ANNUAL ECONOMIC REPORT 2012

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Chapter 1

THE WORLD ECONOMIC OUTLOOK

1.1 Global Economic Outlook in 2011

1.1.1 Output Growth

The 2011 World Economic Outlook (WEO) by the International Monetary Fund indicates that the global economy suffered major setbacks especially in the late 2011, and consequently, output growth was projected to be below the levels projected in early 2011. Global output fell to 3.9 per cent from a projected growth of 4.5 per cent made in April 2011 (*see* table 1.1 below). This decline was mainly on account of large output gaps in advanced economies. The deterioration of sovereignty of, and negative banking sector developments in the Euro area, especially in Greece, Spain and Portugal, also contributed to the weakening of the global economy.

Output growth in the Euro area averaged about 1.4 per cent in 2011 from about 1.9 per cent in 2010. Real Gross Domestic Product (GDP) in more advanced economies like Japan also contracted reflecting supply side disruptions due to natural disasters and weaker global demand. In Asia and Latin America, economic activity slowed down with trade and production contracting noticeably due partly to cyclical factors including policy tightening. Sub-Saharan Africa (SSA) continued to perform relatively well in terms of growth, mainly because of favorable commodity prices, while growth in the emerging Europe was greatly affected by the impact of Euro crisis.

The growth outturn was somehow buoyed by an improved activity in the United States of America (USA) during the second half of 2011 where consumption and inventory investment strengthened and credit and labor markets performed well. Similarly, better policies in the Euro area in response to its deepening economic crisis reduced the threat of a sharp global slowdown.

TABLE 1.1: WORLD ECONOMIC OUTPUT (ANNUAL PER CENT CHANGE)

				Estimate	**Projections**
	2009	2010	2011	2012	2013
World output	*-0.5*	*5.3*	*3.9*	*3.5*	*4.1*
Advanced Economies	*-3.4*	*3.2*	*1.6*	*1.4*	*2.0*
United States of America	*-2.6*	*3.0*	*1.7*	*2.1*	*2.4*
Euro Area	*-4.1*	*1.9*	*1.4*	*-0.3*	*0.9*
United Kingdom	*-4.9*	*2.1*	*0.7*	*0.8*	*2.0*
Japan	*-6.3*	*4.4*	*-0.7*	*2.0*	*1.7*
Canada	*-2.5*	*3.2*	*2.5*	*2.1*	*2.2*
Germany	*-4.7*	*3.1*	*0.6*	*1.5*	*0.3*
Latin America	*-1.7*	*6.2*	*4.5*	*3.7*	*4.1*
Sub-Saharan Africa	*2.8*	*5.3*	*5.1*	*5.4*	*5.3*
Developing Asia	*7.2*	*9.7*	*7.8*	*7.3*	*7.9*
Middle East and North Africa	*1.8*	*4.9*	*3.5*	*4.2*	*3.7*

Source: IMF World Economic Outlook April 2012

1.1.2 Commodity Prices

Commodity prices were volatile and fell for both fuel and nonfuel commodities. For instance, oil prices that rose in 2010 and early 2011 to about \$115 per barrel eased to about \$100 per barrel during the last part of 2011, due to recovered production in Libya. However, there was relatively weak recovery in Organisation of Petroleum Exporting Countries (OPEC) and non-OPEC countries. The nonfuel commodity prices were also lower in 2011 compared to 2010, falling by about 32.3 per cent, to which the WEO attributes to an improved prospect in food supplies during the later part of 2011.

1.1.3 Interest Rates

The movement in interest rates, as measured by the London Interbank Offered Rates (LIBOR), reflects not only the macroeconomic developments and actual and expected policy mix interventions and actions by the monetary authorities across world economies, but also the crises that hit the Euro area. While the LIBOR remained stagnant on the US Dollar deposits at about 0.5 per cent between 2010 and 2011, the Euro deposits rose from 0.8 per cent to 1.4 per cent during the same period while the Japanese Yen deposits fell by a point one percentage point to 0.3 per cent in 2011.

1.1.4 International Trade

World trade plummeted in 2011 compared to the growth rates achieved in 2010. Imports from advanced economies declined to 4.3 per cent in 2011 from 11.5 per cent in the previous year while the emerging and developing economies' import growth were at 8.8 per cent in the 2011 from around 15.3 per cent in 2010. Similarly, exports from the advanced economies plummeted to 5.3 per cent in 2011 from 12.2 per cent in 2010 while the emerging and developing economies export growth declined by over half to 6.7 per cent from 14.7 per cent attained in 2010. This indicates the weaker global demand.

1.2 Global Economic Outlook and Prospects for 2012 and 2013

1.2.1 Real Growth

Real GDP growth is forecast to slow down to about 3.5 per cent in 2012 from about 3.9 per cent in 2011, and it is expected to grow at 4.1 per cent in 2013. In the advanced economies, growth is projected at about 1.5 per cent in 2012 and 2.0 per cent in 2013. Because of weak confidence, fiscal consolidation, and still-tight financial conditions in a number of economies, Euro area GDP is forecast to contract in 2012 by about 0.25 per cent, after expanding by about 1.5 per cent in 2011. With improving financial conditions and less fiscal tightening, growth should rebound to about 1.0 per cent in 2013, nonetheless, the output gap would stay above 2.0 per cent of potential GDP, up from about 1.5 per cent in 2011. U.S. real GDP growth is projected to strengthen somewhat relative to 2011, at about 2.0 to 2.5 per cent during 2012/13, implying only modest change in the 5.0 per cent of GDP output gap. Labor market conditions are likely to remain very difficult in many advanced economies. A further concern is that much of the increase in GDP, since the trough period, has flowed to profits, and it is likely to be so for some time before conditions favour sustained real wage increases.

Expansion in the emerging and developing economies is projected to remain at about 5.5 per cent to 6.0 per cent through 2013. Modest negative spillovers from the Euro area are expected to be largely offset by monetary easing and reduced fiscal policy tightening, except in various Central and Eastern Europe (CEE) and Commonwealth of Independent States (CIS) economies. In emerging Asia, recovery from the Thai floods and more demand from Japan will help propel output. In Latin America, financial conditions and commodity prices remain favourable. The recent policy tightening will weigh on activity for some time, but prospects should improve later in 2012.

Oil importers' growth is not expected to pick up given heightened domestic uncertainty and difficult external conditions, and the outlook for oil exporters is also muted, reflecting flat oil and gas production. (the increase in growth projected for 2012 reflects the rebound of activity in Libya). In SSA economies, activity should remain relatively strong, helped by growing production of both crude oil and minerals.

The labor market challenges in emerging and developing economies vary widely. Unemployment rates are very high in various CEE and CIS economies that have been hit by the crisis as well as in the Middle East and North Africa (MENA) region, where job creation has been subdued but many young people are entering the labor force. By contrast, unemployment rates are relatively low in many emerging Asian and Latin American economies, thanks to strong growth in recent years.

1.2.2 Prices

Consumption dynamics are forecast to improve modestly in 2012 relative to 2011. Household consumption will not accelerate much in the major advanced economies given the continued deleveraging by household and governments. This stands in sharp contrast to the consumption dynamics in the emerging and developing economies, which have been a hallmark of the recovery thus far. Despite appreciable slack in the major advanced economies, other economies will operate close to or above full capacity, and thus inflation dynamics will vary. Commodity price hikes have held up headline inflation in major advanced economies. At the same time, core inflation and wage gains have remained low. In the USA and the Euro area, unit labor costs have receded or stagnated, respectively, over the past few years. As labor markets improve only very gradually, headline inflation in the USA is projected to fall to about 2 per cent in 2013. The projection for the Euro area is about 1.5 per cent for 2013. Prices in Japan are projected to move broadly sideways. Inflation prospects are more diverse across emerging market economies. The easing of inflation is partly a result of lower commodity prices. In some parts of SSA, inflation pressure is expected to stay quite elevated, reflecting accommodative macroeconomic policies and supply side disruptions.

1.2.3 Financial Sector Developments

Greater uncertainty, accelerated deleveraging by banks in the Euro area, and credit tightening in selected emerging market economies suggest that the growth of fixed investment is likely to slow. Investment (including inventories) may be boosted temporarily by a need to expand capacity as production makes up the losses related to natural disasters. But high uncertainty and tighter financial conditions will push in the opposite direction in the Euro Area and the CEE and CIS economies. In various emerging market economies, notably China, real estate markets are cooling down, which implies slowing investment in construction.

Chapter 2

MACROECONOMIC PERFORMANCE IN 2011 AND PROSPECTS FOR 2012 AND 2013

2.1 Overall Economic Performance and Forecast

During the 2011/12 financial year, Malawi started implementing the Malawi Growth and Development Strategy II (MGDS II), as an overarching operational medium term national development strategy for the period 2011-2016. During the first year of its implementation (period under review), Malawi experienced a number of challenges, including reduced disposable incomes due to poor tobacco revenues, scarcity of foreign exchange, fuel shortages and power disruptions.

Consequently, economic performance slowed down, and GDP grew by 4.3 per cent compared to 6.7 per cent in 2010 (*see* Table 2.1). All sectors except agriculture, forestry and fisheries; and utilities registered lower growth in 2011 compared to 2010. Three sectors, namely: mining and quarrying; construction; and public administration recorded negative growth rates.

Prospects for growth in the last half of 2012 are positive, owing to policy interventions aimed at addressing the challenges experienced in 2011. However, the interventions are not anticipated to immediately translate into accelerated growth in the economy, and hence, overall GDP growth for 2012 is forecast to remain at 4.3 per cent.

Real GDP growth is forecast to grow at 5.7 per cent in 2013, as the economy stabilizes. The projected growth is based on expected recovery of the sectors in the economy as a result of fiscal and monetary policy interventions, and robust performance in agriculture, mining, construction, manufacturing and other sectors. The anticipated resumption of budget and balance of payment support will assist to propel the economic activity in the country.

TABLE 2.1: GDP GROWTH BY SECTOR

2007 Constant Prices (in K' million)						
Sector	2008	2009	2010	2011	2012*	2013*
Agriculture, forestry and fishing	154,157	174,304	177,731	189,076	196,770	205,938
Mining and quarrying	7,883	8,268	14,903	14,225	16,204	18,845
Manufacturing	63,328	66,347	67,780	68,950	70,316	73,144
Electricity, gas and water supply	8,717	9,289	9,665	10,090	10,291	10,804
Construction	16,475	17,697	20,537	22,772	20,878	22,591
Wholesale and retail trade	118,742	126,584	136,006	137,376	144,252	155,094
Transportation and storage	21,697	23,629	24,614	25,288	26,357	27,926
Accommodation and food services	11,123	12,595	13,653	13,702	14,530	15,516
Information and communication	22,087	24,409	26,842	29,595	30,735	33,028
Financial and insurance services	25,979	28,003	30,983	34,071	37,046	40,413
Real estate activities	29,592	33,178	36,835	37,806	38,806	40,749
Public administration and defense	13,953	14,637	15,485	15,187	15,352	15,805
GDP at constant market prices	**553,100**	**602,567**	**642,993**	**667,413**	**696,094**	**736,097**

Annual percentage growth rates						
Agriculture, forestry and fishing	4.2	13.1	2.0	6.4	4.1	4.7
Mining and quarrying	35.8	4.9	80.2	(4.5)	13.9	16.3
Manufacturing	19.5	4.8	2.2	1.7	2.0	4.0
Electricity, gas and water supply	5.0	6.6	4.0	4.4	2.0	5.0
Construction	2.7	7.4	16.1	(2.4)	4.2	8.2
Wholesale and retail trade	19.2	6.6	8.0	3.5	5.0	6.0
Transportation and storage	16.3	8.9	4.2	2.7	4.2	6.0
Accommodation and food services	7.6	13.2	8.4	0.4	6.0	6.8
Information and communication	58.1	10.5	10.0	6.5	7.5	7.5
Financial and insurance activities	(14.7)	7.8	10.6	10.0	8.7	9.1
Real estate activities	19.7	12.1	11.0	2.6	2.6	5.0
Public administration and defense	7.4	4.9	5.8	(1.8)	1.1	3.0
GDP at constant market prices	**8.3**	**8.9**	**6.7**	**4.3**	**4.3**	**5.7**

Source: Ministry of Economic Planning and Development
*Projections

2.2 Real Sector Performance in 2011 and Prospects for 2012 and Beyond

2.2.1 Agriculture

The agriculture sector, which also includes forestry and fisheries, continued to drive the economy, and registered 6.4 per cent growth in 2011, compared to a growth of 2.0 per cent in 2010. The growth emanated from increased production of maize, tobacco and sugar.

It is, however, expected that the sector will grow by 4.1 per cent in 2012. The slow-down is attributable to a reduction in tobacco production arising from low tobacco prices offered on the auction floors in 2011. It is also expected that maize production will decline in 2012, on account of the late rains and dry spells that hit some parts of the country. Sugar production is expected to rise in 2012.

In 2013, the agricultural sector is projected to grow by 4.7 per cent. The high tobacco prices offered at the auction floors in 2012 will encourage increased production in 2013. Maize production is expected to increase in 2012. It is also assumed that diversification into other crops such as cotton and pulses will show its fruits and that there will be Government intervention to encourage production of strategic crops such as rice.

2.2.2 Mining and Quarrying

The mining and quarrying sector experienced a decline by 4.5 per cent in 2011, as a result of a number of factors that included shortage of foreign exchange, fuel scarcity, and power interruptions especially in the later part of 2011. Production of coal, quarry, lime, and uranium declined compared to 2010 levels. Production of uranium also declined, on account of land slippage and breakdown of machinery between October and December 2011.

The sector is projected to rebound in 2012 and register a growth of 13.9 per cent with all the aforementioned indicators registering positive growths. Production of uranium is estimated to normalise, coal production is projected to rise by 10 per cent, production of quarry aggregates by 20 per cent and of agriculture lime by 30 per cent.

The sector is projected to continue registering a strong growth in 2013 estimated at 16.3 per cent. The country is expecting the opening of additional coal sites in 2012/13.

2.2.3 Manufacturing

The manufacturing sector grew by 1.7 per cent in 2011 compared to 2.2 per cent registered in 2010. The slower growth is a reflection of a number of challenges experienced in the year that included shortage of foreign exchange, fuel problems and power interruptions. This resulted in a number of challenges that include: difficulties by manufacturers to import raw materials, machinery and spare parts; low sales due to depressed disposable incomes; and interruptions in the production lines due to intermittent power supply. Nonetheless, the sector experienced some growth emanating from agro-based subsectors such as tobacco and tea processing.

A number of companies operated at minimal level in the first half of 2012. A rebound is anticipated in the later half of the year, and hence a projected marginal output growth of 2.0 per cent in 2012. The growth is expected to emanate from a number of subsectors including: printing and publication; paint; plastic products; and cement in response to an improved economic environment in the later half of 2012.

Output for 2013 is expected to improve further with an estimated growth of 4.0 per cent, buoyed by further improvement of the economic climate. The growth will emanate from anticipated rebound and subsequent positive output in a number of subsectors including: dairy, sugar, bakery, tobacco processing, soaps and detergents in response to an improved economic environment.

2.2.4 Electricity, Gas and Water

The utilities sector grew by 4.4 per cent in 2011. This is on account of a marginal increase in the sales of electricity and water in 2011 compared to 2010, mostly as a result of increases in new connections.

Output of the sector is expected to slow down in 2012, and is projected to grow by only 2.0 per cent as sales of electricity and water decline in the year. Finalisation of the rehabilitation of electric power stations is not anticipated within the year.

Growth of the sector is anticipated to rebound in 2013 to 5.0 per cent on account of expected operationalization of some new hydro electric power projects, and as improvements in the existing hydroelectric power stations finalise.

2.2.5 Construction

In 2011, output of the construction sector declined by 2.4 per cent. The reasons for this included foreign exchange and fuel shortages, which affected payments to foreign suppliers of raw materials and spare parts. Production of sawmill and wood products and non metallic mineral products/cement declined in the year compared to 2010. A number of companies reported declines in their construction work. These included for both Government projects and private construction work.

In 2012, however, overall performance of the sector is projected to rebound to 4.2 per cent mainly on account of resumption of major projects and coming in of new players in the sector.

In 2013, the sector is expected to continue to grow at an estimated 8.2 per cent as the construction industry adjusts to higher prices of imported materials arising from the exchange rate adjustment in 2012, and consequently increase number of construction work.

2.2.6 Wholesale and Retail

The wholesale and retail trade sector grew by 3.5 per cent in 2011. The growth, though slower than 8.0 per cent registered in 2010, emanated from good performance for some of the major retail traders. A number of players in the sector, though, faced problems such as foreign exchange scarcity and fuel shortages. The wholesale distribution of petroleum products such as petrol, diesel and paraffin registered significant declines in 2011.

It is projected that the sector will grow by 5.0 per cent in 2012. The faster growth will result from a recovery in the distribution of petroleum products and other wholesale products as well as availability of foreign exchange as the economy rebounds.

It is also anticipated that the sector will continue to perform well in 2013, registering a growth of 6.0 per cent.

2.2.7 Transportation and Storage Services

The transportation and storage services sector grew by 2.7 per cent in 2011, compared to 4.2 per cent registered in 2010. The slower growth was a result of poor performance mainly due to fuel disruptions that significantly reduced the amount of freight and number of passengers transported in the year. Scarcity of foreign currency for procuring of spares parts also affected performance of the sector.

In 2012, the sector is projected to grow by 4.2 per cent on account of an anticipated increase of passenger and cargo services (by Central East African Railways - CEAR) and Government addressing key challenges the sector is currently facing.

The sector is expected to grow by 6.0 per cent in 2013. The growth is anticipated to emanate from increased freight activities especially for transportation of coal.

2.2.8 Accommodation and Food Services

The accommodation and food services sector grew by 0.4 per cent in 2011 from 8.4 per cent in 2010. The minimal growth is attributable to a decline in occupancy rate in hotels, especially along the lakeshore resort area. There was also a decline in the number of workshops and business events taking place in these areas. The hotel industry reported a drop in the number of local and international visitors/tourists.

In 2012, the sector is expected to register a growth of 6.0 per cent. Among other factors, this will be on account of increased hotel room occupancy due to the opening of new hotels in the year, and an anticipated increase in international conferences.

The sector is projected to continue performing well, growing at 6.8 per cent in 2013 as the sector responds positively to the overall economic recovery.

2.2.9 Information and Communication

The information and communication sector grew by 6.5 per cent in 2011 from a growth of 10.0 per cent in 2010. The strong growth is a reflection of increased activities and services provided by radio, television and mobile phone operators.

The sector will continue to perform well in 2012, and is estimated to grow by 7.5 per cent. The expectation is that there will be increased coverage of services, improved service delivery and increased number of subscribers in the mobile phone and internet services.

In 2013, it is expected that the sector will grow at the same pace of 7.5 per cent.

2.2.10 Financial and Insurance Services

In 2011, the financial and insurance services sector grew by 10.0 per cent, compared to a growth of 10.6 per cent registered in 2010.

It is expected that the sector will continue to register strong growth, projected at 8.7 per cent in 2012. This is attributed to an improvement in the businesses in the sector including the introduction of Government pension scheme, and an increase in demand for the insurance and credit services.

The sector is projected to continue with a strong growth estimated at 9.1 per cent in 2013.

2.2.11 Real Estate

The sector grew by 2.6 per cent in 2011, a slower growth compared to a strong growth of 11.0 per cent in 2010. Within the sector, large scale real estate service providers registered significant drops in their revenues. The year also experienced the stalling of a number of construction projects which, if concluded, would have increased activities in the sector.

In 2012, the sector is projected to grow by a modest 2.6 per cent as the sector recovers, and in line with a rebound in the construction sector.

The expectation is that the sector will accelerate to 5.0 per cent growth in 2013.

2.2.12 Public Administration and Defense

In 2011, performance in the sector slowed down, registering a negative growth of 1.8 per cent. This is on account of slower growth in government expenditures in the review period.

The sector is projected to continue on a low growth path with 1.1 per cent in 2012.

In 2013, growth in the sector is projected to moderate to 3.0 per cent.

2.3 Prices

TABLE 2.2 : INFLATION RATES, 2009 - 2013

	2009	2010	2011	2012*	2013*
Inflation rate (end of period)	7.6	7.2	9.8	22.9	12.0
Inflation rate (annual average)	8.4	7.4	7.6	18.4	16.1

Source: Ministry of Economic Planning and Development

* Projections

The annual average inflation rate for 2011 was estimated at 7.6 per cent compared to 7.4 per cent in 2010.

The country started to experience a steady rise in general price levels from early to mid 2011, reflecting a pass-through effect from increased petroleum pump prices and continued fuel supply disruptions. As a result, transportation prices rose, pushing food and non-food prices up. In addition, the December 2011 maize price adjustment resulted in further food price increases.

In 2012, the average annual inflation rate is projected to accelerate to 18.4 per cent, exacerbated by the recent adjustment of the value of the Kwacha and subsequent adjustment of petroleum products and electricity prices.

2.4 Domestic Demand and Supply

In 2011, domestic supply for goods and services in the domestic market grew by 12.5 per cent in 2011 compared to 22.8 per cent in 2010 in nominal terms. Growth of imports of goods and non-factor services during the same year contracted by 5.2 per cent mainly to foreign currency challenges the country was going through. In 2012, imports of good services and non-factor services is projected to further decline in the growth by 24.3 per cent further dampening the total domestic supply in the year.

With regards to domestic demand, growth was mainly driven by consumption that grew by 13.9 per cent by K117 billion. Government consumption grew by 21.5

per cent contributing the largest share with private consumption growing by 14.4 per cent. This corresponds to its share to GDP of 85.6 per cent in 2011 while it is estimated to be around 86.3 per cent in 2012. However, gross fixed capital formation grew marginally from negative 3.7 per cent in 2010 to 4.9 per cent in 2011.

TABLE 2.3: GDP AT NOMINAL PRICES AND DOMESTIC SUPPLY AND DEMAND

	2008	2009	2010	2011	2012*
A: Domestic Supply					
Nominal GDP	600,983	710,160	812,420	946,348	1,273,162
Plus: Imports of Goods and Non-factor Services (net)	112,037	97,973	180,000	170,589	129,135
Total Supply	**713,020**	**808,133**	**992,420**	**1,116,936**	**1,402,297**
B: Total Demand					
Gross Fixed Capital Formation	122,248	159,096	153,255	160,779	191,710
Consumption	590,772	649,037	839,164	956,158	1,210,588
Government	138,157	161,664	182,972	205,202	234,671
Private	452,615	487,373	656,193	750,956	975,917
Total Demand	**713,020**	**808,133**	**992,420**	**1,116,936**	**1,402,297**

Source: Ministry of Economic Planning and Development

* Projections

2.5 External Sector Perfomance

2.5.1 Export Commodity Prices

The average price of tobacco declined from K595.9 per kg in 2010 to K556.2 per kg in 2011. This decline is mainly due to relatively low quality of the leaf coupled with the global financial crisis which continued to hit most developed countries. Tea, coffee and sugar witnessed an increased trend in prices reflecting increased prices on the international market. The price of cotton more than doubled from MK183.9 per kg in 2010 to MK430.4 per kg in 2011 as a result of increased international demand. The price of uranium dampened from MK18,106.4 in 2010 to MK14,499.5 in 2011 because of reduced demand as a number of developed countries continued to be negatively affected by the Fukushima catastrophe in Japan.

TABLE 2.4: EXPORT PRICES OF TRADITIONAL COMMODITIES (IN KWACHA)

	2008	2009	2010	2011
Tobacco	579.62	580.50	595.93	556.19
Tea	182.50	209.04	224.41	294.92
Sugar	75.24	87.16	85.20	122.14
Cotton	229.32	97.66	183.88	430.40
Rice	32.88	45.40	45.15	118.38
Coffee	323.30	282.00	496.89	665.48
Pulses	157.48	81.03	67.74	75.48
Uranium		17,219.99	18,106.38	14,499.50

Source: NSO and Ministry of Economic Planning and Development

2.5.2 Balance of Payments

Malawi experienced an improving trade deficit in 2011 from minus MK121.9 billion in 2010 to minus MK107.9. Malawi economy therefore, continued to register more imports than exports, and that in 2011, the growth in exports outpaced that of imports. The economy registered increasing deficits for transactions in the factor and non-factor services from MK50.1 billion in 2010 to MK55.1 billion in 2011, and from MK8.6 billion in 2010 to MK8.8 billion in 2011, respectively. Consequently, the overall balance of payments position as registered by the current account balance improved from MK165.5 billion in 2010 to MK155.7 billion in 2011.

The economy experienced an increase in net capital account balances from MK164.4 billion to MK192.3 billion in 2011. Foreign direct investment rose to MK34.1 billion in 2011 due to recapitalization of foreign direct investment enterprises, especially for commercial banks. Short-term capital also witnessed significant growth in 2011 to the tune of MK17.9 billion, reflecting trade credits in fuel purchases. Government transfers declined in the year, and the economy experienced a draw down in foreign reserves in 2011 to the tune of MK17.0 billion.

TABLE 2.5: BALANCE OF PAYMENTS (K' MILLION)

	2008	2009	2010	2011
Trade balance	(76,395.02)	(54,318.46)	(121,888.40)	(107,889.15)
Exports of Goods, fob	134,049.68	167,913.25	161,891.48	223,369.56
Imports of Goods, fob	209,980.11	221,841.61	283,112.08	330,129.42
Non-factor Services (net)	(32,644.99)	(38,670.30)	(50,135.02)	(55,057.06)
Factor Services (net)	(3,461.24)	(5,374.69)	(8,644.39)	(8,771.96)
Private Transfers (net)	17,785.07	14,170.75	15,206.60	16,033.55
Current account balance (net)	(94,716.19)	(84,192.70)	(165,461.21)	(155,684.62)
Capital account balance (net)	110,305.38	100,589.80	164,417.31	192,288.22
Long-term Capital balance (net)	110,219.47	100,497.88	164,318.96	174,348.96
Government Transfers (net)	85,770.56	77,527.85	138,091.76	108,483.62
Government Drawings (net)	9,607.62	9,761.08	9,706.00	29,167.00
Foreign Direct Investment (net)	12,691.71	11,208.57	14,381.56	34,054.61

Foreign Portfolio Investment (net)	(419.50)	(105.00)	(88.53)	(204.34)
Public Enterprises (net)	1,654.49	1,470.62	1,593.17	2,080.40
Private Sector (net)	495.10	529.76	546.47	563.34
Short-term Capital (net)	85.90	91.92	98.35	17,939.26
Errors and Omissions	(21,450.99)	(38,107.30)	23,463.79	(53,621.38)
Balance before debt relief	(5,861.80)	(21,710.20)	22,419.90	(17,017.78)
Overall balance after debt relief	(5,861.80)	(21,710.20)	22,419.90	(17,017.78)
Change in NFA	5,861.80	21,710.20	(22,419.90)	17,017.78

Source: Ministry of Economic Planning and Development and NSO

Figures for 2011 are provisional

2.6 Fiscal Performance

The 2011/12 financial year was characterized by weak fiscal performance of the Central Government budgetary operations compared to the previous year in the wake of lower domestic revenues collections than initially projected and absence of grants on budget support. Consequently, the overall fiscal deficit worsened to 7.1 per cent of GDP resulting into a net domestic borrowing of 5.5 per cent of GDP hence exceeding the initial repayment target of 1.5 per cent of GDP by a huge margin. This underperformance has been attributed to a number of challenges during the period most notably low revenue levels due to cessation of budgetary support from the Development Partners (DP) owing to the suspension of the IMF Extended Credit Facility (ECF) programe for the country in June 2011 which exerted pressure on domestic financing. This subsequently resulted in most of the fiscal targets being off track. Both tax and nontax revenues underperformed mainly due to reduced economic activities stemming from shortages in inputs and raw materials particularly in the manufacturing sector arising from foreign exchange and fuel supply shortages that characterized the fiscal year under review, despite improved tax administration and compliance.

