SADC-East African Community Tripartite Free Trade Area) and bilateral agreements or through special unilateral programmes such as economic partnership agreements. Economic diversification, building Malawi's productive base and increasing the capacity of its export base are critical if Malawi is to position itself to exploit the opportunities provided by international markets. Increased competitiveness through the adoption of productivity-enhancing technologies could bring about potential gains from trade liberalization. To this end, through the adoption of best-practice systems and processes, Malawi should create an enabling environment for private sector development, investment flows, and value addition that allow for the country's productive base to reach a scale that is economically empowering for Malawians.

- **Malawi has a large MSMEs sector that provides employment to about a million people. The private sector has yet to lead growth in Malawi. It is recognized in development strategies and policies as a key component of the economy, expected to drive economic growth and create more jobs.** There is scope for enhancement of private sector development. Infrastructure bottlenecks are a significant constraint for business: surveys undertaken by the World Economic Forum suggest that it is the third most important constraint to doing business. The other most problematic factors include corruption, access to finance and tax rates. Investment in key infrastructure (energy and transport, etc.) is essential if Malawi is to become more business-friendly and competitive. Bureaucratic challenges, policy inconsistencies and cumbersome licensing procedures stand in the way of private investment. For example, lengthy bureaucratic procedures for factory construction on allocated land are a major constraint to the growth of the industrial sector in Malawi that drives private investors away. The Government should promote the development of industrial parks, export processing zones and special economic zones in the designated areas.
- **Education is a key building block for socioeconomic development and industrial growth and is particularly important for poverty reduction because it empowers the most vulnerable groups (e.g. women, youth, persons with disabilities) by providing them with greater opportunities to participate in national development.** Malawi's population is estimated at 17.5 million (2018) and over 20 per cent of the total labour force is unemployed. This is untapped human capital, which, if fully engaged, would help Malawi to achieve economic growth and the Sustainable Development Goals. The education system needs to be reformed to include entrepreneurship and vocational skills development in order to improve the employability and entrepreneurship of young Malawians and thereby reduce youth unemployment. Malawi needs to strengthen initiatives for improved access and equity at all levels of education (early childhood development, primary, secondary, and tertiary education) and to establish community technical colleges to cater more for rural youth and to promote technical skills.
- **Malawi needs to adapt methods and technologies to mitigate climate change. A thriving agricultural sector is essential for poverty reduction, to enhance food security and to promote the manufacturing sector for both domestic and export markets. The narrow productive base has limited export growth and increased import dependency, contributing to a structural trade deficit that continues to widen.** The Malawian economy remains largely climate-sensitive, rain-fed agriculture, with agriculture representing on average one third of GDP and employing the majority of the labour force (about 85 per cent). The sector has great potential to support the manufacturing sector, supplying 60 to 70 per cent of raw materials, but this potential is hindered by challenges stemming from climate change (i.e. major hazards such as floods and droughts) and poor water management. Malawi is the thirty-second most vulnerable country and the twenty-seventh least ready country in the world according to the Notre Dame Global Adaptation

Initiative (ND-Gain) Country Index.¹¹¹ There is an urgent need to take action to enhance the resilience and reduce the vulnerability of sectors important for the economy.

- **Mainstreaming gender in policies.** Section 24 of the Constitution of the Republic of Malawi recognizes and promotes gender equality as a way of promoting the welfare and protecting the rights of women and girls. **The application of gender analysis to policymaking and budgeting is lacking, however.** While some progress has been made towards harmonizing legislation with the Constitution, there are still a number of laws that need to be enacted and implemented to improve the situation of women and girls. In 2017, Malawi ranked 148 of 160 countries on the Gender Inequality Index (0.619), as a result of women's low levels of representation in politics and the economy (female participation in the labour market is 72.3 per cent compared to 81.9 per cent of men). Advancing women's empowerment through education and economic opportunities is essential to achieving gender equity and equality and overall socioeconomic development.
- **Empowering youth.** Malawi is a young country; about 57 per cent of the population is under 20 years old and there is high youth unemployment, the unemployment rate of young women being higher than that of young men (i.e. 7.8 per cent as against 6.6 per cent in 2017, according to the most recent ILO estimates). If Malawi could make the necessary investment in the provision of more formal and technical training and address gender equality and inclusion issues, the country could benefit from the demographic dividend. The demographic dividend framework could provide critical impetus for Malawi to reduce the risk of social instability, reform the economy and, eventually, achieve its long-term development aspirations.
- **Despite substantial health gains as a result of development strategies and policies, Malawi has yet to achieve optimal health outcomes.** Life expectancy remains low, at 63 years, with healthy life expectancy at birth standing at 56 years. **Malawi suffers from a high disease burden from communicable diseases and a growing burden from non-communicable diseases.** Over half the country's total disability-adjusted life years are a result of the top four leading causes: HIV/AIDS, lower respiratory infections, malaria, and diarrhoeal diseases. Health has significant trickle-down socioeconomic effects on key elements of economic development, directly or indirectly influencing levels of mortality, fertility and migration. Therefore, there is a greater need for increased investment in health delivery systems, including community health, to improve the capacity and quality of the health sector in a context of rising demand resulting from a growing population.
- **Building awareness of the importance of family planning and the impact of rapid population growth on development through advocacy and communication.** With a

¹¹¹ The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.

high total fertility rate and low life expectancy, the majority of Malawi's population are young dependents. At the current population growth rate, Malawi is projected to triple its 2008 population by 2050, which will further strain already limited resources and create more development challenges. Scaling up the use of family planning is one of the most cost-effective ways of preventing maternal and newborn deaths, contributing to a healthier population. Family planning can play a significant role in slowing the population growth rate. A slower population growth rate would result in less pressure on the national budget (i.e. free primary education and provision of adequate health services) and stimulate economic growth. A greater commitment to and investment in increasing access to, and utilization of, family planning services at health facility and community level is therefore of paramount importance.

- **Data limitations have made producing this study challenging.** High quality statistics **contribute** to better monitoring of poverty and progress towards achieving the Sustainable Development Goals, and are an important input into economic planning and management and evidence-based policy and decision-making. There is a need for regular data collection (of statistics) to feed into the construction of an appropriate set of economic indicators, using internationally accepted methodologies. The current set of economic indicators produced by the National Statistical Office of Malawi does not fully reflect the most recent structure of the economy since no surveys have been conducted in recent years (e.g. the most recent labour force survey was conducted in 2013; there is incomplete data for FDI and GDP, etc.). Better statistical information would contribute to improved macroeconomic and development outcomes, accountability and governance in Malawi.

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