During the 2011/12 financial year, domestic revenues declined to 21.5 per cent of GDP from 24.4 per cent in the previous financial year on account of slowdown in economic activity in agriculture, manufacturing and transport sectors. Domestic revenues are expected to revamp in 2012/13 by 1.4 percentage points of GDP. The 2012/13 projections take into account the monetary reforms including the 50 per cent devaluation of the kwacha that was effected during the last quarter of the 2011/12 financial year.

Total expenditure is also expected to fall in the 2011/12 financial year by 1.5 percentage points from 35.2 per cent in 2010/11 financial year largely on account of low levels of revenue, both domestic and foreign due to lack of budgetary support from donors during the period.

Looking forward, fiscal policy aims at improving domestic and foreign resource mobilisation. Total expenditure is expected to marginally increase from 33.7 per cent of GDP in 2011/12 to 34.6 per cent of GDP in 2012/13 FY. The fiscal anchor for the 2012/13 budget shall be No Net Domestic Financing (NNDF), implying that by end June, 2013, net domestic borrowing will be zero.

2.7 Monetary Policy Developments

Monetary policy stance in 2011 was expansionary. The growth in broad money supply (M2) at 30.7 per cent was inconsistent with the nominal GDP growth of 14.1 per cent, which in turn exerted inflationary pressures on domestic prices. The economic environment in the second half of 2011 and three months into 2012 presented significant challenges to the attainment of domestic price stability. The increase in M2 was shored up by net domestic assets, which recorded an annual growth of 43.9 per cent largely due to a 32.7 per cent rise in net domestic credit. In contrast, net foreign assets declined by 88.3 per cent in 2011 and the decrease was principally attributed to low tobacco foreign exchange earnings on account of suppressed prices in addition to non-disbursement of budgetary support by the country's development partners.

For the rest of 2012 and going forward, price stability will remain the core objective of monetary policy formulation and implementation. As such, interest rate policy will be geared towards providing a firm anchor on domestic prices and absorbing excess liquidity. The exchange rate policy in 2012/2013 will aim at supporting the market based Kwacha value as it plays its role of clearing the mismatch between demand and supply of foreign exchange.

TABLE 2.6: SELECTED MONETARY POLICY INDICATORS

	2009	2010	2011
MONEY AND CREDIT			
Money and Quasi Money	23.9	17.8	35.7
Net Foreign Assets	(15.5)	13.0	(7.9)
Net Domestic Assets	39.5	4.9	43.6
Credit to the Government	19.4	(11.8)	19.7

Source: Reserve Bank of Malawi

Chapter 3

AGRICULTURE AND NATURAL RESOURCES

3.1 Overview

This chapter reviews performance of the Agriculture sector for the 2011/12 financial year. The chapter is divided into three sections namely, agriculture sector, Fisheries sector and forestry sector.

3.2 Agriculture Sector

This section evaluates performance of the Agriculture sector for the 2011/12 fiscal year, including the following: the 2011 Weather; Crop and Livestock production; Fertiliser Subsidy Programme; Agriculture Sector Wide Approach (ASWAp); and National Food Security.

3.2.1 2011 Weather Forecast

In the 2010/11 agricultural season, the country experienced variable dates of onset of rains ranging from early October to December, 2011. Erratic rains with poor distribution were thereafter experienced in January to March 2012 over the southern half of the country while relatively better rainfall pattern was experienced in the north. This led to poor crop establishment, wide variation in phenological stages, flooding and high incidences of weather induced pests like army worms.

Dry conditions prevailed over the country during the month of April 2012. This facilitated harvesting and drying of matured crops. Harvesting of maize (staple food for Malawians) was in progress throughout the country in May and June 2012. This led to great improvement in food security at household level as most farm families had food from their own production.

3.2.2 Crop Production

According to the second round national crop estimates, maize production for 2012 is estimated at 3,618,699 metric tons, representing a 7.1 per cent decrease over the final round in 2011. The reduction is attributed to poor onset and erratic distribution of rainfall experienced in many parts of the country in 2011/12 season.

The current maize national requirement for Malawi is 2,800,335 metric tons. This estimate takes into account, the current population of Malawi, as projected by the National Statistical Office (NSO), at 14,844,822. With production forecast of 3, 618,699 metric tons, and considering post harvest losses at 12.9 per cent, the projected maize surplus is estimated at 566,552 metric tons.

Cotton production for 2012 is estimated at 244,184 metric tons from 52,456 metric tons in 2011, representing a 365 per cent increase. This is largely due to the cotton production and marketing up-scaling programme which the Government is implementing.

The forecast of tobacco production has, however, decreased from 237,171 metric tons in 2011 to 151,500 metric tons in 2012 due to price disincentive which farmers experienced in 2011. All other major crops, except rice and sorghum have registered increases in this round compared to last year's production.

TABLE 3.1: SIX YEAR NATIONAL PRODUCTION IN METRIC TONS

CROPS	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012*
Maize	3,444,655	2,777,438	3,769,102	3,419,409	3,95,181	3,618,699
Rice	113,166	114,885	137,130	110,106	117,733	110,964
Groundnuts	273,757	243,215	293,948	297,487	325,215	385,177
Tobacco	117,412	160,238	208,154	172,972	237,171	151,500[1]
Cotton	63,290	76,761	72,664	29,165	52,546	244,184
Wheat	4,605	2,386	2,811	2,341	1,850	1,956
Sorghum	63,698	61,999	60,025	53,932	73,330	66,497
Millet	32,251	31,869	26,866	24,495	32,911	34,453
Pulses	415,551	387,347	501,376	470,489	531,967	587,771
Cassava	3,285,127	3,491,183	3,874,705	4,000,986	4,316,373	4,692,202
S/Potato	2,307,354	2,320,696	2,730,965	2,897,888	928,941	3,582,428

Source: MoAFS

3.2.3 National Food Security

According to the Ministry of Agriculture and Food Security's (MoAFS) Food Security Surveillance system, the food situation in the country remained stable in all the three regions during the reporting period (July 2011-June 2012).

National food availability remained stable even through the lean season, contributed by carryover stocks from the 2010-2011 growing season. Maize has been available on the local market and in ADMARC markets. Maize price hit the highest in November 2011 on local markets due to ADMARC's upward adjustment of prices but stabilized between MK30 and MK50 per kilogram when private traders started to supply their maize stocks on the local market. Towards the end of April, 2012 the prices started to decrease typical of a harvesting period. The national cereal availability remains stable with adequate national stocks pegged at more than 200,000 MT in the ADMARC and the SGR stocks.

TABLE 3.2: FOOD SURPLUSES/DEFICITS FOR THE PAST SIX YEARS (IN METRIC TONS)

	Season							
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*
Surplus	-0.8	0.5	1.3	0.5	1.3	0.8	1.1	0.6

Source: MoAFS

[1] Tobacco estimates for 2010/2011 and 2011/2012 are based on TCC data which captures both smallholder and estate production

3.2.4 Livestock Production

On the part of livestock, increases have been registered almost in all major livestock species. This increase is attributed to good animal husbandry and management by both smallholder and commercial farmers. Table 3.3 below shows livestock estimates in 2011/12 compared to the final estimates in previous season.

TABLE 3.3: LIVESTOCK CENSUS

Animal Class	First Round Livestock Production Estimates for 2011/12	Final Round Livestock Production Estimates for 2010/11	% decrease or increase
All cattle	1,132,631	1,110,560	2
Beef cattle	1,077,185	1,060,221	1.6
Dairy cattle	55, 446	50,339	10
Goats	4,714,311	4,442,907	6.1
Sheep	235,362	228,649	3
Pigs	2,179,744	2,160,670	1
Chickens	56,791,518	44,672,086	27
L.chickens	24,007,722	21,683,889	11
Broilers	26,393,850	16,627,188	59
Layers	5,496,471	5,635,298	(3)
B. Australorp	781,715	725,711	8

Source: MoAFS

3.2.5 Farm Input Subsidy Programme

The Government of Malawi through the MoAFS implemented the Farm Input Subsidy Programme (FISP) for the seventh season running on maize fertilizers, maize and legume seeds in the 2011/2012 crop season. This aimed at making seeds and fertilizers available to all poor resource smallholder farmers at affordable prices as one way of improving crop productivity hence increasing food security at both household and national levels in Malawi.

During the 2011/2012 FISP, 140,000 metric tons of fertilizers were subsidized, constituting 70,000 metric tons of NPK and 70,000 metric tons of Urea. Farmers got two bags (one for Urea and the other NPK) at a price of MK500.00 per 50kg through ADMARC and Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM). The maize seed subsidy was 7,000 metric tons; and 2,800 metric tons of legume seeds (groundnuts, beans, soybeans and pigeon peas) as well as maize storage pesticides.

3.2.6 Agriculture Sector Wide Approach (ASWAp)

The MoAFS developed a programme based approach framework called the Agricultural Sector Wide Approach (ASWAp) to be implemented within a period of five years (2008 to 2013). The overall objective of the ASWAp is to improve food security and generate agricultural growth through increased productivity of food and cash crops, while ensuring sustainable use of natural resources.

In 2012/13, the ASWAp is expected to operationalise the MGDS II in agricultural related areas such as food security, irrigation and disaster risk management. The ASWAp has four strategic pillars namely: (*a*) food security and risk management; (*b*) commercial agriculture, agro-processing and market development; (*c*) sustainable management of natural resources; and (*d*) key support services such as (i) technology development and dissemination; (ii) capacity building and institutional strengthening; and (iii) cross cutting issues (including HIV/AIDS and gender).

3.3 Fisheries Sector

This section assesses performance of the fisheries sector for the 2011/12 fiscal period.

3.3.1 The Socio-economic Role of the Fisheries Sector

3.3.1.1 Employment

The fisheries sector is of great importance to Malawi's economy as a source of employment, food, rural income, export, import substitution and bio-diversity. The sector directly employs nearly 60,000 fishers and indirectly over 500,000 people who are involved in fish processing, fish marketing, boat building and engine repair. Furthermore, nearly 1.6 million people in lakeshore communities derive their livelihood from the fishing industry.

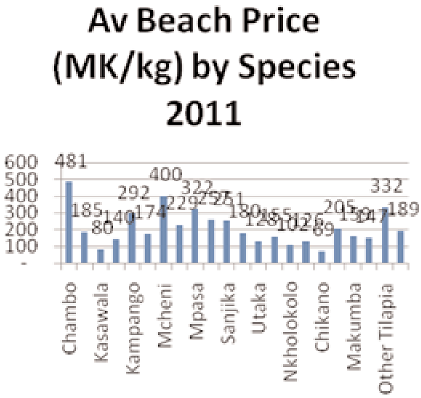
3.3.1.2 Food Security

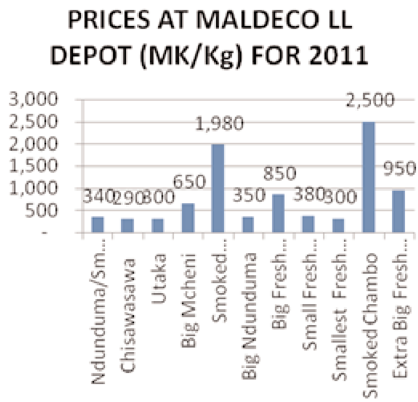
Fish provides over 70 per cent of the dietary animal protein intake of Malawians and 40 per cent of the total protein supply. It also provides vital vitamins, minerals and micronutrients. Much of the fish is consumed in rural areas thereby contributing significantly to daily nutritional requirements to some of the vulnerable groups such as HIV/AIDS victims, orphans and the poor.

3.3.1.3 Source of Income

Fish landings (82,414 tonnes) in 2011 had a beach or landed value of MK18.96 billion (approx USD 71.5 million). The national average beach price was at MK230 per kilogram. Chambo fetched the highest average beach price of MK481/kg whilst Chikano, Kasawala and Nkholokolo recorded the lowest average beach prices of MK69/kg, MK80/kg and MK102/kg respectively. The average beach prices are generally lower when compared with the retail market prices from Maldeco Fisheries Depot of Lilongwe as seen from figure 3.1.

FIGURE 3.1: AVERAGE BEACH PRICES AGAINST RETAIL PRICES FOR ALL FISH SPECIES





Source: Department of Fisheries

3.3.1.4 Foreign exchange through Fish Exports

Lake Malawi has over 800 endemic fish species which are of both local and international scholarly importance and also act as a source of tourism attraction. Some fish species such as Mbuna are exported outside the country and this helps to bring much-needed foreign exchange. The total exports of aquarium fish and some dried fish products for 2011 amounted to 11,781kg generating revenue of MK21,474,834 (USD 113,025).

TABLE 3.4: EXPORTS OF AQUARIUM FISH AS WELL AS DRIED FISH

Description	Country	Customs Value (MK)	USD Value	Net Weight
Live ornamental fish	Canada	1,127,426	7,203	519
Live ornamental fish	Germany	13,196,801	84,309	4,847
Live ornamental fish	Denmark	1,738,174	11,105	730
Live ornamental fish	France	5,629,274	35,963	1,842
Live ornamental fish	United Kingdom	1,487,648	9,504	934
Live ornamental fish	Hong Kong	13,901,406	88,811	6,060
Live ornamental fish	Japan	1,948,034	12,445	837
Live ornamental fish	Norway	483,688	3,090	213
Live ornamental fish	Sweden	1,834,833	11,722	606
Live ornamental fish	United States of America	1,774,683	11,338	856
Live ornamental fish	South Africa	436,773	2,790	364
Other live Fish	United Kingdom	258,093	1,649	130
Other live Fish	Hong Kong	2,222,921	14,201	952
Dried Fish, not smoked (Excl. COD)	Zambia	3,356,812	21,445	6,360
Dried Fish, not smoked (Excl. COD)	Zimbabwe	21,221,061	135,573	41,230
Total fish exports and value		**70,617,625,29**	**451,148.67**	**66,479.98**

Source: NSO (2011)

3.4.2 Status of the Fisheries Sector

3.4.2.1 Major Fishery Resource User Groups in Malawi

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

3.4.2.2 Total Annual Fish Production by Water Body

National catch statistics from all water bodies for Malawi show that total catches for 2011 were at 82,414 tonnes and about 70.70 per cent of the catch originated from Lake Malawi, followed by 20.58 per cent from Lake Chilwa whilst Lake Malombe and Lake Chiuta contributed 4.99 per cent and 3.19 per cent respectively.

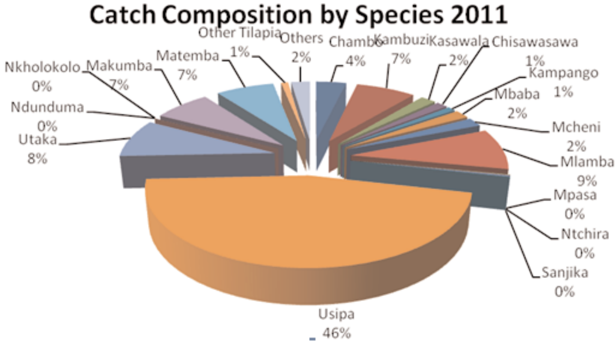
TABLE 3.5: FISH CATCH CONTRIBUTION BY WATER BODY FOR 2001-2011

Year	Lake Malawi-Artisanal (tons)	Lake Malawi-Commercial (tons)	Lake Malombe (tons)	Lake Chilwa (tons)	Lake Chiuta (tons)	Lower & Middle Shire (tons)	TOTAL (tons)	Landed value (MK '000)	Beach price (MK/kg)
2001	37,603	4,928	512	7,913	1,059	2,141	53,643	1,517,483	28
2002	32,038	3,767	693	6,288	1,275	2,173	45,369	1,175,815	26
2003	36,730	5,600	553	6,773	1,148	2,024	50,382	2,661,210	53
2004	36,610	3,391	510	7,155	791	2,292	50,240	4,876,300	97
2005	58,859	4,225	649	5,822	975	3,032	72,913	7,145,474	98
2006	51,796	4,413	780	4,350	1,085	3,840	65,484	6,810,336	104
2007	50,527	4,102	530	5,904	1,024	3,643	65,200	7,563,200	116
2008	56,846	3,597	671	6,006	1,018	3,128	71,266	9,478,378	133
2009	56,850	3,752	590	5,879	1,034	3,184	71,289	16,895,493	238
2010	80,62	3,470	3,336	8,019	2,549	1,197	95,724	19,900,000	210
2011	56,923	1,296	4,109	16,960	2,627	451	82,414	18,944,180	230

Source: Department of Fisheries

In terms of catch composition, the traditional catch is composed of 18 main species or groups of species, of which Usipa, Mlamba, Utaka, Makumba, Matemba, and Kambuzi are the six dominant species groups with an average total contribution of 46 per cent, 9 per cent, 8 per cent, 7 per cent, 7 per cent, and 7 per cent respectively (see Figure 3.1 below)

FIGURE 3.2: PER CENT SPECIES COMPOSITION OF TOTAL NATIONAL CATCHES FOR 2010



Source: Department of Fisheries

3.4.2.3 Annual Fish Production and Landed Value

The 2011 catch trends together with 2012 and 2013 projections in fish production per fish species and the estimated revenue gained by the small scale fishers is shown in table 3.6. In terms of fish sales, whatever was produced by the sector was wholesomely translated into monetary value as reflected in Table 3.6 below. A total of MK18.9 billion was accumulated by the sector and this contributed to the national GDP. With the intensification of deep water fishing as well as promotion of aquaculture programmes through the Presidential Initiative on Aquaculture Development (PIAD) Phase II, the sector's level of production is expected to rise from 82,414 tonnes to 86,535 and 84,062 tonnes in 2012 and 2013, respectively, thereby increasing the sectors amount of income accrued from these fish sales.

TABLE 3.6: FISH CATCH AND VALUE FOR 2011, 2012* AND 2013* FOR MAJOR SPECIES

Fish Species		2011		2012		2013	
Local Name	Scientific Name	Quantity	Value	Quantity	Value	Quantity	Value
Chambo	Oreochromis spp.	3,080	708,467,850	3,234	840,920,535	3,142	879,732,252
Kambuzi	Lethrinops spp. & Allied genera	5,933	1,364,618,290	6,230	1,619,742,579	6,052	1,694,499,929
Kasawala	Juvenile Oreochromis spp.	1,553	357,280,390	1,631	424,076,289	1584	443,649,041
Chisawasawa	Lethrinops spp. & Allied genera	1,417	325,799,600	1,487	386,709,960	1,445	404,558,112
Kampango	Bagrus meridionalis	801	184,234,600	841	218,678,460	817	228,771,312
Mbaba	Buccochromis spp. & Allied genera	1,507	346,672,100	1,583	411,484,710	1,537	430,476,312
Mcheni	Rhamphochromis spp.	1,610	370,221,800	1,690	439,437,180	1,642	459,718,896
Mlamba	Bathyclarias & Clarias spp.	7,393	1,700,471,137	7,763	2,018,385,306	7,541	2,111,541,551
Mpasa	Opsaridium microlepis	87	19,922,600	91	23,647,260	88	24,738,672
Nchila	Labeo mesops	161	37,004,700	169	43,922,970	164	45,950,184
Sanjika	Labeo cylindricus	92	21,201,400	97	25,165,140	94	26,326,608
Usipa	Engraulicypris sardella	37,183	8,552,106,100	39,042	10,150,978,110	37,927	10,619,484,792
Utaka	Copadichromis virginalis & relatives	6,962	1,601,264,600	7,310	1,900,631,460	7,101	1,988,352,912
Ndunduma	Diplotaxodon spp	476	109,376,500	499	129,825,150	484	135,817,080
Nkolokolo	Synodontis nyassae	0	32,200	0	38,220	0	39,984
Makumba	Oreochromis shiranus & relatives.	5,677	1,305,672,448	5,961	1,549,776,427	5,790	1,621,304,570
Matemba	Barbus paludinosus & relatives	5,919	1,361,379,322	6,215	1,615,898,064	6,037	1,690,477,975
Other Tilapia	Tilapia rendalli & others	699	160,698,700	734	190,742,370	713	199,545,864
Others	Various spp	1,865	428,842,090	1,958	509,016,915	1,902	532,510,004
Total		**82,414**	**18,955,266,426**	**86,535**	**22,499,077,106**	**84,062**	**23,537,496,049**

* Estimates

Source: Department of Fisheries

3.4.3 Fish Markets and Fish Processing Methods

3.4.3.1 Present Fish Processing and Marketing Trends

Several methods are used to process fish in Malawi. The common processing methods include (a) sun drying, which is most common for fish species like Kambuzi and Matemba; (b) smoking which is used on Chambo and Mlamba; para-boiling for usipa and (c) pan roasting for utaka (*Copadichromis spp*.). In some cases fish is frozen or iced to enable fish traders to transport the fish to distant rural and urban markets, as is the case with the MALDECO Fisheries Limited, the largest fishing company on Lake Malawi, which has shore based facilities, ice plants and chill storage facilities. There is a fish marketing and distribution network throughout the country, supplying fish to both rural and urban markets. Fish exports have been declining for the past two decades due to the increased domestic demand. Filleting is mostly done on Chambo, which is demanded by hotels.

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

3.4.3.2 Major Fish Markets

The major markets of fish in Malawi include the urban centers (Blantyre, Zomba, Lilongwe and Mzuzu and other districts). Fish from Lake Malawi, Nkhotakota is sold in Mzuzu, Mzimba and Kasungu. Similary, fish from Likoma and Chizumulu Islands dominates Mzuzu market. Lilongwe market has fish from Lake Malawi (Salima and Nkhotakota) and sometimes from Mangochi especially Malembo area. Zomba market is dominated by fish from Lakes Chilwa, Chiuta, Malombe and Malawi. In Blantyre (Limbe and Blantyre markets) there is plenty of fish from Lakes Malawi, Chilwa, Chiuta and Lower Shire River.

3.4.3.4 Fish Supply per capita

In the past, quantitative estimates of the importance of fish were made and in the 1980s fish comprised 40 per cent of the total protein intake and 70 per cent of animal protein. The supply of fish per person has, however, been steadily decreasing due to the population growth. In 1976 per capita annual supply was 12.9 kg, this had fallen to 9.4 kg in 1990 and then decreased further to 5.92 kg in 2011.

TABLE 3.7: PER CAPITA FISH SUPPLY 2000-2011 WITH ESTIMATED POPULATION GROWTH

Year	Estimated Population	Total catch (kg)	Fish supply/ kg/person/yr
2000	10,300,000	68,489,000	6.65
2001	10,500,000	53,643,000	5.11
2002	10,700,000	45,369,000	4.24
2003	10,900,000	50,382,000	4.62
2004	11,100,000	50,240,000	4.53
2005	11,300,000	72,913,000	6.45
2006	11,500,000	65,484,000	5.69
2007	11,700,000	65,200,000	5.57
2008	13,100,000	71,266,000	5.44
2009	13,300,000	71,289,000	5.36
2010	13,500,000	95,724,000	7.09
2011	13,700,000	81,070,000	5.92

Source: Department of Fisheries

The current average per capita consumption of 5.92 kg/yr is by far less than the recommended 13-15 kg of the World Health Organisation (WHO). Despite this shortfall, the supply of fish continues to contribute significantly to food security and nutrition within the country. Almost all fish caught in the Malawian waters is used for human consumption. It is often consumed in small amounts with daily meals, which otherwise consist mainly of staple starch food items. Much of the fish is consumed in rural areas and thus contributes to the nutritional needs of some of the poorest people in the country, as it is easily accessible, available throughout the year and in times of drought, and affordable within the purchasing power of the majority of the population. Fish, therefore, guarantees a nutritionally balanced diet to a population suffering from high levels of malnutrition. Consequently, fish forms a very important component in the daily diet of the population in Malawi, constituting the cheapest source of animal protein compared with other animal protein sources like chicken, beef, lamb.

3.4.4 Performance of Aquaculture Sector

The sector continued to implement aquaculture activities through the National Aquaculture Strategic Plan (NASP) that provides a guiding framework for the development of aquaculture in Malawi. Hence, using the developed aquaculture data collecting methodology and tools, the aquaculture sub sector contributed about 2,631 tonnes of fish harvested from all production systems which ranged from cage culture as well as pond culture (see table 3.8).

TABLE 3.8: ESTIMATED PRODUCTION LEVELS AND VALUE OF MAJOR CULTURED FISH SPECIES

Species	*Estimated units*	*Year* 1998	1999	2000	2001	2002	2003	2010	2011
Oreochromis shiranus/ mossambicus	Production (tons)	270	565	500	600	670	680	850	1420
	Value (US$)	309 100	565 000	550 000	575 000	649 600	696 000	869,550	
Tilapia rendalli	Production (tons)	0	-	-	12	70	85	630	862
	Value (US$)	0	-	-	13 800	11 200	42 000	113,647	
Clarias gariepinus	Production (tons)	30	12	15	18	10	17	42	175
	Value (US$)	12 000	14 400	18 000	18 000	11 200	17 000	42 000	
*Cyprinus carpi*o	Production (tons)	10	8	10	10	8	4	30	76
	Value (US$)	10 000	8 000	10 000	10 000	8 960	5 600	42,000	
Oncorhynchus mykiss	Production (tons)	-	5	5	8	4	15	48	98
	Value (US$)	-	20 000	17 500	57 200	24 800	96 000	307,200	
Total major species (tons)	**310**	**590**	**530**	**648**	**752**	**801**	**1600**	**2631**	
Total value (US$)		**331100**	**607400**	**595500**	**674000**	**705760**	**856600**	**1374397**	

Source: Department of Fisheries

During the same period, the number of fish farmers has also grown from 4,050 to 6,010 and ponds from 8,206 to over 9,500 ponds. Over 450,000 fingerlings of tilapia and 500,000 catfish hatchlings are being produced and distributed to fish farmers nationwide annually.

In order to complement these production efforts from aquaculture, the Department of Fisheries is currently establishing a community fish farm at Kasinthula in Chikhwawa. It is planned that at least 20 fish farmers from the surrounding community will participate in the production activities at the farm with the aim of producing 8 tonnes of fish per year. Construction of the community fish farm commenced during the first quarter of 2011-2012 fiscal year and 13 ponds have been constructed (425 square metre each).

3.4.4.1 Commercial Aquaculture in Malawi

Since the onset of fish farming in Malawi a lot of initiatives have been undertaken to promote commercial aquaculture. At its peak, the "commercial" sector produced a maximum of 100 tons/yr, and from the mid 1990s to around 2001/02 the sector virtually collapsed. However, the dramatic increase in the price of fish experienced over the last 5 years is the major reason for the re-emergence of the commercial aquaculture sector in Malawi. Two meticulously planned commercial aquaculture operations were established in 2003/2004. One is a large-scale cage culture operation with capacity of producing 1,040 tonnes of Oreochromis sp in circular floating cages in Lake Malawi. The operation consists of 64 cage unit and a pond based fingerling production unit. The other is a medium scale pond culture operation in the Lower Shire valley at Kasinthula and consists of 10 ponds with a total surface area of 8 ha. The main species farmed include Oreochromis mossambicus and Cyprinus carpio. Thus the success of these ventures will provide the impetus for the development of the sector in Malawi.

3.4.4.2 Fisheries Development and Need for Investment

In 2011, the sector developed the first Fisheries Master Plan (FMP) that order to outlined key investment areas for the sustainable production and utilisation of the capture fisheries resources and development of the aquaculture from 2012-2022. The FMP is a tool that will guide future public and private investment in the fisheries sector for the benefit of Malawi in terms of increased fish production from both capture fisheries and aquaculture, improved nutritional status of the consumers, export substitution for the country, employment opportunities for people engaged in fishing and aquaculture investment, and supporting tourism development based on the sustained aquatic biodiversity.

It is timely that the FMS has been prepared taking cognizance of the internal and external factors impinging on the fisheries sector. The FMP will guide short-, medium- and long-term implementation of the Fisheries Policy and Strategic Plan based on the aspirations from both the public and private sectors. Aquaculture development continues to be a core strategy for increased fish supply in the country considering that fishing in natural waters has biological limitations with commercial fish species like Chambo being fished above maximum sustainable levels in Lake Malawi. The participatory fisheries management strategy as part of governance reforms that the Government adopted in the 1990s will be strengthened for development of appropriate common property regimes in various fishing areas. Fish quality and health remains a key issue for promoting fish marketing both within and across the Malawian boarders. Human resource capacity issues are a necessity for delivery of quality services while taking into account HIV/AIDS, climate change and variability and child labour within the fishing industry. Capacity to develop technologies and analyse policies is a central area that needs greater attention in implementing the FMP. Above all enhanced collaboration of all stakeholders within the fishing industry including relevant Government Departments, Non-Governmental Organisations (NGOs), Community Based Organisations (CBOs), academic institutions and the private sector is of paramount importance for sustainable management of the fisheries resources and development of aquaculture in the country.

TABLE 3.9: IDENTIFIED KEY PRIORITY AREAS FOR INVESTMENT

Policy Priority Area	Priority Development Programme	Estimated Cost (US$)
Capture Fisheries	Lake Malawi Fishing Technology Development Programme	6,000,000
	Lake Malawi Fisheries Development Programme	19,000,000
Aquaculture	Malawi Fish Farming Development Programme	18,500,000
	Fish Farming Community Livelihood Programme	2,600,000
	Institutional Capacity Building for Integrated Aquaculture Development in Malawi	1,600,000
	Cage Culture Development Programme	6,235,290
Fish Quality and Value Addition	Lakewide Fisheries Infrastructure Improvement Programme	18,000,000
	Strengthening inspection and quality control of fish and fish products	4,500,000

	Value addition Promotion to Fish and Fisheries Products for better Returns	3,500,000
Governance	Participatory Fisheries Management Enhancement Programme (PFMEP)	4,650,000
Research and Information	Support to Fisheries Research and Resource Monitoring Programme	15,000,000
Human Resource & Skills Development	Fisheries Sector Capacity Building Programme	10,400,000
Grand Total		**109,985,290**

Source: Department of Fisheries

3.5 Forestry Sector

This section reviews the performance and contribution of the forestry sector to the economy during 2011/2012 financial year. The focus is on forest utilization and marketing; budget allocation and revenue collection; tree planting and plantation rehabilitation; and various programmes and projects being implemented in the sector.

3.5.1 Forest Utilisation and Marketing

Sixty export licenses and permits, and three hundred phytosanitary certificates (plant protection services) worth MK3.4 million and MK1.05 million respectively were issued to RAIPLY, mobile sawmillers and various individuals for forest products exportation. The country exported 24,741.25 m3 of softwood timber, 860 pieces of wooden curios and cane furniture, and 16,000 kilograms of colombo roots. The products were destined to Southern Africa Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) markets. The value for exports of forest products are summarised in table 3.4 below.

TABLE 3.10: EXPORT VALUE FOR FOREST PRODUCTS FOR 2011/12 FINANCIAL YEAR

No.	Type of Forest Product	Export Value (USD)	Export Value (South Africa Rand)	Export Value (Euro)
1	Wooden and Lumber - Sawn Soft Timber	2,127,662.11	-	-
2	Wood Carvings (Curios)	48,762.00	-	21,133.00
3	Timber Beams	33,704.00	-	-
4	Shutter Ply	19,800.00	-	-
5	MDF Boards	31,800.00	-	-
6	Plywood	-	154,816.80	-
7	Kiln Dried Timber	-	162,000.00	-
	Total	**2,261,728.11**	**316,816.80**	**21,133.00**

* Up to April 2012

3.5.2 Tree Planting and Plantation Rehabilitation

The target for tree planting in 2011/2012 financial year was 60,000,000 million seedlings. The trees were expected to be planted by different stakeholders such as smallholder farmers, communities, private sector, Village Natural Resources Management Committees and Non Governmental Organisations. The actual trees planted in the National Forest Season were 44,479,677 as shown in table 3.5 below.

TABLE 3.11: TREE PLANTING IN THE 2011/12 NATIONAL FOREST SEASON

Region	Key Stakeholders involved in tree planting									
	Community Based Organizations	Estates	Farmers Clubs	Faith Based organizations	Non Governmental Organizations	Schools	Smallholder Farmers	Committees	Village Natural Resources Management Others	Total number of trees planted
Southern Region*	170,874	1,287,627	1,499,682	48,695	440,915	163,733	999,581	2,231,830	135,156	6,978,093
Central Region	181,790	568,919	2,673,896	107,695	11,890,967	348,554	3,934,833	5,705,444	4,210,276	29,622,374
Northern Region	11,360	581,629	1,318,996	24,108	614,574	252,536	1,128,586	1,396,610	2,550,811	7,879,210
Total	**364,024**	**2,438,175**	**5,492,574**	**180,498**	**12,946,456**	**764,823**	**6,063,000**	**9,333,884**	**6,896,243**	**44,479,677**

* No planting returns from Chiradzulu, Machinga, Mangochi, Mulanje, Mwanza, Neno and Nsanje Districts

3.5.3 Forestry Programmes and Projects

A number of forestry programmes and projects were implemented in the period under review.

(i) **Improved Forest Management for Sustainable Livelihoods Programme (IFMSLP)**

The programme focuses on improving the management of trees and forest resources, access to income generating opportunities and enhancing rural livelihoods through sustainable management of forest areas in the country.

The programme is financially supported by the European Union and aims at improving the livelihoods of local communities in twelve districts (Chitipa, Karonga, Rumphi and Mzimba in the north; Kasungu, Ntchisi, Dedza and Ntcheu in the centre; and Nsanje, Chikhwawa, Machinga and Zomba in the south) through the provision of forest goods and services and the development of forest based enterprises.

Second phase started in April 2011 and various activities are under implementation. The programme is addressing poverty and forest degradation through promoting greater community involvement in forest management. The IFMSLP has developed interventions that aim at contributing towards increased household income and food security. The interventions range from tree planting and forest conservation to the promotion of forest based income generating activities such as honey, mushroom and timber production and processing.

(ii) Forestry Preservation Programme

The Government of Japan through the "Hatoyama Initiative" is supporting the Government of Malawi through a MK3 billion grant aid to the Department of Forestry for the Forestry Preservation Programme. The programme involves the purchasing of equipment for both monitoring and management of forest resources. For monitoring of forest reserves and other forest resources, some vehicles and motor bikes shall be purchased. In order to survey the forest reserves for monitoring and gathering several information such as area, vegetation (land cover), the programme intends to procure biomass equipment such as Global Positioning Systems (GPS), surveying instrument, pocket compass, digital camera, transceiver and binocular. The equipment will be installed in 9 districts (Mangochi, Blantyre, Machinga, Zomba, Mwanza, Dowa, Mchinji, Lilongwe and Nkhatabay). The programme shall also enhance capacity in the area of Geographical Information Systems (GIS) and Image Processing for the Department of Forestry staff.

(iii) Community Vitalisation and Afforestation in Middle Shire (COVAMS)

The objective of the project is to rehabilitate the watershed of the middle shire through tree planting thereby reducing sedimentation of Shire River and promotion of income generating activities.

The project is implemented under technical cooperation from Japan and is now in final year (from 5th November 2007 to 4th November 2012). The project involved building capacity of villagers in sustainable natural resources management. The target area was Traditional Authorities Kuntaja and Kapeni in Blantyre district.

(iii) Forest Development and Management Fund (FDMF)

The FDMF became operational in the 2011/12 financial year. It aims to augment the conservation and management of forest resources and forest land in Malawi. In the year under review, the Department of Forestry was allocated MK208.6 million from the revenue collected. The FDMF was planned to implement the following activities:

- Administration, monitoring, internal audits and supervision (MK31.1 million);
- Law enforcement (MK15 million);
- Re-afforestation of industrial wood timber plantations (MK155.95 million);
- Meeting of Forest Management Board (MK1.05 million); and
- Training of Forestry Assistants at Malawi College of Forestry and Wildlife (MK5.5 million).

Monitoring and internal audits in plantations were conducted to improve revenue collection and implementation of forest activities. Forest reserves such as Dzalanyama, Namizimu, Zomba/Malosa and others which are under great pressure from illegal extraction of firewood and timber, charcoal production, encroachment and settlement were protected using the fund. To improve plantation rehabilitation, 2,000 hectares were planted in Government timber plantations. The fund also supported the National Forest Season launch and training of 32 Forestry Assistants, 11 Bachelor of Science-Forestry students, 1 graduate student and 4 support staff.

Most of the money from the fund has been invested in Government plantation rehabilitation through purchase of equipment, seed and renovation of infrastructure.

Chapter 4

IRRIGATION AND WATER DEVELOPMENT

4.1 Overview

The Irrigation and Water Sector continued to implement various programmes/projects in the 2011/2012 financial year, aimed at ensuring that the people in Malawi have access to safe and potable water and improved sanitation services, and that food security is achieved at household and national level. This chapter highlights the achievements made in the sector during the July 2011 to June 2012 period, and prospects for the medium term.

4.2 Irrigation

A total of 478.6 hectares of land was developed in the period under review for smallholder irrigation bringing the total of land under irrigation to about 43,000 hectares and benefiting over 365,844 smallholder farmers who mostly grow cereals and horticultural crops for both food security and income purposes. Currently, about 50,000 hectares of land under irrigation are for commercial/estate sector bringing the total area under irrigation to 93,000 hectares.

During the 2011/2012 financial year, progress was made on the rehabilitation of smallholder irrigation schemes under the Irrigation Rural Livelihoods and Agricultural Development (IRLAD) Project. In addition, a number of smallholder irrigation schemes were developed across the country through the Malawi Irrigation Development Support Programme (MIDSUP) and the Smallholder Crop Production and Marketing (SCPM) Project. The (SCPM) Project, the Malawi Irrigation Development Support Programme and the Small Farms Irrigation Project were some of the programmes/projects that were implemented in the financial year.

The newly developed schemes under the aforementioned programmes/projects comprised all the technologies currently being promoted i.e. gravity fed, motorized pump as well as treadle pump based schemes. During the reporting period, out of the 42,986 hectares under smallholder irrigation, 21,987 hectares was under gravity fed, 3,093 hectares was under motorized pumps, 12,757 hectares was under treadle pumps and 5,149 hectares was under watering can based irrigation.

There has been some collaboration of efforts to implement the Green Belt Initiative (GBI), which seeks to transform Malawi from predominantly consuming and importing country to a producing and exporting country. The GBI aims at using the available water resources to increase production, productivity, incomes and food security at both household and national levels for economic growth and development through irrigation development. The programme has six components as follows: infrastructure development and rehabilitation; environmental management; technology development; gender issues; HIV and

AIDS mainstreaming; and monitoring and evaluation. The GBI will be implemented throughout the country in areas where vast arable land and perennial sources of water suitable for irrigation development exists to target a coverage of about one million hectares of land. Concentration will be along Lake Malawi, the perennial rivers from Chitipa to the Shire valley and already existing irrigation schemes. It is envisaged that at least 200,000 ha. will be put under irrigation in the first 5 years. Crops like cotton, paprika, sugarcane, rice, fruits and vegetables will be promoted under GBI.

Under the GBI, the following four pilot sites have been earmarked for development:

1. Shire Valley Irrigation Project in Chikhwawa and Nsanje (about 42 300 ha.);
2. Lake Malombe in Mangochi (about 500 ha.);
3. Chikwawa Irrigation Project in Salima (about 800 ha.); and
4. Nthola-Ilola-Ngosi in Karonga (about 1000 ha.).

Development of the four pilot sites started with Chikwawa Irrigation scheme in Salima, and preparatory activities are underway in the other 3 sites.

Government is implementing other projects to complement the GBI, and the private sector are also implementing irrigation projects, including in the following areas:

(*a*). expansion of area under sugarcane production; and

(*b*). expansion and rehabilitation of out grower irrigation schemes supported by European Union (EU).

4.3 Water

The following major achievements were registered in the 2011/2012 financial year, aimed at ensuring that basic water requirements are met in the country while at the same time ensuring the country's ecosystem is well protected and conserved.

4.3.1 Water Resources Development

The construction of Phase I of Lichenza dam in Thyolo has been completed in the period under review under the Water Retention Structures Development Programme. The objective of this dam is to supply water to the Malawi University of Science and Technology (MUST) and other surrounding areas in Thyolo district.

A trans-boundary water resources development project was implemented by the Malawi and Tanzania governments under the Songwe River Basin Development project. The preparatory activities for implementation of the project have been completed. The implementation of the project commenced in March, 2012.

The sector has undertaken preparatory work on the Shire River Basin Management Programme (SRBMP). This is a multi-sectoral initiative that intends to develop a strategic planning and development framework for the Shire River Basin, and support targeted investments to improve land and water resources management and associated environmental services and livelihoods in the basin. It is a long term programme envisaged to run for about 15 years. It is being financed by a credit from International Development Agency and a Grant Aid from Global Environmental Facility Trust Fund (GEF).

Through National Water Development Programme II, the sector prepared Water Resources Investment Strategy (WRIS), finalized the detailed design for upgrading Kamuzu Barrage in Liwonde, and completed feasibility studies and preliminary designs for Lilongwe and Blantyre Water Board.

To ensure that the rural population have access to water and sanitation, the sub sector has drilled 100 boreholes countrywide under the National Dispersed Borehole Construction Programme. 60 boreholes were drilled in Mwanza and Neno districts under the Japan Grant Aid. This project is still underway and the target is 120 boreholes by December, 2012. 110 boreholes have been drilled with the support of UNICEF in Mwanza, Mangochi, Mchinji, Mzimba and Salima.

4.3.2 Water Resources Management

The sector continued to monitor water quality and pollution in 183 hydrological stations across the country.

With funding from Malawi Government and African Development Bank (AfDB), surface water database was updated, hydrological stations were rehabilitated, and potential dam sites in Karonga, Ntcheu and Chikhwawa districts were identified.

Groundwater monitoring stations were established in the country. These are Chitipa Wellfield and Chitipa Water Office in Chitipa; Karonga Wellfield and Karonga Water Office in Karonga; Endongoloweni F.B. School in Ekwendeni, Mzimba; Msani F.P. School in Nkhatabay; Mwalawanyenje F.P. School in Kasungu; Nkhotakota Wellfield and Dwangwa Water Office in Nkhotakota; Katelera F.P School; Mtongola dam; Kambwiri Sele Wellfield; Kuti Wellfields; Ngolowindo and Chipoka Irrigation Scheme in Salima district; Chaliwa Dam in Dowa; Mlezi School near Kamuzu International Airport; Chileka Water Office and Kakuyu Dam in Lilongwe; Mchinji Water Office and Lusa Dam in Mchinji; Linthipe Water Office in Dedza; Balaka Water Office in Balaka; Monkey-Bay Private School; Mangochi Water Office; Namwera Wellfield; Ntaja Water Office; Kaombe Dam; Mmanga School at Liwonde Turn Off; Songani Water Office in Zomba; Nasomba in Phalome; Mulanje Water; Mwanza Boma; Chikhwawa Water and Ngabu Water Office in Chikhwawa; and Nsanje Water Office in Nsanje.

4.3.3 Water Supply Services

The following were the major achievements under the water supply services in the period under review:

4.3.3.1 Piped Water Supply

During the 2010/2011 financial year, the sector continued to implement the National Water Development Programme with assistance from the World Bank through the IDA. 9,888 new water connections in Blantyre and Lilongwe cities were installed and 9,212 were rehabilitated. This is benefiting about 97,585 people in these two cities. The programme has also made available about 14,502 new connections (5,524 under Southern Region Water Board, 2,889 under Central Region Water Board, and 6,091 under Northern Region Water Board) and 17,846 rehabilitated connections (9,092 under SRWB, 5,195 under CRWB and 3,559 under NRWB) benefiting a total of 161,910 beneficiaries (74,480 from new connections and 87,430 from rehabilitated connections). In addition to this designs, construction and supervision of water supply schemes are at different stages in the towns of Mzuzu, Mzimba, Rumphi, Nkhata Bay, Kasungu, Mangochi, Zomba, Salima, Nkhotakota and Neno as well as market centres of Songwe, Mpherembe, Embangweni Mponela, Kamwendo-Kochilira, Nsanje, Lirangwe, Miseu Folo, Mitundu, Linthipe, Nkhamenya, Chizumulu, Chintheche, Dwangwa. Furthermore, designs for 23 rural piped water schemes were prepared and 700 boreholes were drilled under AfDB. The rehabilitation and extension of 7 rural piped water schemes under African Catalytic Growth Fund (ACGF) is currently underway with a total of 418 new connections installed and 1,830 water points rehabilitated as at December, 2011.

4.4 Challenges facing the Irrigation and Water Development Sector

During the reporting period, the sector faced many challenges including:

- High vacancy rate within the sector;
- Vandalism of water supply systems;
- Inability of contractors to adhere to contract period;
- Inadequate funding resulting into some activities not being implemented;
- Inadequate institutional capacity especially at Regional and District level;
- Dwindling water resources; i.e. drying up of wells, dams (due to siltation), streams, dambos and rivers; and
- Land tenure problems are affecting construction of permanent infrastructures for most of the motorized irrigation schemes.

4.5 Prospects of the Irrigation and Water Sector in 2012/13

The Greenbelt Irrigation is one of Government's priorities, and is aimed at ensuring that household and national food security is achieved. The sector plans to develop close to 5000 hectares of land for irrigation farming which is expected to benefit over 50,000 farmers in 2012/13 financial year. This will be achieved through the implementation of Smallholder Crop Production and Marketing Project (SCPMP), the Malawi Irrigation Development Support Programme, Agriculture Infrastructure Support Programme and the Green Belt Initiative.

The sector through the Agriculture Infrastructure Support Programme (AISP) will also develop a number of Smallholder Irrigation schemes covering 1,930 hectares and 2,000 hectares under the Green Belt Initiative. Construction works for these projects will commence in the 2012/13 financial year. In view of this, the sector has received irrigation equipment under the Indian line of credit and this equipment will be installed in various areas under the GBI.

The sector successfully negotiated an additional financing under the National Water Development Programme II amounting to US$120 million from World Bank. The resources became effective in December, 2011 and it is envisaged that this will ease water problems in Blantyre and Lilongwe as well as other parts of the country. In addition, a complimentary investment from EU/EIB is expected, and this will help to expand the capacity of the treatment plant and pumping capacity at Chileka, consequently, the volume of water coming into the city of Blantyre will increase by 23 per cent. For Lilongwe, the resources will be used to improve coverage and supply to un-served areas and low income communities by providing pipes and fittings for Chikungu, Area 9, Mtunthama, Bunda plant as well as constructing 100 kiosks in Chikungu. The cities of Lilongwe and Blantyre have had pressing water needs and have therefore been prioritized for new water sources development at Diamphwe in Dedza and Mombezi in Chiradzulu.

The Irrigation and Water sector is moving towards a Sector Wide Approach (SWAp) in order to harmonize programme and improve efficiency. There has been considerable progress made in the sector towards the SWAp. The three major outputs of the SWAp are the following:

1. Sector Investment Programme (SIP);
2. Monitoring and Evaluation framework; and
3. Fudiciary Framework.

The SIP has been finalized in the period under review and the monitoring and evaluation framework is being developed under a project financed by the African Water Facility through the AfDB and will be in place by 2013. The funding mechanisms are yet to be developed. The SIP is a plan through which both Government and development partners will be able to commit themselves to an annual program of work and budget and at the same time start implementing a harmonized monitoring and evaluation reporting system.

With the development and institutionalization of the SWAp process, it is expected that donors and cooperating partners will assist the sector to implement various programmes in a harmonized manner, hence, improve the outputs and expected outcomes of set targets for the sector.

Chapter 5

TRANSPORT AND PUBLIC INFRASTRUCTURE

5.1 Overview

This chapter reviews the performance of the transport sector during the 2011/12 financial year.

5.2 Road Transport

The road transport subsector focuses on road maintenance and development projects, which are implemented by the Roads Authority (RA). The development programs in the road sector consist of ongoing and newly planned projects for periodic maintenance, rehabilitation, upgrading and construction of roads. Ongoing projects include implementation of projects that have secured funding from previous years, and contracts that have been signed and require annual allocation for continued execution of activities. The various activities being implemented under the development programme have been summarized in this chapter.

On the whole, the subsector performed well in the period under review despite the challenges that the economy faced such as the shortage of foreign exchange and fuel, and unpaid certificates to contractors and consultants. One of the major setbacks has been under-funding of projects that were wholly financed by Government. This has contributed to the delays in completing the projects in a timely manner, and has increased the burden on the performance of the subsector.

5.2.1 Roads and Bridges Construction/Upgrading

With funding from the Government of Malawi and its development partners, the RA carried out a number of transport infrastructure projects. Some of these were completed whilst others are on-going. The projects included: the Karonga-Chitipa road; Mzimba-Mzalangwe road; Nkhotakota-Msulira road; Malowa-Goliati-Chiperoni road; Ekwendeni-Ezondweni-Ntwaro road; Lumbazi-Dowa-Chezi road; Chiradzulu-Miseu-Folo-Chiringa road; the Presidential drive; and Jenda-Edingeni road.

A number of road projects are earmarked for economic feasibility and preliminary engineering design and also for detailed engineering design once those projects passes the feasibility stage. These include: Ntcheu - Tsangano - Neno - Mwanza road; Lilongwe Old Airport - Kasiya - Santhe road; Chiringa - Muloza road; and Rumphi - Nyika - Chitipa road.

Most of the periodic maintenance and rehabilitation works was financed by the European Union (EU) and Malawi Government. The works were on projects such as the Chikhwawa - Nchalo - Bangula road and Lilongwe - Nsipe road. Progress of implementation as of May 2012 was 55 per cent and 80 per cent, respectively, on the two road projects.

Fully Government funded projects made substantial progress. These projects include Lumbadzi-Dowa-Chezi road; Chiringa-Miseu Folo-Chiradzulu road; and Mzimba-Eswazini-Kafukule-Ezondweni-Njakwa road (including Ezondweni Ekwendeni spur (Ekwendeni-Ezondweni Mtwalo section and Mzimba-Mzalangwe section). The Goliati-Chiperoni and Nsanje-Bangula road was completed and officially opened during the year under review.

The implementation of the Zomba-Jali-Phalombe-Chitakale road has been at a stand still because the work was suspended in 2008 due to lack of funds. Progress was at 75 per cent for the road-works and 80 per cent for bridges. The project implementation will resume as soon as Government settles outstanding agreed amounts of certified works. Procurement of another supervising consultant is in progress and is expected to be completed before the end of the fiscal year.

Projects in the pipeline include the Jenda-Euthini-Rumphi road; East Bank road; Ntcheu-Tsangano-Mwanza; Rumphi-Nyika-Chitipa road; Mzuzu-Nkhata Bay road; Mangochi-Liwonde road; and Lilongwe west.

Road fund revenues, which are used for maintenance and rehabilitation, were affected by the fuel shortages. This led to a substantial decline in the fuel levy collections as shown in Table 5.1 below. Consequently, there were reduced interventions in maintenance and rehabilitation works.

TABLE 5.1: ROAD FUND REVENUES

	2008/09		2009/10		2010/11		2011/12		
Income	Actual	Actual	Actual	Actual	Actual	Actual	Actual (to Dec 2011)	Projection (to June 2012)	
	MK'm	%	MK'm	%	MK'm	%	MK'm	MK'm	%
Fuel levy	5,353	91	7,994	93	7,795	93	3,627	6,186	93
Other income	517	9	571	7	607	7	356	450	7
Total	**5,870**	**100**	**8,565**	**100**	**8,403**	**100**	**3,983**	**6,636**	**100**

Soure: Road Fund Administration

5.2.2 Road Traffic and Safety Management.

The Government of Malawi has completed the necessary consultations on the proposed Road Traffic Authority which will lead to the merging of the Road Traffic Directorate, National Road Safety Council (NRSC) and the Traffic Police. It is expected that the Road Traffic Authority will be established in the 2012/13 financial year. Notwithstanding this, the Department of Road Traffic, NRSC and the Malawi Traffic Police continued to play a vital role in the Road Traffic Management to ensure road safety in the country. Government continued with its efforts to strengthen road traffic law enforcement and civic education in the country.

The Department of Road Traffic continued to receive full support from EU on its programs which include the creation of the Road Traffic Authority, axle load control and several studies in an effort to strengthen road traffic management in the country. Axle load control aims at achieving a safe transport load which does not impose additional costs on the road network.

In the 2011/12 financial year, the number of accidents decreased by approximately 27 per cent from 1,841 compared to 2,540 in the 2010/11 financial year. In terms of fatalities, there were 795 fatalities in the 2011/12 financial year compared to 976 fatalities in the 2010/11 financial year. This decline was a result of increased civic education, among other factors. Nonetheless, there are still inadequate financial resources to intensify road safety programmes as well as lack of equipment.

The multi-sector National Road Safety Master Plan for Malawi is being drafted, in addition to training of traffic law enforcement officers with the aim of providing a safe, efficient and sustainable road network in the country.

5.3 Water Transport

In the water (marine) transport subsector, there have been several developments. The Government was responsible for operating the Malawi Lake Services through Malawi Railways. The company had several water vessels plying the waters of Lake Malawi but due to some structural problems, the company made losses and became a liability to Government. In 2002, Malawi Government concessioned Malawi Lake Services to Glens Waterways Limited for a period of 20 years. Six years down the line, it was noted that the concessionaire was not adhering to the principles and conditions of the concession agreement. The Government, therefore, decided to terminate the concession. In September 2008, the Government took over the management and operations of Malawi Lake Services until November 2010. In December 2010, Government awarded a new concession to Malawi Shipping Company Limited (MSCL) for a period of 35 years.

In term of performance, there has been an improvement in services since the new company, MSCL, took over the management of Malawi Lake Services from Government. This is evidenced by the increase of both passenger and freight volumes as shown in table 5.2 below:

TABLE 5.2: MARINE CARGO AND PASSENGER STATISTICS

		FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	July 2010/11	July 2011/12
Freight	Tones	14,380	17,885	21,214	22,496	23,140	25,200	28,420
	Annual Change (%)		24.4	18.6	6.0	2.9	8.9	12.7
Passengers	NO.	62,037	58,656	68,308	72,095	71,545	75,650	77,320
	Annual Change (%)		-5.4	16.5	5.5	-0.8	5.7	2.5

Source: Marine Department

During the year under review, Malawi Shipping Company has, among other things, invested in maintaining and rehabilitating the following vessels: M.V. Ilala; M.V. Katundu; M.T. Viphya Tug; Viphya Pontoon; and M.T. Thyolo. Malawi Shipping Company is planning to acquire a new and modern passenger vessel and the actual construction will start in October 2012 at the Monkey Bay Shipyard and is expected to be completed by June 2013. The proposal, including the initial drawings, have already been submitted to the Marine Department for assessment and approval.

In view of the increased cases of accidents involving small vessels, Government is strengthening capacity of the Zomba, Nsanje, Chikhwawa and Mangochi Marine offices in order to increase safety oversight of these small vessels.

In order to improve the operation of the maritime subsector, several activities will be undertaken in the current financial year. These include rehabilitation of Likoma and Nkhata-Bay ports, construction of Nkhotakota port and procurement of aids to navigation. To achieve the water transport goal, the Marine Department is planning to undertake a number of activities in the 2012/13 financial year, and these include:

(*a*). **Rehabilitation of Nkhata-Bay Port -** Malawi Government has secured MK130 million for the rehabilitation of Nkhata-Bay port and procurement of cargo handling equipment. Contractors to undertake the works and supply the equipment have already been identified;

(*b*). **Resuscitation of the Shipper's Council of Malawi -** A National Steering Committee to facilitate the revival of the Shippers Council in Malawi has been formed;

(*c*). **Establishment of the Malawi National Ports Authority -** Government is in the process of creating a semi-autonomous National Ports Authority that will ensure effective coordination, marketing and organization by the operators and different players in the water transport sector to make water transport in the country more efficient. As part of the process, Government is formulating the National Ports Authority Act that promotes and improves efficiency and performance in the management and operations of ports and strengthens the Government's capacity to separate operations from the landlord functions within ports. The National Ports Authority Bill is ready for parliamentary enactment; and

(*d*). **Privatisation of Malawi Lake Ports -** Mota Engil has been identified to operate Malawi Lake Ports under a concession which has since been signed. It is expected that the concessionaire will start management of the ports on 1st July, 2012.

5.3.1 Shire-Zambezi Water way Project and Nsanje World Inland Port

The Government of Malawi has an agreement with the Government of Mozambique to undertake a feasibility study on the Shire-Zambezi Waterway. Funds for the study were secured from the African Development Bank. The process of procuring a consultant for this study is underway. The study is expected to be completed within the first quarter of the 2012/13 financial year. The Common Market for Eastern and Southern Africa (COMESA) and Southern Africa Development Community (SADC) Secretariats are coordinating this work.

5.4 Air Transport

Air transport continues to play a strategic role in the economy especially in the tourism sector. During the period under review, Air Malawi continued to face technical and financial problems. As a result, the performance of the airline was unsatisfactory. Its domestic and international services were severely affected. Meanwhile, Government is planning to improve the operations of the airline. Some of the strategies being considered include: seeking a strategic partner; restructuring; and capitalization of the airline.

The operation of foreign airlines was also affected by the foreign exchange shortages. This led to airlines not being able to remit revenues to their head offices abroad. Some airlines reacted by ceasing ticketing in the local currency. Others scaled down their operations: 10 to 5 frequencies for Kenya Airways; and 7 to 4 frequencies for Ethiopian Airlines. This resulted in reduced passenger numbers as well as reduced revenues for the Department of Civil Aviation.

Table 5.3 below shows the figures for passengers at Kamuzu and Chileka International Airports.

TABLE 5.3: PASSENGERS HANDLED AT CHILEKA AND KAMUZU INTERNATIONAL AIRPORTS

Year	Chileka International Airport	Kamuzu International Airport
2006/07	79,760	128,654
2007/08	85,239	146,900
2008/09	84,951	143,378
2009/10	68,423	136,377
2010/11	68,853	112,465
2011/12*	52,699*	87,560*

Source: Department of Civil Aviation

*Projections

In the 2011/12 financial year projects undertaken included: installation of navigation equipment at Kamuzu and Chileka International Airports; rehabilitation of Likoma and Karonga Airports; and the rehabilitation of the Kamuzu International Airport terminal building. The Chileka International Airport terminal building rehabilitation project continued in the period under review with the third phase to rehabilitate the international departure halls.

5.5 Rail Transport

Rail transport used to be the dominant mode for providing international traffic to and from Malawi and accounted for about 90 per cent of total international traffic. However, the civil war in Mozambique rendered the Nacala and Beira corridors dysfunctional. The country was forced to switch to expensive road transport.

Although the Nacala corridor continues to operate, the volume of traffic has reduced considerably to an average of 200,000 tonnes per year. This is as a result of loss of customer confidence to use the corridor. Government is in the process of reviewing the concession agreement for the operation of the Nacala rail line in order to improve performance.

In December 2011, the Government of Malawi and Vale Emirates signed a concession agreement on construction of a railway line from Moatize, Mozambique, through Chikhwawa, Malawi, to Nkaya and to rehabilitate Nkaya-Nayuchi line. The company will also rehabilitate the Nacala Port to handle a minimum of 5 million tonnes of general cargo for Malawi. Vale Emirates is a Brazilian company which has been awarded coal mining rights at Moatize in Mozambique. This investment is expected to reduce transport costs by almost 40 per cent. The total estimated cost of the project is about US$1 billion.

In the current financial year, Government allocated some resources for the rehabilitation of the rail line. In terms of the future plans in the rail sub-sector, Government will rehabilitate the existing operational railway line from Nkaya to Limbe; Balaka-Salima-Mchinji; and Limbe-Makhanga railway section and from Makhanga to Nsanje including the Chiromo Bridge.

5.6 Challenges

The main challenges faced by the transport sector are as follows:

i. There is shortage of financial resources and low cash flow, especially for projects that are 100 per cent funded by the Malawi Government;

ii. Most of the equipment and infrastructure that are critical to operational safety are obsolete and, therefore, require replacement;

iii. Shortage of fuel and foreign exchange affected the construction projects. This led to delays in completion of projects and additional costs for Government; and

iv. High construction costs in the country as compared to other countries within the region such as Ethiopia, Kenya, Uganda and Tanzania. The comparison shows that generally, road construction costs are on average 4 per cent higher than the average for neighbouring countries.

Chapter 6

MINING AND QUARRYING

6.1 Overview

This chapter reviews the performance of Malawi`s mineral sector in terms of mineral production, domestic and export sales, employment opportunities, and provides a synopsis of new mineral exploration and assessment of existing exploration projects which are underway, mineral licenses and mining investment opportunities currently available in the country.

6.2 Mineral Production

The following subsectors discuss details of mineral production during the period under review.

6.2.1 Coal

The Mchenga, Kaziwiziwi and Eland Coal Mine Companies have continued to be the sector's largest producers of almost 95 per cent of all coal production in Malawi. The companies have a combined maximum capacity of up to 10,000 metric tonnes of coal production per month when fully operational.

CPL-Mchenga Coal Mines which is located in the Livingstonia coal field has probable reserves of over 2-5 million tonnes and proven reserves of 4 million tonnes of coal with ash content of 17 per cent, a sulphur content of 0.5 per cent and a calorific value of 6,800 kcal/Kg. The company together with Kaziwiziwi and Eland Coal Mines continued to monopolize the supply of coal for the provision of energy for different production processes in the cement, tobacco, textile, brewery, food processing and ethanol industries. Besides mining, the three companies have all embarked on expansion projects by among other activities continuing with further exploration outside their current mining areas so as to increase their respective production capacities and meet the ever growing demand for coal.

Malawi has over 22 million tonnes of proven coal reserves in a number of coal fields across the country. In general, coal remains one of the most mined energy minerals in the country for industrial use. Coal production in 2011 registered an increase in production as compared to the preceding year owing to most of the existing mines maintaining their monthly productions rates due to continued high demands for the product. Eland and Kaziwiziwi Coal Mines have almost doubled their production to almost equal the production capacity of CPL-Mchenga Coal Mines which used to contribute almost 60 per cent of the country's coal production in the last five years. Mchenga Coal Mines Limited produced about 30 per cent of the total production followed by Kaziwiziwi Coal Mines and Eland Coal Mines with a contribution of about 29.7 per cent and 28 per cent of the total coal production, respectively. Almost 20 per cent of coal produced has been exported to Tanzania Cement factories by Eland Coal Mines. Most of the coal exported by the company was washed coal grit (processed and free from impurities) which fetched high market value than non washed coal.

6.2.2 Uranium Concentrates

The Kayerekera Uranium Mine which was commissioned in 2009 has remained the largest mining investment in the country. Since its inception as at the end of year 2011, the company had exported slightly over 1,726,731.8 kgs of uranium concentrates valued almost $245,051,203.8 (approximately MK 37.2 billion). The company has so far exported twenty one times in the year 2011 as compared to fifteen times the previous year. The whole of this consignment had been exported between January and December 2011 in twenty one different consignments to Canada for energy generation. The export of this consignment earned Malawi approximately MK309,892,232 in terms of royalties (calculated at 1.5 percent of the total gross value of exported consignment). The designed capacity of the company is to produce 3.3 million pounds (about 1,500 tonnes) of uranium concentrate (yellow cake) per year.

6.2.3 Cement Limestone

During 2011, another cement factory was opened. It is under construction in Chilipa, Mangochi by Cement Products Limited which is likely to start producing cement by 2013 under phase one of its project. Another cement factory in the pipeline is the Bwanje Cement Company to be located in Golomoti, Ntcheu-Dedza area. It is anticipated that the two operators will increase supply of locally manufactured cement and help to reduce the price of the commodity.

6.2.4 Gemstone (Precious and Semi Precious Stones)

The gemstone sector has continued to experience rapid improvement in production in 2011. Most of these gemstones are being exported to different parts of the world. Mzimba district remains the largest supplier of these gemstones followed by Chikhwawa and Ntcheu districts.

It has to be noted that these gemstones have been categorized into dimension stones or ornamental stones and precious or semi-precious stones. With the ornamental stones being dominated by rose quartz and agate mostly from Mzimba and Chikhwawa districts, respectively.

6.2.5 Agricultural, Calcitic and Hydrated Lime

Zalco, Lime-Co and Flouride companies are the largest producers of agriculture, hydrated and calcitic lime in the country with a combined production capacity of up to 3,500 metric tonnes of lime products per month. All the three companies increased their respective production capacity in 2011 as compared to their productions in the previous year. Demand for agriculture lime from the tobacco estates, poultry and paint industries remained robust from within the country. Production of hydrated lime was mostly dominated by medium to small scale operators like the Lirangwe Lime Makers Association, Balaka Lime Makers

Associations, among others. Mostly, these operators have increased their production capacity owing to overwhelming support they are getting from One Village One Product (OVOP) in terms of monetary and equipment assistance.

6.2.6 Rock Aggregate Production

The country has experienced increased production of rock aggregate during 2011. There are a total of 12 operating quarries for production of rock aggregate both at commercial and project level. Out of these only 6 are commercial quarries and the remaining 6 are project quarries. There has been an increase as a result of high demand for quarry stone as the country continues to experience an increase in the infrastructure development.

6.3 Employment Levels

During 2011, the mining and mineral industry has continued to generate substantial employment (directly and indirectly) in the country. By 2008 the coal mining companies used to be the largest employer in the mining sector. However, with recent developments taking place in the sector, there has been a tremendous increase in the levels of employment, especially at Kayerekera Uranium Mine alone which employs almost the same number of people working under all coal mining companies. It is also important to note that women account for only 10-15 percent of the workforce in the mineral sector. In 2011 the level of employment was as follows:

TABLE 6.1: FORMAL EMPLOYMENT IN THE MINING SECTOR BY 2011

Sub-Sector	*Workforce*
Coal	907
Uranium Mine	859
Cement Limestone	90
Agricultural,Calcitic and Hydrated Lime	1640
Quarry Aggregate production	12 030
Cement manufacturing	511
Gemstones/Mineral Specimens.	1260
Ornamental Stones	46
Terrazzo	1,340
Other Industrial Minerals	2144
Exploration activities	195
TOTAL	**21,022**

Source: Department of Mines

It is equally important to note that in Malawi, the number of people self-employed in the mining sector especially small scale operators may be slightly over 20 000 or more and it is generally difficult to get the actual number of small scale miners (SSM) and artisanal miners since most of these operate unregulated in remote areas and are scattered country wide. This also means that the actual production statistics from this sub-sector remains partial and to some extent unaccounted.

6.4 Export of Minerals

Export of minerals in 2011 by different mine operators continued to be dominated by coal, ornamental/dimension stones, gemstones, and uranium concentrates (yellow cake) as shown below. The overall value of all mineral exports by these various operators amounted to over MK18,553,024,827.2 (aprox. MK17.7 billion) in 2010 including uranium exports. Revenue generated by the Government through the Department of Mines between the period January to December 2011 amounted to MK 304,477,206 in terms of royalties, licence processing and ground fees. It should be noted that all fees were revised during the year.

TABLE 6.2: MINERAL EXPORTS

Exports	2009		2010		2011	
Type	*Quantity (tonnes)*	*Value (K'million)*	*Quantity (tonnes)*	*Value (K'million)*	*Quantity (tonnes)*	*Value (K'million)*
Coal	6,830	27,293,000	15,500	122,699,932	10,918	71,097,792
Uranium cake	58.58	2,967,000,000	726.008	17,246,053,165	887.78	18,459,958,000
Granulated Clay	4,830	41,036,098	1,020	5,353,000	NA	NA
Agriculture Lime					740	0.72
Dimension stones	167.8	3,927,600	435.9	13,861,901	238	10,397,083
Rock aggregate	8,285	21,955,250	9,946.22	25,433,028	7,093.55	11,571,951
Gemstones	186.95	215,458,905	122.967	372,859,987	NA	NA
Terrazzo	12 355	12.7	4,434	19,100,000	6.5	460,000
Rock/Soil samples	-	-	16.43	725,000.00	NA	NA

Source: Department of Mines

Notes:

- Coal was exported by Eland Coal Mines to Mbeya Cement Company And Gypsum Company in Tanzania.
- Granulated clay has continued to be exported to Mozambique and South Africa for fertilizer manufacturing by Optichem (2000) Ltd.
- Rock aggregate was exported to Chipata in Zambia for construction of a railway line.
- Uranium concentrates are being exported by Paladin (Africa) Ltd to Canada.
- Gemstones continue to be exported to various parts of the world like India, Indonesia, Malaysia, South Africa, China, U.S.A, Italy, UK etc.

The average price of the minerals vary per individual operator/producer depending on quality or grade of mineral and their respective production costs since the country does not have fixed prices for particular minerals. The average price of uranium concentrate is around $66-$70 per pound.

6.5 New Mining Operations and Licences.

In 2011, Government granted various licenses to prospective mining companies and individuals as follows:

TABLE 6.3: NEW MINING AND PROSPECTING LICENCES ISSUED IN 2011

Type of Licence	*Number issued*	*Mineral (s)*
Small Scale Operators		
Non-Exclusive Prospecting Licence	76	Gemstones,Ornamental stones
Mining Claim Licence	58	Gemstone,Ornamental stones
Reserved Minerals Licence	36	Gemstones,Ornamental stones
Large-Medium Scale Operators		
Exclusive Prospecting Licence	35	Uranium, Heavy mineral sands, Base metals and Platinum Group Metals, Limestone,Gypsum, Iron ore, Glass sands.
Mining Licence	9	Quarry aggregate, heavy mineral sands,limestone, Rare earth minerals.
Reconnaissance Licence	0	

Source: Department of Mines

6.6 Mining Investment Opportunities

During the year under review, a number of companies, both local and foreign, have vigorously continued to actively pursue intensive exploration for different minerals in various parts of the country. The minerals being pursued include heavy mineral sands, platinum group metals (PGMs), base metals, rare earth elements, coal and bauxite, among other minerals. Generally the year 2011 has experienced a boom in mining exploration activities compared to 2010 with a number of companies both local and foreign acquiring new exploration areas. The major projects in the pipeline being undertaken are the Kanyika multi-commodity project in Mzimba, the two cement factories: Bwanje Cement Company and Cement Products Limited at Golomoti and Mangochi respectively.

6.6.1 The Kanyika Project

During the year 2011, Globe Metals and Mining embarked on intensive public consultations with different stakeholders and the local community around the project area to update them on the progress of the project which is at an advanced level of Environmental Impact Assessment (EIA). Globe Metals & Mining, an Australian company has recently partnered with Chinese Company after their partnership with a South African company named Thuthuka Group was terminated due to other reasons. The Kanyika project is still expected to kick start mining niobium at Kanyika in Mzimba district by the year 2013, in a project likely to start at a value of around $220 million. The company has continued to undertake the Bankable Feasibility Study (BFS) in order to come up with a bankable project plan. The BFS which will also assist the company to come up with mine design and construction phase is estimated to cost around 10-20 million dollars on both BFS and EIA.

The project, with an estimated deposit of around 50 million tonnes of the multi commodity minerals, could earn Malawi in excess of US$100 million in foreign currency per annum which, if added to the Kayerekera Uranium project could provide a big boost to the country's foreign exchange earnings.

Overall, this project is expected to be the largest mining project after the Kayerekera project as it will involve processing of four different mineral products unlike the Kayerekera which is mainly uranium production.

TABLE 6.4: MINING PROJECTS AT BANKABLE FEASIBILITY STUDY STAGE

Company	*Minerals Mined*	*District*	*Country of Origin*
The Kanyika Project (Globe Metals & Mining)	Niobium, Uranium, Zircon and Tantalite	Mzimba	Australia
The Bwanje Cement Project (Deco)	Limestone	Ntcheu/Dedza	Malawi
Lynas Corporation	Rare earth elements	Kangankunde, Balaka	Australia
Tengani Titanium Minerals Ltd	Heavy mineral sands	Tengani, Nsanje	Malawi

Source: Department of Mines

TABLE 6.5: MINING PROJECTS UNDER CONSTRUCTION STAGE

Company	*Minerals Mined*	*District*	*Country of Origin*
Cement Products Ltd	Limestone for cement manufacturing	Mangochi	Malawian

Source: Department of Mines

TABLE 6.6: KNOWN MINERAL DEPOSITS, RESERVES AND GRADE

Deposit	*Location*	*Delianation Reserves (Million tones/grade)*
Bauxite	Mulanje	28.8/43.9% Al2O3
Uranium	Kayelekera	12,5/0.15% Ur3O8
Monazite/Strontianite	Kangankhunde Karonga/Chitipa	
Corundum	Chimwadzulu-Ntcheu	11.0/8% Sr and 2% REO
Graphic	Katengeza-Dowa	8.0/75.6gm per m3
Limestone	Malowa Hill-Bwanje Chenkumbi-Balaka	15/48% CaO, 1.2% MgO 10/46.1% CaO, 3.5% MgO
Titanium Heavy Mineral	Nkhotakota-Salima	700/5.6% HMS
Sands	Chipoka, Mangochi Halala (Lake Chilwa)	680/6.0% HMS 15/6.0 % HMS
Vermiculite	Feremu-Mwanza	2.5/4.9% (Med+Fine)
Coal	Mwabvi-Nsanje Ngana-Karonga	4.7/30% ash 15/21.2% ash
Phosphate	Tundulu-Phalombe	2.017% P2O5
Pyrite	Chisepo-Dowa	34/8% S
	Malingunde-Lilongwe	10/12% S
Glass Sands	Mchinji Dambos	1.6/97% SiO2
Dimension Stone	Chitipa, Mzimba	Blue, Black, Pink, Green
	Mangochi, Mchinji,Chitipa	Granite
Gemstones	Mzimba, Nsanje, Chitipa Chikwawa, Rumphi, Ntcheu	Numerous pegmatites and volcanics

Source: Geological Surveys Bulletins and Private Companies Mineral Exploration Reports

Chapter 7

ENERGY SECTOR

7.0 Overview

This chapter reviews the performance of the Energy Sector during the 2011/2012 financial year. In particular, it examines performance in the electricity, petroleum, coal and biomass sub-sectors and various renewable energy programmes. Issues of electricity, Malawi Rural Electrification Programme (MAREP), petroleum, promotion of alternative energy sources project, new and renewable energy sources, clean energy technologies, coal and energy planning and modeling were high on the energy sector agenda.

7.1 Electricity

In the period under review, Electricity Supply Commission of Malawi (ESCOM) sold 1,585.13 GWh of electricity compared to 1,463.50 GWh in the same period of the previous year. This represents 8.3 percent increase in units sold. The number of registered consumers grew by 8.3 percent from 196,780 in 2010 to 213,022.00 in 2011. The installed capacity for the interconnected system during 2011 was 287MW (see Table 7.1).

TABLE 7.1: ELECTRICITY GENERATION AND CONSUMPTION (2003-2011)

YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011
Installed Hydro Capacity (MW)	284.5	284.6	284.5	284.5	285	285	285	286	287
Maximum (Peak) Demand (MW)	212.3	212.5	232	242	251.03	241.88	256.67	273.01	277.75
Energy generation (GWh)	1,177.40	1,179.30	1,703	1,390.80	1,453.00	1,543.00	1,661.32	1,822.20	1,887.70
Number of Consumers	120,172	128,396	155,589	163,147	164,795.00	172,924.00	189,166.00	196,780.00	213,022.00
Consumption Domestic (GWh)	304	308	377	417.3	437.54	456.63	516.1	578.28	640.46
General (GWh)	146	149	180	185.3	196.49	218.16	225.15	217.66	221.41
Power Demand (GWh)	480.6	483.4	491	503.3	-	521.9	584.27	646.36	708.45
Export (GWh) 6.5	6.5	7	10.6	17.4	21.93	16.35	21.2	21.2	
Total Consumption GWh)	937.6	992.8	1055	1,076.50	1,109.52	1,218.59	1,341.87	1,463.50	1,585.13

Source: ESCOM Ltd.

7.1.1 Demand Analysis and Planned Projects

In the period under review, the sector continued to monitor the base scenario of the power demand forecast carried out in August 2008. According to the study, generation requirements were estimated to increase to 408MW in 2010 and 829MW in 2020 respectively. The growth rates captured by the study are generally higher in the second decade due to higher long-term economic growth rates (see Table 7.2).

TABLE 7.2: FORECAST ENERGY AND POWER DEMAND

	Energy and Power				*Average growth rate (% p.a.)*		
Item	2008	2010	2015	2020	2008-2010	2010-2020	2008-2020
Domestic (GWh)	456.63	548.86	827.77	1170.40	8.04	8.10	7.91
General (GWh)	218.16	266.32	409.63	563.60	10.36	7.60	8.19
Small Power (GWh)	226.87	271.50	402.60	566.24	8.01	7.53	7.58
Large Power (GWh)	295.03	364.00	576.07	827.33	6.98	8.84	8.20
Export (GWh)	21.93	33.24	53.54	86.22	27.23	10.00	13.98
Total Sales (GWh)	1218.59	1483.93	2269.61	3213.79	8.40	8.04	8.12
Works units (GWh)	6.31	6.77	10.94	16.10	8.30	8.20	8.12
Losses (GWh)	325	315	189.81	268.77	5.36	6.30	6.29
Generation (GWh)	1543	1662.39	2712.86	3842.05	7.96	7.88	7.85
Peak Load (MW)	242	317.82	474.52	671.93	8.62	7.91	7.97
Step Loads (MW)	4.15	25.6	37.1	37.1	187	7	32
Reserve Margin (MW)	29	37	55	75	10	10	10
Generation Requirements (MW)	324	408	603	829	12.13	7.52	8.00

Source: ESCOM Ltd.

The study further indicated that domestic, general and small power consumers have high growth rates of 8.04 percent, 10.36 percent and 8.01 percent, respectively, in the period 2008-2010. This is explained by the very high GDP growth rates used as proxies for the income levels of these consumer categories.

Based on the demand forecast, the study revealed that some impetus in electricity demand will emanate from continued expansion of mining, irrigation and telecommunications activities owing to the prioritization of the mining sector, food security and popularity of mobile phones, and a modest expansion in government spending. Inter-tariff subsidies and the on-going tax reforms will increase disposable incomes of the domestic/general sector, which should result in higher appliance ownership and therefore high electricity consumption by this category. The power demand forecast also shows that with the present total installed capacity of 287MW, ESCOM is currently not able to meet demand and the desired reserve margin. Therefore, there is urgent need for capacity additions. With the projected peak demand of 408MW, 603MW and 829MW for years 2010, 2015 and 2020 respectively, the generation capacity of the country needs to be increased accordingly in order to meet the projected demand and the reserve margin.

In an effort to meet the projected demand in the country, the Government is undertaking hydropower plant feasibility studies at Chasombo and Chizuma. The studies are underway and the preliminary results show that it is both feasible and economically viable to generate hydropower from these sites. In addition to this, with regard to Kapichira Phase II, installation of turbine machines which will generate 64MW at Kapichira is underway and the contractor is on site. Manufacturing of turbines is being done in China. The project is expected to be commissioned in August 2013.

7.1.2 Energy Saver Bulbs

The Government of Malawi (GoM), through the Ministry of Energy and Mining is implementing an Energy Efficient Lighting Project (EELP) with the aim of reducing the evening system peak demand. The Ministry of Energy and Mining (MEM) is the Executing Agency (EA) of the project while ESCOM Ltd. is the Implementing Agency (IA).

The project involves procurement of 2 million energy saver bulbs of which 1.3 million bulbs will be distributed nationwide for free to residential customers, small enterprises and public buildings. This will be by direct replacement of existing incandescent bulbs (IBs) with energy saver bulbs. Commercial and industrial customers will be required to purchase the remaining 700,000 energy saver bulbs at subsidised prices via retail outlets owned by Malawi Post Corporation (MPC), Farmers World and Rab Processors.

A maximum of 6 energy saver bulbs will be installed per house by electrical contractors hired by ESCOM Ltd. It is anticipated that if all the bulbs are fixed and used accordingly, about 50 megawatts of electricity will be saved. This will result in reduction in blackouts/load shedding, and will enable ESCOM to connect some more customers who have been on the waiting list for some time.

The project is supported by the UK Government's Department for International Development (DFID) the tune of £3million.

In the period under review, a total of 263, 578 energy saver bulbs have been installed in 9 townships in Blantyre saving about 8 MW (which is equivalent to generation capacity of one unit of Nkula A Hydropower Plant). At the time of reporting, the installation works are expected to commence in Lilongwe and Mzuzu.

7.1.3 Energy Sector Support Project

In an effort to increase the reliability and quality of electricity supply in the major load centres in Malawi, with support from World Bank (WB), Government started implementing the Energy Sector Support Project. The project intends to achieve this objective by strengthening the existing electricity network, performing generation and transmission feasibility studies for hydro power improvements, improving demand side management and energy efficiency measures and building capacity of the energy sub sector through, among others, technical assistance.

In connection to Electricity Network Strengthening and Expansion (ENSE), in the period under review, Automatic Meter Reading (AMR), and training school, terms of referencce (TORs) to engage an individual consultant to assist ESCOM to design and manage the AMR were prepared, and endorsed by the WB. Following this, a request for an expression of interest (EOI) was also prepared and endorsed by the Bank and has since been placed in the paper. ESCOM is now at the stage of requesting for proposals (RFP) for this assignment.

With regard to Generation and Transmission Feasibility and Design Studies, in the period under review, ESCOM and MoNREE prepared Fufu, Mpatamanga, Chimgonda and the Lilongwe to Karonga Backbone Transmission lines feasibility study TORs including EOIs for the Transmission Line and Fufu feasibility studies. The Backbone Transmission lines and Fufu TORs and EOIs have since been reviewed and endorsed by the Bank. For the Backbone Transmission Line, the EOIs have been advertised in the paper and ESCOM is at RFP stage.

While for Demand Side Management and Energy Efficiency Measures, during the same period, TORs for engaging a consultant to help ESCOM undertake improvements in the existing network particularly improving the performance of hot water geysers, TORs were prepared and endorsed by the Bank. In this respect, a request for an EOI was also prepared, endorsed by the Bank and advertised in the paper.

In addition to this, TORs for the geothermal feasibility studies were prepared and submitted to the Bank for its review to facilitate identification of at least two sites with geothermal potential and determine the technical and economic soundness of these two sites. Government also prepared TORs for wind feasibility studies which have since been endorsed by the Bank and the MEM has prepared EOIs. The EOIs are still under review by the Bank.

7.1.4 Electricity Tariff Developments

A tariff study for ESCOM was commissioned in 2003 and the final report was presented to Government in July 2005. The study, among other factors had to derive a tariff structure, which removes the current distortions caused by non-uniform tariff increases for various consumer categories. The study further required deriving a tariff structure that reflects the cost of supply as well as tariffs for generation, transmission and distribution, in line with Government's policy of restructuring the electricity industry. The tariffs that were determined are based on Long Run Marginal Cost (LRMC), ESCOM's revenue requirements and national social objectives.

Since there were delays in implementing the tariff study, ESCOM reviewed the tariff study and modified some of the recommendations to take into account new requirements. Following this review, ESCOM applied to Government through the Malawi Energy Regulatory Authority (MERA) for an upward adjustment of the tariff of 54.1 percent over the four-year period from July 2009 to June 2013. However, Government approved average tariff increase of 56.2 per cent; translating into a total budget of MK67 billion. This means a tariff adjustment from the average of K6.01/KWh to K9.36/KWh. The implementation of the tariff was phased and spread over the first two years. The first increase of 36 percent was implemented with effect from 1st December, 2009. Government implemented the remaining 20.2 percent with effect from 1st December, 2010.

In the period under review, electricity tariffs were adjusted upwards by 63.5 percent across all customer categories on 11th May 2012. From this date, the new rates became effective.

7.1.5 Malawi Rural Electrification Programme (MAREP)

The MAREP started in 1980 with ESCOM as the implementing agency through donor and own financing. Later on Government took over implementation of the programme in 1995 and MEM through Department of Energy was appointed as the implementing agent. The objective of MAREP is to increase access of electricity to people in peri-urban and rural areas as part of Government's effort to reduce poverty, transform rural economies, improve productivity and improve the quality of social services.

The programme is executed in Phases. Since MAREP inception, five phases have been implemented which involved extending power transmission and distribution lines to district administration centres, major trading centres, tobacco growing areas, and the development of the 4.5 Mega Watt Wovwe Hydro Power Plant.

The GoM is currently implementing MAREP Phase VI, which targeted to electrify 54 trading centres (two in each district except Likoma which is fully electrified, see Table 7.3).

TABLE 7.3: MAREP PHASE VI TARGETED TRADING CENTRES

District	*Name of Trading Centre*	*District*	*Name of Trading Centre*
Chitipa	Kameme Ifumbo	Balaka	Kwitanda Phimbi
Karonga	Mulare Miyombo	Mangochi	Chilipa Katuli
Rumphi	Katowo Ng'onga	Machinga	Nampeya Ngokwe
Nkhatabay	Kavuzi Usisya	Neno	Neno mission Luwani
Mzimba	Eswazini Luwerezi	Mwanza	Thambani Kalanga
Kasungu	Mpepa Kaphaizi	Blantyre	Chikuli Dziwe
Nkhotakota	Msenjere Benga	Zomba	Sunuzi Zaone

District	*Name of Trading Centre*	*District*	*Name of Trading Centre*
Salima	Kandulu Khwidzi	Chiladzulu	Chimwawa Chitela
Dowa	Bowe Thonje	Thyolo	Mlenga Lalakani
Ntchisi	Nthesa Kamsonga	Mulanje	Chinyama Chimbalanga
Lilongwe	Kasiya Msambo	Phalombe	Nambazo Mulomba
Mchinji	Mkanda Mikundi	Chikwawa	Mitondo Kunyinda
Dedza	Kabwazi Chimoto	Nsanje	Masenjere Kamphata
Ntcheu	Kasinje Kadzakalowa		

Source: Department of Energy

In the period under review, thirty nine trading centers have been connected to electricity. Construction works is in progress in the remaining fifteen trading centers. MAREP Phase Six is fully financed by the Malawi Rural Electrification Fund at the tune of MK 2.2 billion. Procurement of materials for MAREP Phase Seven which is expected to electrify 81 trading centres has been initiated and is yet to start in July 2012.

TABLE 7.4: MAREP PHASE SEVEN TARGETED TRADING CENTRES

Northern Region

No.	*District Name*	*No.*	*Targeted T.C. Name*
1	Chitipa	1 2 3	Kapenda Kapirinkhonde Therere
2	Karonga	4 5 6	Mwaulambo Khwawa Lupaso
3	Rumphi	7 8 9	Mphompha Kamphenda Nkhozo
4	Mzimba	10 11 12	Buhera Kazuni Kalowa
5	Nkhatabay	13 14 15	Kaloga Maula Khondowe

Central Region

No.	*District Name*	*No.*	*Targeted T.C. Name*
1	Kasungu	16	Gogode
		17	Kamboni
		18	Kakwera
2	Nkhotakota	19	Liwaladzi
		20	Mpamatha
		21	Ntosa
3	Ntchisi	22	Chinguluwe
		23	Kangorwa
		24	Kangolusa
4	Dowa	25	Kayembe
		26	Kasuntha
		27	Chisefulo
5	Salima	28	Chagunda
		29	Pemba
		30	Siyasiya
6	Lilongwe	31	Chiunjiza
		32	Chadza
		33	Santhe
7	Mchinji	34	Nkhwazi
		35	Gumba
		36	Zulu
8	Dedza	37	Magomero
		38	Mganja
		39	Kanyama
9	Ntcheu	40	Bilira
		41	Njolomole
		42	Kaloga

Southern Region

No.	*District Name*	*No.*	*Targeted T.C. Name*
1	Blantyre	43	Madziabango
		44	Mitsidi
		45	Linjidzi
2	Chiradzulu	46	Muyere
		47	Khonjeni
		48	Mauwa

No.	*District Name*	*No.*	*Targeted T.C. Name*
3	Thyolo	49	Gombe
		50	Chiromo
		51	Mankhamba
4	Mulanje	52	Mithande
		53	Sozola
		54	Mpholiwa
5	Phalombe	55	Nyedzelera
		56	Chitekesa
		57	Likanani
6	Chikwawa	58	Kakoma
		59	Nkumaniza
		60	Gumbwa
7	Nsanje	61	Sankhulani
		62	Lulwe
		63	Kaloga
8	Mangochi	64	Nkumba
		65	Chiponde
		66	Malombe
9	Balaka	67	Khwisa
		67	Nsimuke
		69	Nandumbo
10	Machinga	70	Malundani
		71	Likhonyowa
		72	Ngwepere
11	Zomba	73	Masaula
		74	Ngwelero
		75	Mateketa
12	Mwanza	76	Kasuza
		77	Njanjama/Thawale
		78	Chidowole
13	Neno	79	Nsambi
		80	Kanono
		81	Mizemba

Source: Department of Energy

7.2 Petroleum

7.2.1 Fuel Importation

Generally, imports of petroleum products during 2011/12 financial year slightly increased by 2 per cent above that of last year. The importation of petrol and diesel increased by 4 per cent, and 2 per cent respectively above that of last year while Paraffin decreased by 4 per cent below that of last year. Despite the foreign exchange shortage challenge which affected fuel importation, the decrease in importation of petroleum products was largely due to sorting out of logistical problems that were there previously. Additionally, paraffin imports decreased due to scarcity of paraffin of the required standard 38˚ flash point on the international market. Intermittent supply of paraffin due to contamination also contributed to the decrease in paraffin imports. However, there has been an increased demand for the imported fuel due to expanded base of socio-economic activities.

TABLE 7.5: FUEL IMPORTS (LITRES) 1999 – 2011

Year	*Petrol*	*Diesel*	*Jet a-1*	*Paraffin*	*Avgas*	*Total*
1999	91,797,272	130,545,103	1,639,326	46,413,088	-	270,394,789
2000	84,896,135	124,905,868	7,238,749	31,397,224	107,269	248,545,245
2001	81,039387	125,106,968	8,800,186	18,921,235	356,926	234,224,702
2002	88,329,685	127,157,516	6,417,316	20,955,949	201,917	243,062,383
2003	92,976,658	136,408,597	11,911,286	23,652,991	213,898	253,038.246
2004	94,186,321	147,922,241	10,862,036	24,762,093	284,286	266,870,655
2005	84,023,978	152,664,646	9,267,805	21,838,787	235,537	258,527,411
2006	88,330,024	153,235,938	11,764,101	20,310,207	224,682	259,158,172
2007	91,289,689	167,120,445	13,001,437	18,232,957	259,393	289,903,921
2008	103,003,788	199,251,252	13,261,288	17,957,471	268,978	333,742,777
2009	112,236,705	203,302,459	9,758,855	13,916,949	254,470	339,469,438
2010	101,173,574	186,539,556	11,710,626	10,639,538	318,087.5	310,381,382
2011	104,825,891	189,983,124	12,838,968	10,254,955	126,422	318,029,360

Source: Malawi Energy Regulatory Authority (MERA)

Malawi capitalized on the Beira, Nacala, Dar-es-Salaam and Mbeya routes for procurement of fuel in 2011. Based on the figures provided in Table 5, about 67.32 per cent of fuel imports were procured through Beira, 20.40 per cent through Dar-es-Salaam, 6.92 per cent through Nacala and 5.35 per cent through Mbeya.

TABLE 7.6: MALAWI FUEL IMPORTS PER ROUTE 1999 – 2011

	ROUTES					
Year	*Beira*	*Nacala*	*Dar-es-Salaam*	*Mbeya*	*Gweru*	*Total*
2000	126,761,107	42,149,779	51,806,647	20,481,694	-	41,199,227
2001	130,585,831	16,134,199	66,135,812	21,368,860	-	234,224,702
2002	130,763,489	10,140,307	77,013,269	28,879,927	-	246,796,992
2003	158,652,734	35,988,318	39,857,111	31,998,208	1,065,575	267,561,946
2004	160,122,393	37,361,892	37,361,892	32,024,478	-	266,870,655
2005	182,861,911	6,862,335	43,545,416	25,257,749	-	258,527,411
2006	88,508,579	2,717,997	53,336,864	14,594,732	-	59,158,172
2007	197,009,678	1,164,019	60,113,735	18,355,659	-	276,643,091
2008	214,596,975	20,687,513	56,618,685	28,309,338		320,212,511
2009	198,528,097	43,640,049	86,011,524	1,276,443	-	329,456,113
2010	211,143,990	21,708,391	42,803,344	22,296,943	-	298,352,668
2011	167,765,872	17,240,701	50,845,869	13,343,270	0	249,195,712

Source: Malawi Energy Regulatory Authority (MERA)

7.2.2 Petroleum Pricing

Since the establishment of MERA in December 2007, all energy pricing activities are handled by Energy Pricing Committee of MERA as per the requirement in the Energy Laws. For Petroleum Pricing, the Automatic Pricing introduced in 2000 continues to be the main principle behind fuel pricing. This system links pump prices to procurement costs and exchange rate movements with a ±5 per cent trigger band. The formula is managed under a multi-sector Petroleum Pricing Committee (PPC), which meets once every month to assess changes in the agreed parameters that constitute the In-Bond Landed Cost (IBLC) and the value of the Malawi Kwacha against the US Dollar. On a number of occasions, Government has suspended the principles of automatic pricing and opted to manage the price structure in a way that minimizes the impact of the fuel price increase on the economy as well as to recover import losses due to the loss in value of the Malawi Kwacha against the US Dollar and the high prices of fuel at the international market.

In the period under review price adjustments were effected on all petroleum products. For instance, one litre of petrol rose by 28.94 per cent while diesel increased by 31.94 percent (see Table 7.7).

TABLE 7.7: PUMP PRICE REVISIONS FROM 2007-2012 (MK/LITRE)

Product	*Sept. 2007*	*Jan. 2008*	*June 2008*	*Feb. 2009*	*Feb. 2010*	*Nov. 2011*	*May 2012*
Petrol	200.90	200.90	251.20	213.50	256.20	380.00	490.00
Diesel	186.61	187.60	234.50	199.30	231.20	360.00	475.00
Paraffin	140.0	132.20	165.30	132.20	199.00	171.00	171.00

Source: Malawi Energy Regulatory Authority (MERA)

7.3 Promotion of Alternative and Renewable Energy Sources

The MEM identified 13 alternative and renewable energy sources for promotion as shown in Table 7.8 below:

TABLE 7.8: SELECTED ALTERNATIVE AND RENEWABLE ENERGY SOURCES

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

Source: Department of Energy

The Ministry is currently concentrating on promotion of two viable and market-ready alternative energy sources to charcoal and firewood, namely biomass briquettes and biogas. These technologies are being promoted in Lilongwe, Blantyre, Zomba, Mzuzu, Dedza, Ntcheu, Balaka and Liwonde. Since 2007 when

MEM vigorously started promoting briquette technology, approximately 400 briquette producers, 100 briquette stove producers, 230 ceramic liner producers have been trained, and 20 briquette production centres, 24 briquette stove production centres and 7 ceramic liner production centres have been established.

In the period under review, it was noted that there is slow uptake of the briquette technology owing to a number of factors which include group dynamics. In view of this, MEM decided to change strategy. It started working with entrepreneurs with financial muscle and who would take briquette production as a business venture. Hence a total of 9 entrepreneurs were identified in Dedza, Ntcheu, Balaka and Liwonde to produce and market briquettes and the associated stoves in order to complement production by the groups.

On average, a Malawian household can use 15 briquettes for cooking and heating per day, and each briquette costs about K5 which translates to K2, 225 in a month – and this is relatively cheap compared to using charcoal which, on average, costs a household K3, 000 per month.

7.3.1 Biogas Production and Utilization

In an effort to promote usage of biogas technology for energy production, the sector planned to construct 3 pilot biogas plants for demonstration purposes. After successful demonstrations, more biogas plants in 38 villages across the country will be constructed as follows:15 villages in the Southern Region; 15 villages in Central Region and 8 villages in the Northern Region.

It was planned that the pilot plants would target dairy cattle farmers who are already stall feeding their animals. United Nations Development Programme (UNDP) would fund construction of the three biogas demonstration plants and work would be done through contractors. The other plants will be funded by ORT.

In the period under review, three sites for the pilot plants have already been identified. Procurement process of the contractor is underway.

7.3.2. Clean Fuels Initiatives

The sector has been working with the Malawi Bureau of Standards (MBS) to come up with Biofuels Standards. UNDP provided resources for the development of these standards. Biofuels Standards have been produced and have been approved by the Standards Board. It is expected that once gazetted, Malawi will have its own Biofuels Standards to guide investors in biofuels.

In the period under review, MEM in collaboration with the Malawi Bureau of Standards (MBS) developed biodiesel and bio-oil (vegetable oil) which are now completed and in force.

7.3.3 Coal

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

Industries such as the sugar, brewing, textile, ethanol, cement, tea and tobacco and other large public institutions such as prisons and hospitals are the main users of Malawi coal. Due to a number of reasons, which include unavailability of appropriate cooking devices; lack of proper information on use of coal as an alternative domestic energy source; and the cost of coal compared to firewood and charcoal, coal is not used as a domestic fuel. Current production of coal is about 50 per cent of the national demand of about 140,000 metric tonnes per annum.

In 2009/2010, the GoM started implementing a coal fired power generation project with own funding. So far, the procurement process of the consultant to undertake a coal quantification exercise is underway.

7.4 Energy Planning with Support from IAEA

As a member of International Atomic Energy Agency (IAEA), Malawi was required to prepare a Country Programme Framework under the Technical Cooperation Programme to establish national capacity for effective and robust energy planning. The technical cooperation activities with Malawi are focusing on strengthening national capability for energy planning.

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

The approach and methods proposed for these activities include national and regional trainings on energy balance compilation using two IAEA tools called Model for the Analysis of Energy Demand (MAED) designed to assess energy demand and projection; and Model for Energy Supply System Alternatives and their General Environment (MESSAGE) which develops energy supply optimization by calculating a cheapest feasible energy investment plan to satisfy the given energy demand. Using MAED model, electricity peak demand was projected to be: 700 MW in 2015, 1237 MW in 2020, 2141 MW in 2025 and 3622 MW in 2030.

In the period under review, two training sessions one on MESSAGE model and the second on modelling interconnections in the Southern Region of Africa Power Pool were conducted. About twenty six participants attended the MESSAGE training. Ten participants attended the second training. A draft country report using MESSAGE was produced. The preliminary results obtained using the MESSAGE model were presented to various stakeholders. The results show that, in the short-term, Malawi should promote usage of energy saver bulbs, interconnect with the neighbouring countries and finalise Kapichira Phase II while in the medium-term, the country should develop coal-fired power plant, construct new hydropower plants on Shire River and Bua Rivers in order to meet the projected peak electricity demand. In the long-term, the country should, among others, develop hydropower plants on Songwe River- joint project with the United Republic of Tanzania. MEM is in the process of finalising and publishing the results from the two studies.

Chapter 8

TRADE AND PRIVATE SECTOR DEVELOPMENT

8.1 Overview

This chapter reviews the performance and highlights of some of the major achievements of the trade and private sector development in Malawi during the 2011/12 Financial Year (FY) as well as providing some prospects for 2012/13 FY.

Government, through the Ministry of Industry and Trade, encourages economic development and improvement of people's livelihoods through facilitation of commerce, investment, industry, entrepreneurship and the protection of consumers. This report summarizes performance in trade, industry and private sector development in contributing to sustainable economic growth.

8.2 Trade Performance

The overall external trade indicates that exports and imports have both increased. During the period under review, total merchandize exports registered an increase estimated at 38.0 per cent. The total export value in 2011 was MK223.4 billion, while in 2010 exports recorded MK161.9 billion. In 2011, Malawi imported merchandize goods worth MK330.1 billion compared to MK283.1 billion in 2010.

Trade balance gap registered an improvement. According to external trade statistics as indicated in Table 8.1, the country registered a trade deficit estimated at MK107.9 billion while that of the previous period was MK121.9 billion.

TABLE 8.1: EXPORTS AND IMPORTS, 2006-2011 IN MILLIONS OF KWACHA

INDICATOR	2008	2009	2010	2011*
Exports of Goods, fob	134,049.7	167,913.3	161,891.5	223,369.6
Imports of Goods, fob	209,980.1	221,841.6	283,112.0	330,129.4
Trade Balance	(76,395.0)	(54,318.5)	(121,888.4)	(107,889.2)

Source: NSO
* Provisional data

8.3 Direction of Trade

The Southern Africa Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), the European Union (EU) and the Asian countries continue to be the major trading partners for Malawi.

The major destinations of Malawi's exports in 2011 were COMESA, EU and SADC, respectively. Malawi exported goods worth MK79.3 billion to COMESA countries. The EU and SADC came second and third, represented by merchandize exports worth MK65.1 billion and MK56.2 billion, respectively. The main imports were sourced from SADC and Asian countries. The total imports from

SADC region were MK146.9 billion and fuel was the most imported item worth MK33.5 billion which is equivalent to 8.8 per cent of all imported commodities.

TABLE 8.2: MALAWI'S TRADE WITH SADC, COMESA AND EU, 2006-2011 IN MILLIONS OF KWACHA

	2006	2007	2008	2009	2010	2011
SADC						
Total Exports	28,459	27,167	27,353	49,900	31,060	56,200
Total Imports	98,467	108,936	190,810	134,654	138,270	146,900
Trade Balance	-70,009	-81,769	-163,457	-84,754	-107,210	-90,700
COMESA						
Total Exports	10,513	15,021	11,296	30,300	32,885	79,300
Total Imports	16,454	18,013	27,282	32,700	35,311	35,600
Trade Balance	-5,941	-2,992	-15,986	-2,400	-2,426	43,700
EU						
Total Exports	35,082	44,567	52,695	74,100	57,348	65,100
Total Imports	24,389	27,196	34,538	42,400	44,209	47,800
Trade Balance	10,694	17,371	18,157	31,700	13,139	17,300

Source: NSO

Tables 8.3A and 8.3B depict ten key export and import markets for Malawi during the period under review. The exports are also presented as a per cent of world imports. Canada (5.2 per cent), Zimbabwe (5.0 per cent), South Africa (4.8 per cent) United Kingdom (4.5 per cent), Belgium (3.8 per cent) were among the top destinations of Malawi's merchandize exports. While the top sources of imports include South Africa (25 per cent), India (11.5 per cent), China (9.3 per cent) United States (5.3 per cent), United Arab Emirates (4.7 per cent), and Zambia (4.5 per cent).

TABLE 8.3A: TOP TEN DESTINATIONS OF MALAWI'S EXPORTS IN 2011, IN MILLIONS OF KWACHA

Countries	Values (MK)	Per Cent of World Imports (%)
Canada	19,726	*5.2*
Zimbabwe	19,179	*5.0*
South Africa	18,112	*4.8*
United Kingdom	17,153	*4.5*
Belgium	14,632	*3.8*
United States	11,861	*3.1*
Kenya	11,564	*3.0*
Egypt	9,868	*2.6*
China	9,031	*2.4*
Spain	8,333	*2.2*

Source: NSO and Ministry of Industry and Trade

TABLE 8.3B: MALAWI'S TOP TEN SOURCES OF IMPORTS DURING 2011 IN MILLIONS OF KWACHA

Countries	*Values (MK)*	*Per Cent of World Exports (%)*
South Africa	95,120	25.0
India	43,907	11.5
China	35,252	9.3
United States	20,065	5.3
United Arab Emirates	17,789	4.7
Zambia	17,328	4.5
United Kingdom	12,974	3.4
Tanzania	11,801	3.1
Netherlands	9,476	2.5
Kenya	9,459	2.5

Source: NSO and Ministry of Industry and Trade

8.3.1 Main Export and Import Products in 2011

The main commodities exported during the period under review included tobacco, sugar, ores-slag and ash, cereals, tea and coffee, cotton as well as oil seeds (nuts and beans) as indicated in Table 8.4. The top most export product was tobacco worth MK88.9 billion representing 40 per cent of the total export to the world. It is worth noting that Malawi continues to rely on imported commodities such as fuel which amounted to MK33.5 billion. Other major commodities which dominated the import basket include fertilizer, pharmaceuticals, vehicles and spare parts.

TABLE 8.4: MALAWI'S MAIN EXPORT COMMODITIES, 2006-2011 IN MILLIONS OF KWACHA

Products	2006	2007	2008	2009	2010	2011
Tobacco	54,810.3	51,729.6	82,917.0	106,602.0	87,490.0	91,612.0
Sugar	5,191.1	8,227.9	7,341.3	9,635.0	10,371.0	33,945.0
Ores Slag & Ash	-	-	-	-	-	19,538.3
Cereals	-	-	-	-	-	14,989.2
Tea and Coffee	6,716.6	7,796.6	5,395.1	9,936.7	12,360.2	14,858.7
Cotton	1,832.7	3,515.4	3,070.3	2,612.0	2,478.0	7,704.0
Nuts	3,172.5	3,346.8	1,502.8	3,446.2	2,424.0	5,419.3

Source: NSO

TABLE 8.5: VALUE OF SELECTED IMPORTS, 2006-2011 IN MILLIONS OF KWACHA

Commodities	2006	2007	2008	2009	2010	2011
Fuels (petroleum, paraffin, diesel and others)	15,073	18,455	23,672	12,198	26,790	33,529
Fertilizers	8,550	26,509	47,399	38,115	30,833	29,223
Pharmaceuticals	-	-	-	-	19,682	28,089
Vehicles & parts	-	-	-	-	17,431	24,864

Source: NSO

8.3.2 Trade Agreements

As part of the efforts to continue Malawi's integration into regional and multilateral trading systems, the country continued to participate actively in bilateral, regional and multilateral trading agreements. These are summarized as follows:

8.3.2.1 Regional Trade Agreements

At regional level, Malawi is a member of COMESA and SADC. COMESA member states including Malawi took steps to consolidate the Free Trade Area (FTA) and to implement the Customs Union that was launched in Victoria Falls, Zimbabwe in June, 2009. The preparatory requirements included aligning national tariff structures to COMESA Common Tariff Nomenclature (CTN) and the Common External Tariff (CET), adoption and domestication of the Customs Management Regulations (CMR) and submission of lists of sensitive and excluded products. Consideration is made of the fact that Malawi already operates a low tariff rate regime under the FTA. Specific attention is drawn to tariff rates, the treatment of goods of economic significance, including sugar possibilities with regards to non-tariff protection and the timing of membership in Customs Union.

Under SADC, Malawi is committed to reducing tariff on intra-SADC trade progressively. The SADC protocol implementation was aimed at creating SADC FTA which was achieved in 2008 and it envisages the establishment of a Customs Union by 2012.

COMESA, SADC and the Eastern Africa Community (EAC) agreed to establish a Tripartite FTA in October, 2008 covering the three Regional Economic Communities (RECs). The objective of the Heads of States and Government in their drive towards a Tripartite Regional Integration is to achieve their vision "to improve the economic and social welfare of the citizens of the COMESA-EAC-SADC region through promoting regional economic growth by creating a conducive environment for regional trade to take place". The motivation to establish the Tripartite FTA emerges from the overlapping membership of Member States into the three RECS that is causing confusion to policy implementing bodies and the business community at large. Therefore, three RECs will harmonize their trade regimes and customs procedures, promote free movement of business people, establish legal and institutional arrangements to foster cooperation among the RECs and also undertake joint implementation of inter-regional infrastructure development programmes.

On the harmonization of the trade regimes, the tripartite summit agreed on the establishment of an FTA with the ultimate goal of establishing a Customs Union that involves the tripartite tember states. The tripartite integration process will be anchored on three (3) pillars namely:

(*a*) Market integration;

(*b*) Infrastructure development; and

(*c*) Industrial development.

Under the infrastructure pillar, the tripartite has developed a Comprehensive Tripartite Trade and Transport Facilitation Programme (CTTTFP) comprising a series of initiatives from different RECs that are being rolled out as a pilot on the North South Corridor (NSC) under which Malawi belongs.

8.3.2.2 Bilateral Trade Agreements

Malawi has asymmetrical bilateral trade arrangement with Republic of South Africa, a bilateral trade with Zimbabwe, Mozambique and customs agreement with Botswana. The bilateral trade agreement between Malawi and Zimbabwe was to provide better terms for Malawian firms in terms of investment. Malawi and Mozambique signed a bilateral trade agreement that provides for duty free trade between the two countries, with only limited number of excluded products. This agreement provides for significantly enhanced trade opportunities for Malawi's private sector.

8.3.2.3 Multilateral Trade Agreements

Malawi's trade policy is aligned to the World Trade Organization (WTO) agreement as such the country continues to participate in the WTO trade negotiations under the Doha Development Agenda since 2001. Malawi being a Least Developed Country (LDC), her concern is to safeguard her interest by focusing on trade related development issues such as market access, preservation of existing preferences, provision of special and differential treatment to poor countries and the reduction of technical barriers to trade, non-tariff barriers and other distorting measures that hamper Malawi's performance. Malawi strives for a comprehensive breakthrough under the Doha "development" agenda.

Malawi is currently benefiting from the Enhanced Integrated Framework (EIF) for trade related technical assistance programme whose objective is to promote the integration of LDCs into the global economy, and to mainstream trade issues into national development strategies as well as coordinate donor assistance to trade.

8.3.2.4 Competition and Consumer Protection

The Ministry of Industry and Trade continued to serve as an Interim Secretariat of the Competition and Fair Trading Commission. As an interim secretariat, the Ministry has been facilitating for the establishment of a permanent secretariat. In this regard, in January 2012, the Commission started recruiting permanent staff in the Secretariat starting with three key positions including the Legal Counsel, Director of Mergers and Acquisitions and Accountant. Plans are under way to recruit additional staff in 2012/13 financial year. The establishment of this independent secretariat for the Commission is the first step towards strengthening the implementation of the Competition and Fair Trading Act. In the same regard, the Ministry facilitated for the appointment of the Board of Commission which is an adjudicative body within the Commission.

During the 2011/12 period, the Commission continued to play its role of encouraging competition by ensuring production and distribution efficiency of entrepreneurs through the prevention of anti-competitive and restrictive business practices. In this regard, the Commission has been pursuing cases related to hoarding of goods, conditional selling, collusive pricing of newspapers and other violations of sections 32 and 33 of the Competition and Fair Trading Act.

To harness the implementation of competition policy in all sectors of the economy, the Commission embarked on establishing working agreements with sector regulators starting with the Malawi Communications and Regulatory Authority (MACRA).

8.4 Industrial Performance

8.4.1 Industrial Projects

Malawi Mangoes (operations) Limited: The Ministry facilitated the establishment of Malawi Mangoes Limited. The company was launched in November, 2011 in Salima and will be producing mango and banana pulp for export to Europe. Specifically, the Ministry facilitated land acquisition for both agriculture activities and factory and securing incentives from the Ministry of Finance and Development Planning. The company has so far invested US$25 million in the project. Malawi will benefit from employment creation, technology transfer, foreign currency generated through exports, corporate social responsibility and income for banana and mango out-growers.

Nyasa Tobacco Manufacturing Company: The Malawi Government in partnership with Nyasa Tobacco Manufacturing Company plan to increase production of cigarettes manufactured from locally-produced tobacco in order to lessen dependency on external buyers. In view of this, the Nyasa Tobacco has requested Government assistance to secure finances to enable them procure a filter-manufacturing machine, cut-rag and land for their factory in Kanengo, Lilongwe. There are two other companies that have expressed interest to start manufacturing cigarettes in the country. These are Jubilee Tobacco Company and Japan Tobacco International (JTI). The Ministry has since facilitated the identification of land for the JTI factory in Kanengo, Lilongwe.

Cotton Development Initiative: The Ministry in collaboration with the Cotton Development Trust (CDT) drafted Malawi Cotton Development Strategy for the years 2011-2016. The strategy aims at enhancing cotton value addition and cotton by-products. This is in addition to the MK1.6 billion grant that Government has allocated to the Cotton Sector in Malawi aimed at increasing cotton production from the current average of 50,000 metric tonnes to 200,000 metric tonnes per year through the distribution of seed, pesticides, herbicides and sprayers in complimentary to provision of extension services rendered to cotton farmers.

Government also provided infrastructure facilities especially construction of factory shells for mini ginners to cotton cooperatives in Salima and Karonga districts. The cotton ginning equipment was provide by One Village One Product (OVOP). In this aspect, Mapeto David Whitehead and Sons (MDWS) intends to invest in modern technologies in order to increase its production from the current 80,000 metres to 150,000 metres of cloth and gradually growing to 200,000 metres of cloth in a day since some of the lint will be gotten from these cotton cooperatives. The machinery would cost the company US$18 million and would initially need 5,000 metric tonnes of lint per year.

In addition, Malawi Government has allocated 3 ginneries to the Agriculture Development and Marketing Corporation (ADMARC) to start ginning for the local market. Government, through OVOP, has secured gins to be distributed to cotton cooperatives for the purpose of value addition through ginning. It is hoped that lint from ADMARC and OVOP Cotton Cooperatives would be sold to MDWS. With ginneries, it is hoped that ADMARC would contribute 45,000 metric tonnes of lint to Mapeto.

Pharmaceutical Industry: The Ministry facilitated the establishment of Victoria Pharmaceutical Industry Limited in Blantyre and it is ready to start production. The company has a capacity to produce 70 million syringes per month. In addition, the company will also be manufacturing other medical supplies. This will assist the country to effectively provide health care services to the nation and save the much-needed foreign currency.

Citrefine Oil Plantations Limited: The Ministry facilitated the establishment of Citrefine Oil Plantations Limited which is situated in Viphya Plateau close to Raiply Export Processing Zone (EPZ) company. It has since started production of eucalyptus oil for export to Republic of South Africa and the United Kingdom. Eucalyptus oils are used in the pharmaceutical industries across the world. The company has so far planted 392 ha. of eucalyptus trees and has employed close to 300 people in Malawi.

Raiply EPZ Company: The company will be producing medium-density fibre for export. It is the second largest company exporting the product in Africa and has invested US$25 million and has employed 180 additional employees.

8.5 Private Sector Developments

8.5.1 Investment and Investment Promotion

The 2012 Doing Business (DB) Survey conducted by the World Bank on the overall ease of doing business has seen Malawi falling four places from 141 in 2011 to 145 out of 183 countries in 2012. This has been the case due to a fall in crucial areas that ease the process of doing business in the country. Malawi has fallen in areas of ‘Registering Property’, ‘Starting a Business’, ‘Getting Credit’, ‘Protecting Investors’, ‘Resolving Insolvency’, ‘Paying Taxes’ and ‘Trading Across Borders’. The country registered an improvement in getting electricity and enforcing contracts, jumping one place above in both areas, while ‘Dealing with Construction Permits’ had no change in 2012.

This development means that it is very hard for foreign investors to commit foreign direct investment (FDI) in any venture into the country as it is hard to acquire land, register business or access utility services in the country. However, this was the case because the improvement in the Ministry of Lands in registering property that occurred in 2010 was not sustained. Meanwhile, there are many improvements which have been done in the main areas that promote investments therefore expecting an improvement in the ranking come Doing Business 2013.

8.5.2 Export Development and Promotion

The private sector plays a crucial role as the 'engine of growth' in the country as outlined in the MGDS II. Therefore, the public-private dialogue (PPD) being one of the initiative to promote trade, has continued to provide stakeholders with an opportunity to discuss and formulate plans to overcome the constraints facing the private sector.

During the period under review, the Ministry, in consultation with stakeholders, was developing the National Export Strategy (NES). The work of developing the NES has reached an advanced stage, and the process also considered the efforts undertaken by other players such as Ministry of Agriculture, and Reserve Bank of Malawi (RBM) are implementing the Export Development Fund and undertaking Export Diversification Study, respectively.

The Malawi Investment and Trade Centre undertook exporters audit targeting exporting firms in the city of Blantyre. The main objective was to take stock of the exporting firms' activities with a view to identify challenges facing them and suggest means of addressing the challenges in order to create a conducive environment for increased export performance in the country.

Of the 39 exporting firms targeted by the audit team only 22 firms were interviewed, representing 56.4 per cent. However, the purpose of the audit was achieved as the required information was collected, which among others included challenges facing the exporters. Some of the challenges highlighted which are common to all the exporters include lack of foreign exchange, fuel shortage, high production costs, high transport costs, inadequate export incentives all which have a bearing on Malawi's export competitiveness on the international market.

8.3.3 Investment Facilitation

Despite the current ranking on the DB Survey by World Bank, Government has been pursuing an ambitious reform agenda to improve the business environment. A range of reforms are in the process of being developed and finalized. Among others, Export Processing Zones (Amendment) Bill, Business Licensing Bill, Insolvency Bill, Companies (Amendment) Bill, Malawi Bureau of Standards Bill, Business Registration Bill and Personal Property Security Bill were submitted and subsequently approved by the Cabinet Committee on Legal Affairs. These bills will ease the transaction costs of doing business in Malawi, thereby, attracting foreign investors into the country.

8.6 Investment Developments and Promotion

8.6.1 Global Investment Trends in 2011

According to United Nations Conference on Trade and Development (UNCTAD), global Foreign Direct Investment (FDI) inflows rose by 17 per cent in 2011, to US$1.5 trillion, surpassing their pre-crisis average of US$1.45 trillion. The rise was met with global financial and economic crisis that continued to affect most economies in the reporting period. FDI growth was widespread, including all three major groups of economies-developed, developing and transition. Developing and transition economies continued to account for half of global FDI in 2011 as their inflows reached a new record high, at an estimated US$755 billion, driven mainly by robust Greenfield investments. In this group, the 2011 increase in FDI flows was no longer driven by South, East and South-East Asia (which saw an increase of 11 per cent), but rather by Latin America and the Caribbean (increase of 35 per cent) and by transition economies (31 per cent). Africa, the region with the most, LDCs continued to experience a decline in FDI inflows.

After three years of consecutive decline, FDI flows to developed countries grew robustly in 2011, reaching an estimate US$753 billion, 18 per cent up from 2010. The rise in FDI in developed economies, mainly in European countries, was driven by cross border mergers and acquisitions (M&As) which in most cases appear to be driven by corporate restructuring, stabilization and rationalization of their operations, improving their capital usage and reducing the costs.

During 2011, many countries continued to implement policy changes aimed at further liberalizing and facilitating FDI entry and operations, but also introduced new measures regulating FDI.

8.6.2 Investment Performance in Malawi in 2011

During the period under review, Malawi Investment and Trade Centre (MITC) registered new FDI pledges worth US$967.5 million. This represented an increase of 737.6 per cent from the previous period (US$115.5 million). The total FDI facilitated by the Centre in 2011 was US$ 633.2 million. In terms of the origin of the investments, Asia was the leading continent at 61.8 per cent of the total registered investment pledges followed by local investors at 34.5 per cent. FDI from Europe investments contributed 3.2 per cent while investments from the rest of the African continent contributed about 0.4 per cent of the total. In terms of the sectoral composition of the investment pledges, energy and services accounted 52.1 per cent followed by mining at 22.7 per cent. Tourism sector claimed 21.1 per cent while manufacturing accounted for 4 per cent of the total investment. These investments are anticipated to create 12,347 jobs compared to 1,191 jobs realized in 2010.

In the year 2011, nine Investment Approval Committee (IAC) meetings were held to process investment certificates. In total, 53 applications for investment certificate were received and 47 were granted the investment certificates. In terms of sectors manufacturing had 17 companies followed by tourism with 13 companies. the Table 8.6 below completes the scenario of investment certificates.

TABLE 8.6: YEAR 2011 INVESTMENT CERTIFICATES APPROVALS BY SECTOR

Sector	Number of Companies
Manufacturing	17
Tourism	13
Energy & Services	9
Agriculture	5
Mining	3
Total	**47**

Source: MITC

Despite the economic hardships that Malawi experienced investments rose beyond the forecast levels in 2011. The following reasons explain the upward surge in FDI inflows into Malawi:

(*a*) Investors have exploited the gaps that exist in the sectors such as energy and mining (cement production). These sectors had two companies that contributed 70 per cent of the total investment pledges. The construction boom has led to excess demand for cement products and this has led to investments being dedicated toward cement production.

(*b*) Improved political relations between Malawi and China and India have boosted confidence of investors for these countries to invest in Malawi. The above statistics indicate that about 62 per cent of the total investment pledges originated from Asia with India and China as the prime origins of the investors.

(*c*) The Conclaves - India annual trade forums targeting Africa, which Malawi has been attending has also been a forum for promoting Malawi as an investment destination. The visit to Malawi by the Indian delegation, in 2010 has also led to the growth Intensification of investment promotion missions abroad has started yielding investment inflows into Malawi.

(*d*) Change in the mindset of locals has also led to an increase investment performance of Malawi in 2011 as evidenced from the fact that local investment pledges accounted for about 32 per cent of the total investment figures.

8.6.2.2 Key Constraints to FDI Inflows

Despite the success story that was recorded in the period under review investment promotion efforts faced the following challenges:

(*a*) Availability of fuel and foreign exchange - investors on the ground faced acute shortages of fuel and foreign exchange. Consequently, the importation of raw materials and inputs was affected. It was hard to convince potential investors to come and commit their resources in Malawi under these circumstances;

(*b*) Power - unreliable electricity supply affects production and reduces efficiency; and

(*c*) Bureaucracies in Government - some investors have been let down by Government due to lengthy procedures to enable them to be legally established in Malawi.

8.6.3 Prospects for FDI in 2012 and the Medium Term

FDI inflows in Malawi are expected to take the upward trend because the opportunities in various sectors of the economy such as mining, agriculture and agro-processing, manufacturing and services are many. The investment promotion efforts of MITC have been enhanced by the merger of export promotion and investment promotion arms of Government into a single statutory organisation. This coupled with the increase in the number of inquiries through emails and walk in investors paints a rosy picture for future FDI inflows into Malawi.

8.6.4 Investment Promotion Activities

8.6.4.1 Foreign Investment Promotion

Investment promotion during the second half of 2011 was done in various ways. Direct marketing and company targeting on Malawi's investment opportunities was mainly done through emails. To this end, nine (9) campaign emails were sent in these three sectors; tourism, agriculture and agro processing, energy and power generation, and Green Belt Initiative. Walk in investors were also assisted in the aforementioned sectors. Furthermore, the MITC received 78 enquiries through email in the following sectors; energy and power generation, tourism, agriculture and agro processing, mining, real estate development and infrastructure, Green Belt Initiative, and Nsanje World Inland Port/Shire Zambezi Waterway.

8.6.4.2 Domestic Investment Promotion

Investors expressed interest to invest in mining, agro- processing, tourism, Information Communication Technology (ICT) services, real estate development and manufacturing sectors and 14 local investors were assisted. A number of presentations on investment opportunities were delivered to gatherings of Malawian investors. The Centre also organised small and medium enterprises (SMEs) workshop in June 2011 to disseminate information on the opportunities available for the Malawian entrepreneurs, facilities that are provided by commercial banks to SMEs as well as to encourage networking among the SMEs.

During the period under review, the Centre continued to receive technical and financial support from the United Nations Development Programme (UNDP) to see out the prop-projects that were launched in the previous reporting period. Two main projects that the MITC has successfully completed are the Cage Fish Farming in Mangochi District and the Women Direct to Home Distribution in Zomba and Salima Districts.

8.6.5 Investor Services

8.6.5.1 Aftercare Programme

The MITC carried out the aftercare exercise during the period under review to 26 companies in the north and central regions. During the exercise, investors shared their successes and challenges to running their businesses and MITC recommits to fully support the investors in overcoming their challenges. Among the challenges highlighted by investors during the exercise, included those related to foreign exchange and fuel shortages, delays in getting land to put up investments, delays in processing Business Residence Permits (BRP) and Temporary Employment Permits (TEP). Labour issues were also highlighted by some workers from the companies visited who complained that their welfare is often neglected by their employers.

8.7 Small and Medium Enterprises (SMEs) Promotion

8.7.1 SME Development

Government in its quest for enabling environment for SMEs' growth and development, facilitated development of enterprises at local level in order to empower entrepreneurs by enhancing the capacity and capability of SMEs in production, packaging, pricing, and marketing. In the period under review, at least 120 SMEs were trained in trade exhibitions to better display, label and pack their products in preparation for Malawi's International Trade Fair, thereby, improving SME products appeal.

8.7.2 SME Promotion

Government supported 140 SMEs to participate in both the International and Agricultural Trade Fairs. The Entrepreneurs were able to generate orders and business deal worth MK28 million. In addition, 27 small-scale entrepreneurs were supported to participate in the Tanzania-Malawi Joint SME Exhibition held in Dar-es-salaam, Tanzania. The SMEs established business links with buyers in Tanzania to supply honey, textile products and crafts.

8.8 Cooperative Development

8.8.1 Performance of the Cooperative Sector

In the period under review, the cooperative sector continued to grow by registering 48 new cooperatives adding to already registered 672 cooperatives. This increase represents 6.6 per cent growth rate per annum. The sector also trained 200 cooperative leaders and 48 cooperative members in record keeping and accounting. Further, value addition was enhanced by facilitating 15 cooperatives to acquire processing machinery.

In order to promote access to finance 4,920 cooperative members were linked to rural banks country wide and MK2.4 billion loans were accessed by cooperative members. The sector also contributed to foreign exchange generation through exports of agricultural products worth US$1 million. About MK2.9 billion was also injected into the economy through member deposits and savings. In the year under review, 350 new jobs were created, and 30 cooperatives were linked to insurance products.

Chapter 9

EDUCATION, SCIENCE AND TECHNOLOGY

9.1 Overview

This chapter evaluates performance in the education, science and technology sector highlighting key achievements and main challenges faced during the 2011/12 financial period.

9.2 Education

Malawi Government, through the Ministry of Education, Science and Technology (MoEST), and in collaboration with private and faith-based education providers, offers primary education, secondary education, technical education & vocational training, teacher education and higher education. Two other ministries take the lead responsibility in subsectors of basic education. The Ministry of Gender, Child Development and Community Development leads the provision of Early Childhood Development (ECD), while the Ministry of Youth Development and Sports leads the provision of sports and other services for the out ofschool youth.

9.2.1 Key Sector Achievements

9.2.1.1 Primary Education

The following are the main accomplishments during the review time:–

- Under the Schools Infrastructure Programme of the SWAp, 2000 new classrooms were under construction countrywide (contracts were awarded in April, 2012);
- The Local Development Fund Technical Support Team (LDF-TST) was given resources to assist in the construction of 1,100 classrooms, 200 teacher houses and other related infrastructures;
- Preparatory works were undertaken for a project to construct a new primary school in area 47 in Lilongwe under funding from the People`s Republic of China;
- Over 6,000 head teachers, 8,500 standard 1 teachers and 6,000 standard 2 teachers were trained through interactive radio instructions;
- Incentives were provided to teachers in double shifting schools;
- Primary school curriculum (PCAR) were successfully implemented and inspection and supervision visits to most of the schools were conducted to ensure quality, relevance and efficiency of primary education;
- Teaching and learning materials were procured and distributed to all public primary schools;

- School feeding programme was implemented and would be scaled up to cover many public schools; and
- Grants to primary schools were disbursed.

9.2.1.2 Secondary Education

The following were achieved:–

- Under the ADF-V infrastructure development project, 18 CDSS were constructed, and about 92 per cent of the works were completed;
- 6 CDSS (Chikhwaza CDSS-Mulanje, Dziwe CDSS- Balaka, Mseche CDSS-Lilongwe Rural, Namalomba CDSS-Balaka, Nanjiriri CDSS-Blantyre Urban, Nankumba CDSS-Blantyre Rural) were being re-constructed/expanded under the Japanese Grant Aid project;
- Phase 2 of the Japanese Grant Aid project - 6 sites were identified for the project (Mkwichi-Lilongwe, Matenje-Salima, Liwaladzi-Nkhotakota, Zolozolo-Mzuzu, Mpamba-Nkhatabay and Ezondweni CDSS` in Mzimba. The project were running and contracts are about to be issued;
- Four government national secondary schools (Mzuzu Government, Lilongwe Girls`, Dedza and Blantyre secondary schools) were being rehabilitated. It is expected that with additional resources from the SWAp, all outstanding works in the four schools will be completed in the coming financial year;
- Shortlisting of consultants was done by ODPP for the project to construct Thumbwe Boarding Secondary School;
- Phase 1 and 2 of the rehabilitation of selected conventional secondary schools was on-going, and progress was at varying levels and in most sites well above 60 per cent completion rate;
- Construction of girls` hostels in 17 secondary schools was in progress. Three sites (Wenya, Chamakala and Kasakula secondary schools) were completed and in the remaining sites, works were at different levels of completion ranging from 20 per cent to 96 per cent;
- Disbursement of national bursaries to targeted students was done and about 6,000 students benefited in the financial year; and
- OVC grants for Community Day Secondary School were disbursed.

9.2.1.3 Teacher Education

The following were the main accomplishments:–

- Training of primary school teachers through the Initial Primary Teacher Education (IPTE) was being conducted in all public . About 4,762 students-teachers were recruited in the financial year;

- Over 3,500 newly trained teachers were deployed to primary schools;
- About 10,000 primary school teachers were trained through Open and Distance Learning (ODL);
- Over 400 Secondary school teachers were trained in Sciences and Mathematics through the project entitled 'Strengthening of mathematics and Science in Secondary Education (SMASSE);
- About 200 secondary school teachers were trained in school management and this project is on-going to cover all school heads;
- A fully fledged new teacher training college in Machinga was operational;
- Construction of a new TTC in Chiradzulu funded by UNICEF was ongoing. Revised drawings and tender documentation were finalized by a consultant;
- Preparatory works including compensations were done for the project on constructing a new TTC in Phalombe;
- A topographic survey was finalized on the project to construct a Special Needs Institute; and
- Preparatory works were on-going for the construction of three new TTCs in Mchinji, Chikhwawa, and Rumphi districts under the support from BADEA. Topographic surveys were finalized.

9.2.1.4 Tertiary Education

The following were achieved:–

- Ongoing work on the rehabilitation of all public technical colleges;
- Draft TEVET policy was produced;
- A project on 'Higher Education for Science & Technology' (HEST) was approved by AfDB and this would help in the expansion/rehabilitation of UNIMA/Mzuni campuses and other capacity building exercises;
- Construction of an admin block for education faculty at Chancellor College was on-going, and TORs for new consultancy on the same was finalized;
- TORs for new consultancy services for the rehabilitation of University of Malawi and Mzuzu University colleges were finalized;
- A number of bills were submitted to the Ministry of Justice and to cabinet for approval; and
- Works on construction of the Malawi University of Science and Technology (MUST) in Thyolo was on-going.

TABLE 9.1: THE EDUCATION MILLENNIUM DEVELOPMENT GOALS (MDGS)

Indicator	*Year* 2000	*Current Status* (2011/12)	2015 *Target*	2015 Projection	Feasibility of achieving the goal
NER in Primary schools (%)	78	80.2	100	92	**UNLIKELY TO BE MET** (although it is reported that the target will unlikely be MET, progress on some indicators is very good and it is expected that the projected values could be surpassed moving towards the 2015 targets.
Proportion of pupils starting grade 1 reaching grade 5 (%)	69	73.5	100	75	
Literacy Rate (15-24 years) (%)	68	84	100	95	
Ratio of girls to boys in primary education	0.91	1.00	1	1	**UNLIKELY TO BE MET** (although the overall goal is unlikely to be MET, substantial progress has been made on some indicators, i.e. Gender gap at primary school level has been closed
Ratio of girls to boys in secondary education	0.60	0.78	1	0.90	
Ratio of Literate women to men (15-24 years old)	0.82	0.94	1	1	

9.2.2 Education Budget Achievements 2011/12

9.2.2.1 2011/12 Education Budget

The overall Education Sector budget that was approved for 2011/12 is K56.39bn (compared to K48.21bn in 2010/11). This total comprised:

- The MoEST vote, totalling K39.8bn (K30.3bn), including K33.3bn recurrent (K25.9bn) and K6.5bn for development (K4.6bn);
- The K2.2bn anticipated increase to the PE budget for MoEST[1] (K6.4bn), included in DPSM's vote[2];
- K2.7bn (K1.5bn) of ORT[3] for Education Districts, included in Local Councils' votes[4]; and
- And subvention K11.7bn to Education Institutions (K9.9bn), which are not included in MoEST's vote[5].

Of the overall K56.4bn budget, K55.7bn is funded jointly. Of this K55.7bn, K45.3bn is financed by GoM with K10.4bn (equivalent to about US$69.1mn) from Pool Partners - which is 81 per cent from GoM and 19 per cent from Pool Partners[6]. The balance of K0.7bn, called "Development Part 1", is funded discretely and includes funds from ADB and DFID.

[1] PE is Personal Emoluments, the part of the recurrent budget that includes salaries. The K2.21bn comprises the projected salary increase and projected recruitments.

[2] This is the Department of Public Service Management, within the vote of OPC (the Office of the President and Cabinet). It is normal practice for ministry PE votes only to include budgets for staff present at the time the budget is first calculated, at salaries prevailing then; then the budgeted cost of recruitments and pay increases are budgeted within DPSM.

[3] ORT is Other Recurring Transactions; ORT plus PE comprises the whole recurrent budget.

[4] Each Local Council has its own vote and includes the corresponding Education District, as well as other sectors at the local government level (e.g. District Health Office).

[5] 76% of the total subvention payments are for the running costs of universities, that part not covered by fee income.

[6] Some DPs also give General Budget Support, as opposed to the support that is specific to this Education Sector. So part of that 81% GoM share is DP-funded.

The K55.7bn of joint funding is all to be spent through normal MoG systems. In MoEST, the budget is spread over 273 Cost Centres (CCs), Local Councils over 34 CCs - the Education Districts. Subventions are given to 15 different CCs. All these CCs are provided funding through Treasury.

Funding from other Discrete Partners - especially all the funding to the Education sector from USAID, JICA and China - and most of the funding from UNICEF is *not* included in the budget. The funding is spent through DPs' own bank accounts managed by their own project management units, which is why it is not accounted for within GoM systems. Such funding is referred to as "off-budget".

9.2.2.2 Supplementary 2011/12 Education Budget

In January, 2012 a supplementary budget for an additional K6.4bn was presented to Treasury and approved by Parliament. This supplementary budget was being funded from additional contributions from FTI and IDA, over and above those in the original budget. This supplementary budget includes in particular:

- K3.5bn for school construction through LDF (Local Development Fund), i.e. decentralized;
- K1.5bn for ODL and IPTE allowances and related costs to bring in new teachers; and
- K0.7k for allowing PSIP to continue as previously planned.

9.2.2.3 Financial Performance for the Quarter and Year-To-Date

Table 9.2 below is a summary of the funding and expenditure in the three quarters (2011/12).

TABLE 9.2: SUMMARY OF KEY INDICATORS FOR THREE QUARTERS 2011/12

Summary of key indicators for three quarters 2011/12

	Budget K'millions	Adj	Fund K'millions	Exp K'millions	Budget funded	Funding spent	Budget spent
PE							
HQ	33.8	-	256.0	210.0	76.7%	82.0%	62.9%
DEMS	19,945.4	-	17,884.1	17,705.3	89.7%	99.0%	88.8%
Divs	4,361.9	-	3,636.4	3,600.0	83.4%	99.0%	82.5%
Colls	130.0	-	116.7	108.0	89.8%	92.5%	83.1%
TTC	502.5	-	393.1	371.8	78.2%	95.6%	74.0%
DPSM	2,210.9	-					
	27,484.4	-	22,286.4	21,995.1	81.1%	98.7%	80.0%
ORT							
HQ	4,293.8	824.3	1,360.3	1,149.1	26.7%	84.5%	22.5%
Divs	1,696.5	-	1,427.4	1,166.7	84.1%	99.0%	68.8%
Colls	276.5	-	231.1	194.0	83.6%	83.9%	70.1%
TTC	1,712.1	1,280.2	2,399.3	1,549.1	80.2%	64.6%	51.8%
	7,978 .8	2,104.5	5,418.2	4,058.8	73.7%	94.0%	69.4%

	Budget K'millions	Adj	Fund K'millions	Exp K'millions	Budget funded	Funding spent	Budget spent
Total MoEST	**35,463.2**	**2,104.5**	**27,704.6**	**26,053.9**	**73.7%**	**94.0%**	**69.4%**
DEMs ORT	2,645.2	744.0	2,540.8	1,905.6	75.0%	75.0%	56.2%
Subventions	11,737.5	-	9,410.8	9,410.8	80.2%	100.0%	80.2%
Development	5,890.1	3,551.5	1,966.4	1,941.1	20.8%	98.&%	20.6%
Treasury-funded	55,736.1	6,400.0	41,622.6	39,311.4	67.0%	94.4%	63.3%

Source: MoEST
Note: DEM - District Education Manager
TTC - Teacher Training College
Divs - Divisions

9.2.2.4 Funding by Treasury

Funding is provided by Treasury to Cost Centers (CCs) each month, usually based on the monthly cash forecast requirements of CCs indicated to Treasury before the year started, adjusted by any later forecasts. In the FMR, the actual funding provided in each quarter is compared with the "planned" result, taken as 25 per cent of the year's budget in each quarter.

During the three quarters Treasury, funded a total of K41.62bn to CCs, which is 63.4 per cent of the revised budget for the year of K62.14bn.

The notable features this overall result are listed below, with those budget lines that were funded by Treasury more than 75 per cent of the year's budget:

- PE funding totaled K22.29bn which was 81.1 per cent of the year's budget. Unbudgeted payments for ODL and conventional students teachers' allowances contributed to this result[7];
- subventions were 80.2 per cent funded, with a total of K9.41bn. Notably, UNIMA received 80 per cent of the year's funding, Mzuni 81 per cent, MANEB 84 per cent and Lilongwe University 100 per cent;
- ORT at Local Councils for DEM offices were 75.0 per cent funded, with K2.54bn;
- Colleges were funded 83.6 per cent of budget, while divisions were funded 84.1 per cent;
- TTCs were funded 80.2 per cent.

The following elements were funded by less than 75 per cent of the year's budget:

- ORT at HQ was funded K1.36bn, which is only 26.6 per cent of the budget for the year, as TLM contracts covering this year's budget were signed only during the quarter and the basis for funding of TLMs is against invoices; and
- Development part 2 was funded K1.97bn which was only 20.8 per cent, because of LDF was not yet funded and some projects are proceeding more slowly than anticipated.

[7] These have been subsequently added as a supplementary budget

9.2.2.5 Discrete Development Projects

Discrete funding from DPs in this FMR - which comprises funding that is paid through GoM systems but which is not pooled - totaled K1.22bn in the three quarters. The K1.22bn includes two main elements:

- K0.50bn of funding for on-going ADF projects; and
- K0.53bn of bank balances left from the previous financial year at 30th June 2011, of which K0.34bn was at EIMU[8], funds which had been provided discretely by DFID for infrastructure.

The cumulative expenditure with discrete funds from DPs totaled K0.93bn. All discrete expenditure should have a corresponding budget. At present, only the ADF and the Phalombe TTC projects have a budget.

9.2.2.6 Funding from Pool Donors

In the third quarter, funding of $23.2m was received from FTI and a further $7.8m was received from IDA (World Bank). In addition, a further £2.33m was received from DFID. Otherwise all partners of the JFA met to a greater extent, their commitments

9.2.3 Progress with Development Partners (DPs), the Fast Track Initiative (FTI) and Sector Wide Approach (SWAp)

Progress was registered in the following areas:–

- Currently, there are several development partners (DPs) who are active in the education sector. These are ADB, CIDA, DFID, EU, GIZ/KFW, Iceland, Ireland, JICA, Norway, UNICEF, USAID, World Bank, WFP and UNESCO;
- MoEST together with the DPs successfully executed an Education Joint Sector Review (JSR) in November, 2011 which largely hinged on the education SWAp and the FTI Funds and progress in implementation of activities;
- Sector working group (SWG) meetings have been successfully conducted by the Ministry of Education together with the Development Partners in the last three quarters;
- Quarterly progress reports have been timely produced and submitted to the OPC; and
- All the 8 Sector Working Groups (SWG) and 4 Systems Task Forces (STFs) have been meeting in the last 3 quarters and reports from all meetings have been consolidated.

[8] Education Infrastructure Management Unit

9.2.4 Key Challenges

Some of the key challenges included:

- Serious shortage of teachers, especially in rural areas. The system needs about 60,013 qualified teachers to meet the recommended pupil-qualified teacher ratio of 60:1 by 2013;
- The current pupil-qualified teacher ratio is 92:1 is too high (EMIS, 2011);
- The primary pupil-classroom ratio has been worsening from 85: 1 in 2005 to about 101:1 in 2011/12 against the recommended 40:1. There are many temporary shelters (16 per cent) in 2008 compared to about 20 per cent in 2010/11;
- Inadequate teachers' houses with nearly 30,000 teachers un-housed in 2011/12 school calendar;
- Lack of safe water and sanitation facilities in most schools;
- At secondary level, access remains limited. Only about 70,000 children started secondary school in the 2010/2011 school year;
- Access to tertiary education remains a challenge. Access needs to expand if Malawi is to produce the professionals it needs to work, inter alia, in hospitals, schools, business and government. On average, only 1,700 students graduate annually from the University of Malawi and Mzuzu University and other private universities;
- There is still gender disparity in the access to higher education; Female enrolment has remained at around 30 per cent in public institutions and at around 45 per cent in private institutions;
- There is inadequate capacity to implement infrastructure projects as evidenced by delays in completing most projects; and
- Commitments from pool partners is uncertain due to governance and management issues and public sector reforms.

Chapter 10

TOURISM, WILDLIFE AND CULTURE

10.1 World Tourism Prospects in 2012 and Beyond

The Tourism industry remains one of the world's fastest growing sectors despite global economic challenges that include the recent Euro crisis and rising oil prices. According to the World Tourism and Travel Council (WTTC), the industry directly contributed US$1,850.0 billion (2.8 per cent of total GDP) in 2011 and is projected to rise by 4.2 per cent per annum to US$2,860.5 billion (2.9 per cent of the world economy) in 2021. It directly supported 99.1 million jobs (3.4 per cent of total employment) in 2011, and is projected to rise by 2.0 per cent per annum to 120.4 million jobs (3.6 per cent of total employment) by 2021, representing an increase of 21. 4million (21.6 per cent) over the next ten years.

The world attracted 970.1 million international tourist (overnight visitor) arrivals in 2011, generating US$1,162.7 billion in visitor exports (foreign visitor spending, including spending on transportation). By 2021, international tourist arrivals are forecast to total 1.3 billion an increase of 6.6 per cent per annum generating expenditure of US$1,789.2 billion.

Out of the international tourist (overnight visitor) arrivals in 2011, Africa received 68.8 million, generating USD53.4 billion in visitor exports (foreign visitor spending, including spending on transportation). By 2021, international tourist arrivals to Africa are forecast to total 97.7 million, an increase of 3.6 per cent per annum and generating expenditure of USD92.5 billion.

36.8 million tourists visited the Sub-Saharan Africa in 2011, and out of these, Malawi received 746 thousand visitors, contributing USD 359 million (MK69 billion) against US$28.0 billion for the region. Based on the 2011 estimates, projections are that Malawi will attract an increasing number of visitors from the possible 53.4 million arrivals visiting the sub-Saharan region.

10.2 Tourism in Malawi

The tourism sector in Malawi represents a potentially high growth export service sector, capable of making a substantial contribution to the socio-economic development of the country. In 2011, Malawi received 746 thousand visitors, and consequently the sector contributed MK69 billion to the economy.

In the medium term, the sector intends to competitively position itself within a vibrant tourism region. The aim is to transform the sector into a major source of foreign exchange, employment and as a tool for economic growth and poverty reduction. As such, the sector projects to bring about a million high-paying visitors into Malawi, thereby, increasing annual foreign exchange earnings from the current US$370 million to about US$2billion, to create over 300 thousand additional direct and indirect jobs, and to increase annual contribution to the economy from MK69 billion to MK400 billion, representing a significant increase of the sector's contribution to GDP within the medium term.

In line with these medium term sector targets, the sector planned and implemented several activities in the 2011/12 financial year, including the development and marketing of tourism products, the development of support infrastructure and capacity development through policy and law enforcement as well as institutional reform and strengthening.

10.3 Major Achievements in the 2011/2012 Financial Year

The major achievement of the Tourism, Wildlife and Culture sector in 2011 is that Malawi attracted 746 thousand international visitors, thereby contributing MK69 billion to the economy. The achievement occurred through key priority outputs by programme as follows:

10.3.1 Capacity Development

The Capacity Development Programme aims at improving the planning, implementation, coordination and effective delivery of tourism, wildlife and cultural programmes through policy, legal and institutional reform and strengthening and human resource development. Staff recruitment resulted in an increase in filled positions from 63 percent to 69 percent during the period under review. In addition, the sector constructed new offices in Kasungu and Lengwe National Parks and constructed 20 staff houses in Lake Malawi National Park and Nkhota-Kota Wildlife Reserve in order to provide suitable working and living atmosphere for its staff and visitors.

In line with current tourism regulations, the sector undertook rigorous inspections, licensing and grading and witnessed improvements in the quality of standards as well as delivery of services by tourism establishments. 1100 tourism enterprises were inspected for 2012 licensing and out of these, 70 per cent were licensed against 68 per cent for 2011. As a result of a hotel grading exercise, many tourism establishments were renovated in order to get a higher grade.

The sector has licensed 180 film libraries, film theatres and shops, and confiscated 370 pornographic materials to ensure that children are not harmed by such material and to protect Malawi's cultural values. In addition, filming and public entertainment permits were issued during the period under review, thereby, ensuring that the film makers and providers of public entertainment operate within the required regulations. To enable people in the country to understand and appreciate each other's culture and promote peaceful co-existence, the sector conducted programmes on Malawi's ethnic groups. The sector conducted records management surveys in various public institutions and assessed records keeping systems in these institutions. Based on the assessments, a records management manual was developed for use by various Government ministries and departments.

10.3.2 Product Development

The development of tourism products is imperative for Malawi to become an attractive and competitive destination for tourists and to attract investors in the tourism industry. Product development in the 2011/12 fiscal year focused on developing new and rehabilitating existing tourism infrastructure, improving wildlife management and conserving and preserving cultural and natural heritage of the country.

Under the development of new and rehabilitation of existing tourism infrastructure, the sector completed the construction of the Bingu wa Mutharika Conference Centre, the President Hotel and the Presidential Village in the Umodzi Park in Lilongwe. These facilities were scheduled to host delegates to the forthcoming African Union Heads of State Summit in July 2012. With these facilities, Malawi is set to become a preferred destination for meetings, conventions and exhibitions.

Under improved wildlife management and conservation, the sector has fully rehabilitated Majete Wildlife Reserve into a functional and attractive destination. This was done in partnership with African Parks, a private wildlife conservation organization. Majete Wildlife Reserve had experienced high level poaching and was degraded through habitat and wildlife destruction but now boasts all major wildlife species, good roads, housing, water supply, boundary fence, education centre and tourist facilities. In partnership with the private sector, two up-market lodges were constructed to attract tourists that prefer comfort. These are the Tongole Wilderness Lodge in Nkhota-Kota Wildlife Reserve and the Mkulumadzi Lodge in Majete Wildlife Reserve. The sector reduced human-wildlife conflict around protected areas by constructing 45 km of electrified boundary fences along the boundaries of Lengwe and Liwonde National Parks.

Under preservation of cultural and natural heritage of the country, the sector also carried out research programmes on the eco-systems of Malawi's small mammals, birds, insects, reptiles and amphibians. This will help many people to know and appreciate the animals that are in our eco-system so that they would willingly preserve and care for them. Further, the sector documented heritage sites and developed a database of the details of the sites for use by both domestic and foreign tourists. Furthermore, the sector continued with the construction of an office block, an information centre and a workshop at Chongoni World Heritage Site in Dedza. The site, which is slowly turning into a great tourist attraction, is one of the rock art sites in the world that has a significant concentration of ancient inscriptions.

To promote Malawi's performing arts, the sector purchased the French Cultural Centre so that Malawian artists can fully utilize its facilities and to ensure that Malawian Arts and Culture are promoted and preserved. The sector hosted a Children's SADC festival in musical arts in which children from SADC countries were given an opportunity to perform traditional musical arts. The sector also facilitated cultural festivals, including the third Blantyre Arts Festival, thereby promoting Malawi's arts to foreign tourists.

10.3.3 Support Infrastructure

The programme aims at complementing product development by improving accessibility to tourist destinations in Malawi through various means of transportation and other services. In the 2011/12 financal year, the sector upgraded a 3.1 km road to bitumen standard at Nkhata Bay district. This will improve visitor comfortability when accessing tourist attractions in the area.

10.3.4 Marketing and Communication

The programme aims at promoting and marketing tourism in Malawi as well as increasing awareness and knowledge about environmental protection and cultural preservation. Through the marketing and communication initiatives during the period under review, the sector harnessed all tourism efforts and promoted Malawi as a tourist destination and attracted 746,000 visitors.

10.4 Planned Activities and Developments/Opportunities for the Tourism Sector in 2012/13 Financial Year

To take advantage of the tourism opportunities in the region, the sector plans to undertake the following activities and projects in the 2012/13 fiscal year:

10.4.1 Capacity Development

The sector will continue with policy, legal and institutional reform and strengthening as well as human resource development. Policies, laws and guidelines relating to tourism, wildlife and culture will be reviewed, disseminated and enforced. Under human resource development, the sector plans to recruit staff and upgrade skills and knowledge of the workforce. Specific activities will include recruitment and training of staff, inspection and classification of accommodation units and restaurants into grades according to current tourism regulations, provision of logistical support for law enforcement, undertaking public awareness campaign as well as review, update and alignment of Malawi's legal instruments for culture with international conventions. The sector also plans to negotiate on trade, investment and tourism as well as design, develop and implement Private Sector Development Strategy and action matrix.

10.4.2 Product Development

Product development will continue to focus on developing new and rehabilitating existing tourism infrastructure, improving wildlife management and conservation to increase wildlife populations in protected areas and preserving cultural and natural heritage of the country. The sector plans to continue construction of model cultural villages, a sanctuary in Kasungu National Park in order to repopulate the park to support communities to establish wildlife based enterprises, restock national parks and wildlife reserves, construct electric fencing and weather roads and develop ecotourism infrastructures, facilities and services in national parks, wildlife reserves and sanctuaries.

Under preservation of cultural and natural heritage of the country, the sector plans to continue preserving Malawi's public morals and protect the innocence of children, improve and promote Malawi's documentary heritage, construct Malawi's national monuments, improve understanding of Malawi's natural and pre-history and promote and preserve that history. Specific capital investments include development of Kamuzu Memorial Park, rehabilitation of French Cultural Centre, development of Chongoni Rock Art World Heritage Site, development of National Monuments and construction of cenotaph and construction of purpose-built archival building, Museum and Antiquities Research Centre and Arts Centre in the capital city.

10.4.3 Support Infrastructure

The programme will continue to complement product development by improving accessibility and reachability to tourist destinations in Malawi through improvement of access roads to resort areas.

10.4.4 Marketing and Communication

The sector plans to continue harnessing all tourism efforts aimed at promoting Malawi as a tourist and investment destination, thereby increasing the sector's contribution to the economy. Specific activities include destination marketing in selected source markets using the most cost-effective methods, sensitisation campaigns on tourism regulations and public awareness campaign on tourism, wildlife and cultural issues.

10.5 Challenges and Constraints to Development and Promotion of Tourism

Despite the sector's huge potential as a high growth export service sector that is capable of making a substantial contribution to the socio-economic development of the country, the Tourism, Wildlife and Culture sector faces a number of constraints and challenges. Overall, the financial and other resources available for various sector programmes are inadequate to meaningfully exploit the sector's growth potential. For instance, human resources on the ground for law enforcement against illegal activities in protected areas are inadequate. Likewise, funding for proper management of protected areas as well as product development, provision of support infrastructure and destination marketing is also inadequate. Coordination challenges inherent in the sector's cross-sectoral foundation exacerbate the situation and call for sector based approaches (SBAs) to planning, programming and implementation through formalization of the Tourism, Wildlife and Culture Sector Working Group (TW&C-SWG).

Chapter 11

INTEGRATED RURAL DEVELOPMENT

11.1 Overview

The MGDS II recognizes that broad based economic growth can be attained if the rural poor, who are a majority, fully participate in social, political and economic activities. The MGDS II recognizes Integrated Rural Development (IRD) as one of the priorities that would transform rural areas into socially, politically and economically viable enclaves to contribute positively to the overall sustainable development in Malawi and to poverty reduction.

The Government has adopted the implementation of Rural Growth Centres (RGCs) development programme and the construction of market centres in the urban and semi-urban centres as critical developmental components within the realm of IRD. A number of activities were undertaken during the 2011/2012 financial year and there are plans to undertake several other activities in the 2012/13 financial year within the strategic areas of focus.

The section below highlights the implementation of activities during the 2011/2012 financial year.

11.2 Major Achievements During the Financial Year 2011/12

11.2.1 Rural Growth Centres (RGCs) Development Programme

Under this programme, Government has completed the construction of basic social infrastructure in two of the RGCs. These are Neno and Nthalire in Neno and Chitipa districts, respectively. The other RGC under the first phase is the Nambuma in Dowa district. Implementation of this programme is complete, save for a Police Unit and Health Centre expected to be through by August 2012.

Regarding the second phase of Rural Growth Centres, work began at Chitekesa in Phalombe, Mkanda in Mchinji and Chapanaga in Chikhwawa. A detailed analysis regarding the status of these development structures is outlined in Table 11.1 below:

TABLE 11.1: PROGRESS ON RGCS CONSTRUCTION (FY 2011/2012)

Name of the RGC	*Completed Stractures*	*Outstanding works*	*Remarks*
1. Nthalire	1. Community hall 2. Bus depot 3. Library 4. Police unit & staff houses 5. Community ground 6. Butchery & slaughter house	None	The centre is ready for handover to district council

Name of the RGC	*Completed Structures*	*Outstanding works*	*Remarks*
2. Neno	1. Community hall 2. Bus depot 3. Library 4. Community ground 5. Mortuary 6. Laundry & kitchen 7. Guardian shelter	None	The infrastructure is ready for handover to council
3. Nambuma	1. Community hall 2. Bus depot 3. Library 4. Community ground	Standard Police unit with staff house and health centre	Constructions works on Police Unit and Health Centre are at an advanced stage
4. Chitekesa	None	1. Bus Depot 2. Market shed 3. Community ground 4. Community hall	Construction works for the structures have stalled due to compensation wrangles
5. Chapananga	None	1. Market sheds 2. Market kiosks 3. Butchery 4. Slaughter house	The works in progress are for Phase I of the Rural growth Centres Programme
6. Mkanda	None	1. Market sheds 2. Market kiosks 3. Butchery 4. Slaughter house	The works in progress are for Phase I of the Rural growth Centres Programme

Source: Ministry of Local Government and Rural Development (MoLGRD)

In addition to completion of works at Neno and Nthalire, construction works have been undertaken at new centres in Mkanda and Chapananga. It is expected that the works at Nambuma will be finalized within the year.

11.2.2 Markets Development Programme

The construction and completion of market structures has been one of the greatest milestone in the sector in terms of infrastructure development in the rural and urban areas. Currently, construction of Thyolo, Matawale, Mangochi, Dwangwa, Bvumbwe and Ekwendeni markets are mostly completed and awaiting handovers to respective district councils. Enukweni, Nkhamenya and Limbuli markets are expected to be completed within the second quarter of 2012/13 financial year.

TABLE 11.2: PROGRESS REGARDING MARKETS CONSTRUCTION DURING (2011/2012)

Name of the RGC	*Completed Structures*	*Outstanding works*	*Remarks*
1. Mangochi	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Fence	None	The market is ready for handover to district council

Name of the RGC	*Completed Structures*	*Outstanding works*	*Remarks*
2. Matawale	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Fence	Market pavements	The market is almost ready for handover to district council
3. Thyolo Boma	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Fence	Additional block of shops	Works are at an advanced stage for the additional block of shops upon completion of which the infrastructure will be handed over to council
4. Bvumbwe	1. Market kiosks 2. Market sheds 3. Ablution block 4. Fence 5. Slaughter house	Market pavements	The market is almost ready for handover to district council
5. Ekwendeni	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Bus depot	None	The market is ready for handover to district council
6. Enukweni	1. Market Kiosks 2. Market sheds 3. Bus depot 4. Slaughter house 5. Water pump	1. Ablution block 2. Butchery 3. Fence	The market structure was split into two and the other facilities were not provided in the initial design
7. Dwangwa	1. Market Kiosks 2. Market sheds 3. Ablution block 4. Bus depot 5. Slaughter house 6. Butchery 7. Fence	1. Parking Bay 2. Transfering utility facilities	ESCOM and Water board are yet to relocate their facilities before ultimate handover of the site to the council
7. Nkhamenya	1. Market sheds 2. Slaughter house 3. Market kiosks	1. Butchery	Expected to be completed in September, 2012
8. Limbuli	1. Market sheds 2. Slaughter house 3. Market kiosks	1. Bus terminal	Expected to be completed in September, 2012

Source: MoLGRD

11.3 Major Plans for the 2012/2013 Financial Year

For the 2011/12, Fiscal Year, the sector's major activities will focus on the full establishment and operationalization of the rural growth centres and markets and scaling up the construction of truck parks.

For RGCs, the sector plans continuation of works for Phase II of the project for Mkanda, Chapananga and Chitekesa and embark works for Monkeybay, Jenda and Malomo. The structures that will be included in new RGCs are market shops and sheds, library, butchery, slaughter houses, hawker shops, kiosks, community halls, community centre grounds, bus depot and opening access roads.

The sector intends to scale-up truck parks project to cover more border districts. These include: Songwe in Karonga; Mwanza; Mloza in Mulanje; and Mwami in Mchinji.

In terms of rural and urban markets, the sector has plans to concentrate on completion of works that started in 2011/12 fiscal year which include the following: Enukweni; Limbuli; and Nkhamenya markets and construction of two new markets at Tsangano and Lizulu.

11.4 Opportunities and Challenges

11.4.1 Opportunities

Recent developments in the IRD as one of key priorities in MGDS II offer major opportunities to resuscitate the rural economies and transform them into potential engines for economic growth that will contribute to sustainable growth and result in re-distribution of wealth to all citizens while mitigating the negative consequences of rural-urban migration.

Another opportunity that has been noted is the collaboration with Ministry of Transport and Public Works which has ensured availability of technical expertise in the councils. These have been quite helpful in supervising works in the various councils.

11.4.2 Challenges

There are challenges that have hampered the smooth implementation of the projects which include:

(*a*) Failure by local contractors to comply with deadlines in the implementation plan, ultimately raising actual and overhead costs of the projects;

(*b*) Inconsistencies and inadequate funding for construction of infrastructure projects which require substantial resources. This led to limited tendering of construction works for Chapananga and Mkanda rural growth centres, respectively. For instance, the funds that were provided for in the 2011/12 fiscal year were exhausted before completion of works in the targets areas.

(*c*) Operationalization constraints emanating from the fact that Integrated Rural Development Strategy (IRDS) is still in draft form;

(*d*) Delayed valuations and award of the certificate of payments to contractors has also derailed the progress of construction works in these projects. In addition, the flow of funds to the contractors are not timely which results in erratic supply of construction materials to the site hence reducing the pace at which construction works can be done;

(*e*) Scarcity of construction materials especially in the most remote areas; and

(*f*) Problem of proper identification of an appropriate site for Lizulu market.

Chapter 12

PUBLIC HEALTH, SANITATION, NUTRITION, HIV AND AIDS MANAGEMENT

12.1 Overview

12.2 Public Health

The Public health sub-sectors goal is to improve the quality of life for all the people of Malawi by reducing the risk of ill health and the occurrence of premature deaths, thereby, contributing to the social and economic development of the country.

The broad objectives of Malawi's health sector strategic plan (HSSP) are: 1) increase coverage of the Essential Health Package (EHP) interventions, paying attention to impact and quality; (2) strengthen the performance of the health system to support delivery of EHP services; (3) reduce risk factors to health; and (4) improve equity and efficiency in the delivery of quality EHP services. The Ministry of Health is implementing the HSSP which outlines the roadmap for implementing health related MDGs and MGDS goals. The Essential Health Package (EHP) is designed to facilitate delivery of basic and cost-effective primary health package. In 2010/11 financial year, the Ministry continued to implement various programs and reforms in pursuit of the policy goal and objectives indicated above.

12.2.1 Major Achievements

The sector registered progress in a number of indicators in the period under review, including the following: proportion of births attended by skilled health personnel at 73 per cent, proportion of one year-old children immunized against measles at 93 per cent; and OPD service utilization at 488 visits per 1000. With regard to HIV, by the end of December 2011, there were 323,504 cases on ARVs.

On the policy side, the major achievements included: 1) the registration of CMS Trust and appointment of a technical assistance agent; 2) introduction of the pneumococcal vaccine (PCV13) to enhance protection of children against pneumonia; 3) increase in community therapeutic feeding sites from 349 to 385; 4) finalisation of national alcohol policy; 5) launch of the national hand washing strategy; and 6) mass distribution of drugs to combat Trypanosomiasis and trachoma.

12.3 Sanitation

The section reviews performance in the sanitation sub-sector. Sanitation and good hygiene practices contribute to the reduction of water borne and other related diseases. A clean and healthy environment is not only essential, but also a prerequisite for a healthy and productive society.

12.3.1 Sanitation and Hygiene Promotion Services

The services provided within the sanitation and hygiene promotion subsector aims at developing and implementing sanitation and hygiene initiatives and programmes that would ensure a clean, safe, healthy and sustainably managed environment. To ensure that programmes on sanitation and hygiene are promoted, the National Sanitation Policy was developed with the vision of "Sanitation for All in Malawi". The subsector's mission is to ensure that all the people in Malawi own and have access to improved sanitation facilities, practice safe hygiene and recycling of liquid and solid waste.

The sector, using funding obtained from the Global Sanitation Fund of the UN Water Supply and Sanitation Collaborative Council commenced the implementation of initiatives and programmes aimed at:

- decreasing open defecation and accelerating increased use of improved sanitation and hygiene in rural areas;
- undertaking increased sanitation and hygiene promotion campaigns and promotion activities at district level;
- building capacity at district level to enable the districts effectively plan their activities, prepare bankable projects, mobilize resources and implement projects including in sanitation and hygiene promotion (to ensure sustainability); and
- promoting documentation of lessons learnt which would assist in reviewing policy, and ensure improved programming in sanitation and hygiene promotion.

The program and activities above are being implemented in the Districts of Rumphi, Nkhotakota, Ntchisi, Balaka, Phalombe and Chikhwawa and will at the end of five years benefit close to 1.8 million people. Since its inception, the program has triggered 208 communities and of these 12 have been declared Open Defecation Free. Between July and December, 2011 the population living in open defecation free environment was only 21,000.

In terms of capacity building, the programme has trained 1,230 Extension Service Workers and 6 District Coordinating Teams.

In order to replicate the initiatives to the rest of the Districts in Malawi an "Open Defecation Free Malawi 2015 Strategy", a 'Social or Sanitation Marketing Strategy (for peri-urban and rural areas)', and a "Hand Washing Concept" were developed and adopted in the period under review. These will enable the country to implement a national hand washing campaign. To provide a framework for managing and disposal of both liquid and solid waste nationwide, a National 10 Year Sanitation Investment Plan and Strategy was developed. This Investment Plan and Strategy will provide a framework for the Development and

Implementation of Initiatives and Programmes and will be supported by Development Partners under a Sector Wide Approach to address sanitation and hygiene challenges in the country.

Implementation of these will enable the country to create and maintain a clean, safe, healthy and sustainably managed environment in line with the Malawi Growth and Development Strategy II, and the attainment of health related MDGs, including: MDG 7 - which will also assist in accelerating the achievement of MDG 2 - target 3 (ensure that by 2015 children everywhere, boys and girls alike will be able to complete a full course of primary schooling); MDG 4 - target 5 (reduce by two- thirds the under-five mortality rate); and MDG 5 - target 6 (reduce by three-quarters the maternal mortality ratio).

12.4 Nutrition

This section evaluates progress in the implementation of interventions that address priority areas of the national response to Nutrition. To date, malnutrition has consistently remained one of the major underlying causes of underdevelopment. Major indicators of stunting, wasting and underweight are among the highest in the world. Malnutrition contributes to about 38 percent of all infant deaths associated with Protein-Energy Malnutrition (PEM). Between 1960s and early 2000s, stunting has been on average around 46 percent, 22 percent were under weight and wasting was over 5 percent.

In an effort to reduce malnutrition, the sub-sector implemented activities with a particular focus on the following areas:

- prevent and control the most common nutrition disorders among women, men, boys and girls in Malawi with emphasis on vulnerable groups;
- increase access to timely and effective management of the most common nutrition disorders among women, men, boys and girls in Malawi with emphasis on vulnerable groups; and
- create an enabling environment for the effective implementation of nutrition services and programmes.

During the period under review, implementation of the following and other strategies has led to the improvement in all the nutrition indicators:

(*a*) integrating and mainstreaming nutrition into sector plans;

(*b*) adoption of CTC approach in management of severe acute malnutrition; and

(*c*) development of Essential Nutrition Actions (ENAs).

The following illustrates progress on some of the indicators:

- nutrition legislation issues paper was finalized and study visits to inform the development process will be undertaken early next fiscal year;
- guidelines for the maintenance of the Nutrition, HIV and AIDS service

delivery standards to protect the population were advocated;

- 62 service providers were trained in management of acute malnutrition (in-patient). Among the trainees, 18 were female representing 30 percent;
- over 50 centrally processed food samples were received for approval and only 10 were accepted on the basis of their quality;
- fortification standards were developed and adopted; and 40 laboratories technicians from 4 laboratories were trained on fortified foods analysis. Fortification of centrally processed oil, sugar, margarine and confectionaries are at an advanced stage to address the macronutrient deficiencies;
- the ENA interventions have contributed to reduction in infant mortality rates by 23-25 percent and have also increased exclusive breastfeeding rates;
- increase in Vitamin A Supplement (VAS) campaigns led to increase in usage of Vita A from 65 percent in 2000 to 80 percent in 2010 in children and from 41 percent in 2000 to 57 percent in postpartum women. This has contributed to reduced Vitamin A Deficiency (VAD) syndrome. With this trend, Government is likely to meet the target of 90 percent VAS in children by 2012;
- stunting in 2004 was 48 percent and in 2010 the prevalence went below 40 percent due to the different nutrition interventions being implemented in the country;
- in 2000, quarter of the children in Malawi was reported to be underweight and by 2010 prevalence has reduced to 13 percent. It is encouraging to note that this achievement is already above Governments' target of 15 percent by 2012;
- as of 2010, 4 percent of underweight children were wasted which is a decline from 6 percent in 2000 when it reached its peak. It is, therefore, likely that by the end of 2012, the target of 2 percent in wasting prevalence may be achieved by the country;
- exclusive breast feeding (EBF) rates have significantly increased from 1992 through 2004 to 2010. In 2004, EBF was at 53 percent and the rate increased to 72 percent in 2010 (National Statistical Office, 2010). These achievements are towards the right direction to achieve the set target of 80 percent by 2012 as indicated in the NNPSP;
- implementation of the Integrated Early Childhood Development and Care Policy and Strategic Plan (IECDCP&SP) which covers all child care practices;
- in 2004 anaemia prevalence in children and women was 73 percent and 44 percent, respectively and this reduced to 64 percent in children and 29

percent in women by the year 2010. These achievements are in the right direction for the targets set by the Government of 63.5 percent for children and 29.1 percent for women by 2012;

- there has been a decline in Iodine Deficiency Disorder (IDD) prevalence in women, children and men over years. In 2009, IDDs had reduced to 52 percent in children, 17 percent in women and 7 percent in men from 80 percent, 37 percent and 17percent in 2001 in children, women and men respectively. The National Micronutrient survey carried out in 2009 reported the prevalence of iodine deficiency to be 11 percent (Malawi Government 2010);
- from the year 2000 the country has, over the years, registered a remarkable achievement in the reduction of mortality rates among children and women; and
- trends in maternal mortality ratios have been decreasing especially from 2000 until 2011. There has been a 60 percent reduction in maternal mortality rates within a period of 10 years (from 2000 to 2011).

12.5 HIV and AIDS

This section assesses performance in implementation of interventions that address priority areas of the national response to HIV and AIDS management. Since the discovery of the first HIV case was reported in Malawi, the Government has put in place policies and strategies meant to guide the proper implementation of the response to the epidemic. A multi-sectoral response to the epidemic has largely been based on a set of agreed priorities, strategies and actions that have been spelt out in various documents.

In the fight against the pandemic, a number of activities were implemented during the period under review namely:

- prevention and behavioural change interventions;
- treatment, care and support;
- impact mitigation interventions;
- mainstreaming and decentralization;
- research, monitoring and evaluation; and
- development of the National HIV and AIDS strategy 2011-2016.

12.5.1 Prevention and Behavioural Change Interventions

Interventions under this priority area aimed at reducing new HIV infections through reduction in sexual transmission of HIV, Prevention of Mother to Child Transmission of HIV (PMTCT), prevention of HIV transmission through blood, blood products and invasive procedures as well as creating a supportive environment for HIV prevention. Prevention and behavioural change interventions were implemented using a two-pronged approach: (i) non-biomedical interventions consisting predominantly communication and advocacy activities and (ii) biomedical interventions largely focusing on health facility based HIV-related services.

12.5.1.1 Non-Biomedical Prevention Interventions

Non-biomedical interventions largely focused on curtailing multiple and concurrent partnerships by increasing HIV comprehensive knowledge amongst most-at-risk as well as the general population, intensifying safer sex education as well as creating a supportive environment for HIV programme implementation. In the 2011/12 fiscal year, a number of non-biomedical prevention interventions were implemented as follows:

12.5.1.1.1 HIV and AIDS Communication Media

Various communication products were developed and distributed as outlined below:

A total of 1,831,717 communication products on print media were produced and distributed against an annual target of 2,500,000, thus representing 73 percent of the target. A total of 47 percent of the targeted communication products (for people with special needs) were also produced. This achievement is a 30 percent increase on the communication products produced in the 2006/2007 fiscal year, but represents an average year-on-year decline of about 30 percent over the last three fiscal years up to 2009/10.

A total of 1,477 radio and 429 television (TV) programs were produced and aired for a total airtime of 1,159 hours and 202 hours, respectively. Thus, annual targets for TV programme production and airing were surpassed, which is consistent with achievements for the past three fiscal years. Achievements for radio production fell short by 26 percent whilst targets for the airing of radio programmes were surpassed.

12.5.1.1.2 Youth Focused Interventions

(*a*) ***Life Skills Education***

A total of 3.8 million youth were exposed to life skills education within and outside the conventional educational system representing 97 percent of the annual target. A total of 4,692 school teachers from both primary and secondary school were also trained in the teaching of life skills representing 63 percent of the annual target. Whilst targets for youth training and teacher training were not met, those for the training of club patrons and youth peer educators were surpassed.

(*b*) ***Youth Friendly Health Services***

On the supply side, a total of 599 service providers were providing youth friendly services at 1,633 sites across the country representing 133 percent and 68 percent achievement over the annual targets, respectively. On the demand side, a total of 969,530 young people accessed youth friendly services representing 65 percent of the annual target. The less than optimal achievement in the period is largely attributed to erratic reporting by key implementing partners throughout the year.

12.5.1.1.3 Creating a Supportive Environment for HIV Prevention

(*a*) ***Addressing Cross-Cutting Issues***

Addressing cross cutting issues such as gender, social and cultural factors is a major concern for the national response as these are major underlying factors in the spread of HIV. As such, efforts in the response have been invested towards encouraging gatekeepers and communities to modify the harmful cultural practices in a way that would also prevent HIV transmission, as a win-win scenario. Targets for community mobilization on gender, culture, stigma and discrimination were all surpassed in the period under review and this is consistent with performance on same interventions in the last three years.

(*b*) ***Promotion of Legal and Human Rights***

The implementation of key prevention interventions in the national response has at times been impeded by a lack of a clear legal and policy framework resulting into scaling back on some key interventions, on the one hand, and total non-implementation, on the other hand. In the year under review, the HIV Policy was finalized. The development of the HIV bill also reached advanced levels. The HIV and AIDS Law Commission report was submitted and was yet to be developed into a bill.

12.5.1.1.4 Condom Programming

A total of 13,338,381 (of which 1 percent were female condoms) of the targeted 20,000,000 condoms were distributed through social marketing agents, representing 67 percent achievement. A total of 13, 122,698 condoms (of which 9 percent were female condoms) were also distributed freely at all service delivery points across the country, against an annual target of 15,000,000 representing 87 percent. The cumulative achievement for the year represents an 18 percent decrease over achievement in the 2006/2007 fiscal year but is more than 25 percent increase over the achievement of the 2009/2010 fiscal year.

Even though targets for both free and socially marketed female condoms were surpassed by 28 percent and 25 percent respectively, based on the quantities available nationally, it has been noted that uptake of female condoms is sluggish and would be worthwhile conducting research to investigate why such is the case. Targets for condom promotion sessions, training of community condom distribution agents and district officials were all surpassed.

12.5.1.2 Biomedical Prevention Interventions

12.5.1.2.1 Sexually Transmitted Infections

For the period up to 30 March 2011, a total of 126,420 STI clients had their HIV status ascertained surpassing the annual target by 26 percent. Nonetheless, this achievement falls short of the estimated STI cases in the population. Milestones for STI service provider training as well as STI drug availability fell short of the annual targets, obviously reflecting supply chain bottlenecks.

In terms of HIV/STI linkages, HIV ascertainment levels are relatively low among STI clients, which is indicative of a weak interface with the PITC initiatives as well as weak referrals. Further, a significant number of patients with prior knowledge of their HIV status were presenting new episodes of STI, which is indicative of weak positive prevention practices or a lack of it (Ministry of Health, 2011).

12.5.1.2.2 *Blood Safety*

A total of 45,473 blood units were collected nationally by MBTS alone and 80 percent of this was from voluntary non-remunerated donors. Overall, a survey conducted as part of the Ministry of Health's Department of HIV routine quarterly supervision in quarter 4 of 2010 established that 99.6 percent of blood collected in health facilities was screened for HIV, Hepatitis B and Syphilis in the year 2010.

At this stage of the response, it is not possible to obtain national figures for blood units collected on a routine basis as a national routine information system is still being developed by the Ministry of Health in collaboration with partners.

12.5.1.2.3 Male Circumcision Interventions

Male circumcision has globally been accepted as an effective HIV prevention tool. It has been demonstrated through rigorous randomized trials that male circumcision has the potential of averting the risk of HIV transmission by more than 60 percent. Whilst male circumcision has been practiced in Malawi for a very long time, it has predominantly been on religious and cultural grounds and not on the basis of its health benefits (National Aids Commission, 2009). Prevalence of male circumcision is only 20 percent.

Being a generalized epidemic, it may require a circumcision revolution in the sexually active population for it to make a meaningful dent on HIV transmission in Malawi. With this realization, efforts have been underway during the year to develop a male circumcision policy that aims at defining the scope as well as the form and shape that the male circumcision will take. Standard operating procedures (SOPs) have also been developed and several district teams have been trained to conduct clinical circumcisions.

12.5.1.2.4 HIV Testing and Counselling

In the year under review, a total of 1,263,622 people were counselled and tested at 772 sites offering the service surpassing the annual target of 1,200,000. This achievement represents a 91 percent and 45 percent increase for the 2006/07 and 2007/08 fiscal years, respectively, but a decrease of 4 percent and 27 percent, respectively, for the 2008/09 and 2009/10 fiscal years. Evidently, testing was hampered by intermittency in the supply of test kits resulting into unmet need at most service delivery points. Targets for training of counsellors and supervisors as well as for Provider Initiated Testing and Counselling were all surpassed.

12.5.1.2.5 Prevention of Mother to Child Transmission of HIV

A total of 328,032 pregnant women attending ANC were counselled and tested for HIV, representing 73 percent of the target and 54 percent coverage of the estimated pregnancies in the population. A total of 24, 258 HIV+ pregnant women (representing 45 percent) received ARV prophylaxis and 11 percent of HIV pregnant women received ARVs in the year under review. Targets for syphilis screening as well as testing for exposed children were not met, perhaps reflecting systemic problems in the supply chain of test-kits and reagents.

Malawi started implementing an integrated ART/PMTCT programme from 1st July, 2011, following adoption and adaptation of the 2010 World Health Organisation (WHO) recommendations. All HIV positive pregnant women, regardless of their CD4, will be put on a more efficacious regimen (Option B+).

12.5.1.2.6 Post Exposure Prophylaxis (PEP)

Interventions in the year under review focused on increasing access to Post Exposure Prophylaxis (PEP) for health workers and communities. Annual targets pertaining to awareness, provisions as well as access to PEP services were surpassed. It should be mentioned, though, that targets for the year were quite conservative as past experience has shown the lack of significant movements in this area. Partners have since embarked on a major awareness drive to mobilize uptake of PEP services across the country.

12.5.2 Treatment, Care and Support

The country continued to register tremendous success with the ART treatment programme. As at the end of March 2011:

- a total of 264,512 patients were alive and receiving treatment from 433 sites across the country representing 65 percent of those in need at a CD4 cut-off point of <250;
- in terms of survival outcomes, a total of 80 percent of adults and 78 percent of children lived 12 months after initiating treatment. Whilst survival outcomes have depicted an improvement over time, it still falls short of WHO target of 85 percent; and
- following the adaptation of the new WHO guidelines, the Ministry of Health, with the support from partners, has developed new integrated guidelines as well as integrated PMTCT/ART curriculum and has embarked on extensive training programme for health workers with over 2,000 of the expected 3,900 health workers trained. These training sessions are benefitting from technical and financial support from the United States Government.

12.5.3 Impact Mitigation Interventions

Interventions under this pillar were aimed at mitigating the economic and psychosocial effects of HIV and AIDS and improving the quality of life of PLHIV, OVC and other affected individuals and households through material and other forms of support; building capacity in spiritual and psychosocial support for infected and affected households as well as advocating for the review and enforcement of national and sectoral HIV and AIDS legislation.

12.5.3.1 Access to Impact Mitigation Interventions by PLHIV and Other Vulnerable Groups

In the year under review, a total of 1,823 vulnerable groups were trained in Income Generating Activities (IGAs) and entrepreneurship skills against an annual target of 650. A total of 6,868 vulnerable young people were also trained in vocational and entrepreneurship skills against an annual target of 5,000. Annual targets for provision of start-up kits, training in psychosocial support, training in spiritual counselling, as well as provision of social and psychosocial support to households and individuals were all surpassed as at the end of the reporting period. This is expected on account of the multiplicity of players in this sub-sector.

12.5.3.2 Promotion of the Enforcement of Legal and Social Rights of PLHIV, OVC and other Affected Households

This intervention mainly focused on advocating for the review and enactment of national and sectoral HIV and AIDS legislation. Besides making progress with regard to finalization of the HIV bill as well as the HIV policy, in the year under review, two major legislative pieces were concluded. The Child Care, Justice and Protection Act as well as the Wills and Inheritance Act were enacted. Both sets of laws have a leaning towards safeguarding the rights of children as well as the widowed. Targets for the training of law enforcement personnel as well as paralegals were not met.

12.5.4 Mainstreaming and Decentralisation

A total of 2,793 people were trained in HIV and AIDS mainstreaming surpassing the annual target of 2,500. A total of 31 mainstreaming orientation sessions and 15 high level advocacy sessions were also conducted in the year under review against annual targets of 30 and 15, respectively. Targets for functional workplace committees as well as workplace peer educators were surpassed while those for the establishment of new committees were not achieved.

12.5.5 Research, Monitoring and Evaluation

12.5.5.1 Strengthening the Capacity of Institutions to Undertake M&E and Research

A National HIV Surveillance Strategy was developed during the year under review. The Strategy aims at creating a solid basis for undertaking and supporting major surveillance activities in the country. All regular meetings of the National

Health Sciences Research Committee (NHSRC) were supported to enable the committee undertake their obligation of safeguarding the ethical considerations of subjects involved in research. Targets for the training of sub-national personnel in operations research, as well as mapping and capacity assessment of research institutions were not met. These will be a major focus in the 2011/2012 fiscal year.

12.5.5.2 Collection and Generation of Strategic Information

(*a*) ***Routine Data Collection***

The year under review witnessed an unprecedented response with regard to reporting by grant recipient organizations surpassing annual targets by over 30 percent. However, problems with Local Councils not submitting their Local Authority Quarterly Service Coverage Report continued in the year under review with only 66 percent of the annual target met. There is need to continuously engage in supervision and mentorship of the Local Councils to reach the required levels of reporting.

(*b*) ***Surveys, Surveillance and High Quality Research Activities***

A preliminary report was also produced and partial data on HIV was disseminated through the local press. Prevalence levels indicate a decline from 12 percent to 10.6 percent (8.1 percent males and 12.9 percent females) among adults aged between 15-49 years. There are also slight improvements in a number of behavioural (outcome) indicators especially regarding multiple sexual partnerships and condom use over the 2004 results.

Data Analysis for the Sentinel Surveillance is still underway and it is expected that a report will be available in the second quarter of the 2011/2012 fiscal year.

As part of obtaining baseline information on the scope of male circumcision interventions in Malawi, a situation analysis of prevailing male circumcision practices was conducted and finalized in the year under review. The Situational Analysis Report will inform the development of the male circumcision policy that should be ready in the first half of the 2011/2012 fiscal year.

12.5.5.3 Access and Utilization of Strategic Information

In an effort to ensure that strategic information is collected and disseminated, 100 percent of the planned best practices and dissemination conferences and 50 percent of the planned HMIS zonal meetings were conducted.

12.5.5.4 Resource Utilization

Total funding commitments for July 2010 to June 2011 fiscal year amounted to US$91.5 million (MK13.7 billion). The Global Fund remained a major provider of resources contributing 79 percent of the total budget and 77 percent of the total receipts. A total of US$59.7 million (MK8.9 billion) was received representing 65 percent of the annual budget as shown in Table 12.1 below.

TABLE 12.1: 2010/2011 BUDGET AND CUMULATIVE RECEIPTS TO DATE

Source	*Annual budget (US$ m)*	*Receipts*	*% Receipts to budget*
The Global Fund	72.4	46.2	64
World Bank	10	5	50
DFID	5.9	6.7	114
GoM	2	1	50
UNDP	0.2	0.2	100
CDC	1	0.6	60
TOTALS	91.5	59.7	65

During the year under review, total expenditures amounting to MK10.1 billion were made against a budget of MK13.7 billion representing a burn rate of 73 percent. Expenditures made during the year included a total of MK4.3 billion for ARVs and other health products while MK4.7 billion was processed through the grants facility and MK1.1 billion was spent under programme management and institutional support.

12.5.6 Development of the National HIV and AIDS Strategy 2011-2016

A Draft National HIV Strategy was finalized at the end of the reporting period. In the forthcoming year, focus will be on finalization of the costing of the Strategy as well as identification of points of linkage with the HSSP costing framework (to avoid double costing) as well as finalization of the results matrix. Finalization of the Strategy is expected to occur in the first quarter of the 2011-2012 fiscal year after validation meetings. The development of a resource mobilization strategy as well as a National Monitoring and Evaluation Plan are expected to follow in the first quarter of the 2011-2012 fiscal year. The Phase 2 operational plan for the National HIV Prevention Strategy was also finalized in the year under review.

12.6 Challenges

The Nutrition and HIV and AIDS sub-sectors face the following challenges:

- inadequate specialized nutritionists, dieticians and HIV specialists;
- the management of drug nutrient interaction due to altered metabolism remains a major challenge which results in body atrophies that are difficult and expensive to manage, requiring specialised training; and soliciting adequate nutrition support supplies;
- if Malawi has to achieve the 3 zeros of: Zero new infection, zero AIDS mortality and Zero discrimination, there is need to intensify prevention work; service delivery at the grass root level; reaching the elite, coordination and community level service delivery; sustainable financing mechanism and local production of ARVs and pharmaceuticals products to meet the over 1 million demand of treatment;

- inadequate office space, transport and equipment;
- tracking and Accountability for the resources allocated to Public Sectors and other organisations through NAC and other development partners remains a challenge;
- inventory for the equipment supplied to the various implementing institutions is a challenge;
- inadequate capacities and tracking of the existence of 90 percent ghost CBOs; and
- dependence on external support which affects sustainability.

12.7 Future Plans

The future plans for the sector include:

- to urgently fill the approved structure in order to ease the extremely high work load and deliver the services efficiently;
- facilitate the creation of the positions of Nutrition, HIV and AIDS officers for the remaining public sector coordination units;
- build the nutrition, HIV and AIDS capacities at all levels;
- review the remaining sectors policies and strategies to integrate nutrition, HIV and AIDS;
- rollout the SUN-1000 Special Days to reduce stunting by 50 percent, Malnutrition and reach 450 pregnant women, 2.2 million lactating women with the under 2 years children and their partners, train 19 front workers, 196 traditional authorities, 40, 000 CLANs and 80,000 CLANs leaders and reach all the 28 districts by 2014;
- intensify service delivery to achieve the three zeros in HIV by 2016;
- facilitate the building of the multi-purpose building by 2014;
- facilitate the establishment of the local ARV and pharmaceutical plant by 2012;
- recruit, train and deploy 8,000 Community workers by 2016; and
- conduct intensive training for 20,000 frontline and middle level managers from all the sectors.

Chapter 13

YOUTH DEVELOPMENT AND EMPOWERMENT

13.1 Overview

Youth comprise a significant proportion of Malawi's population, however its contribution to the national economy is still minimal. This is due to the presence of a number of social, cultural, economic and political challenges that hamper active participation of the youth in the country's economic activities. These challenges include high illiteracy rate, limited access to technical vocational and entrepreneurial skills education, unemployment and under-employment, lack of scientific awareness, exploitation by adults, poverty, HIV and AIDS pandemic, limited access to SRH, HIV and AIDS services, under-developed, inadequate and dilapidated sports and recreation facilities. In order to address these challenges, the Department of Youth Development focused on five strategic programme areas during the 2011/12 financial year: improvement of youth livelihoods; improvement in literacy and numeracy levels among the youth; increasing youth participation in development initiatives; improvement in youth health and productivity; and improvement in coordination and effective delivery of youth empowerment and development programmes.

13.2 Major Achievements during the Financial Year 2011/12

The following are highlights of the achievements:

13.2.1 Youth Livelihood and Economic Empowerment

In a bid to economically empower the youth in the country, the Department trained youth groups in enterprise development and young people were equipped with vocational and entrepreneurial skills and provided with start-up tools. Subsequent to the establishment and launch of the Youth Enterprise Development Fund (YEDEF) in February 2010 to ease youth access to enterprise development and financing, the Ministry undertook sensitization campaigns in all the districts in collaboration with the Ministry of Education and Malawi Rural Development Fund (MARDEF). Consequently, the first phase of loan disbursement in 2010/11 financial year had 226 young people accessing loans from the Fund. A total of 11,659 loans worthy MK676.6 million were disbursed and equipment worthy MK29.5million was given to youth beneficiaries who have engaged in various enterprises including metal fabrication, irrigated farming, poultry and bakery.

13.2.2 Youth Participation

In the period under review, the Department established 161 youth structures (Youth Clubs, Networks, NGOs) and strengthened 161 coordination structures (Youth Action Committees at Community level, Youth Technical Committees at district level and Technical Working Group at National level). Through a total of

15 coordination meetings throughout the country, District Youth Officers trained youth clubs in management and leadership skills for proper management of the clubs, youth networks and Youth Action Committees. The Ministry also established 64 youth participation structures, including 41 youth clubs, 4 district networks, 18 T/A based networks and 1 Youth Action Committee.

13.2.3 Healthy and Productive Youth

The Department provided the youths of Malawi with information to allow them make informed choices about their sexual behavior. The youth were practically equipped with life skills, covering such areas as decision making, assertiveness and goal setting. During the year under review, 100 youth counselors and peer-educators were trained to serve their fellow youth in youth centres and clubs. It is estimated that 16,000 out-of-school youth were reached with these life skills.

13.2.4 Youth Infrastructures Development

The Department continued with the rehabilitation and maintenance of existing youth infrastructures. The construction and rehabilitation of former Malawi Young Pioneer training bases into National Youth Development Centres scaled up at the Neno Youth Development Centre under the Integrated Youth Development Programme supported by the United Nations Development Programme (UNDP). Construction of facilities commenced during the year and several production units were set-up, including crop production and fish farming. Over 300 youths around Neno district have been trained in agricultural skills in various production areas.

13.3 Major Plans for the 2012/13 Financial Year

For the 2012/13 financial year, the Department plans to scale up construction works at the Neno Youth Development Centre and construct and rehabilitate seven district youth offices. The Ministry identified ten youths and four staff members who are currently undergoing training at the Songhai Centre in Benin. The ten youth and staff will act as youth trainers and mentors at Neno when they return from Benin. Under the Youth Enterprise Development Fund, it is expected that about 17, 318 youths will access loans amounting to MK1 billion in 2012/13 financial year. Within youth enterprise development, the Ministry will focus on establishment of business incubation centres and village polytechnics as well as development of youth business premises in districts. In addition, the Ministry plans to train 1,500 youths in entrepreneurial, livelihood and business management skills. Further, the Department plans to establish and strengthen 300 youth participation structures at national, district and community levels. The Department also plans to train 700 youths in basic literacy and numeracy at club level. Finally, the Department will continue to rehabilitate 3 existing youth development centres of Ntonda in Ntcheu, Kamwanjiwa in Mzimba and Chipunga in Nkhata Bay along provision of standard package to other already established T.A. based youth development centres.

13.4 Contraints and Challenges

The level of funding that is allocated to the Department does not correspond to the demands that come from the youth. This means that the target population is not adequately serviced. This has further resulted in huge backlog of unaddressed youth needs.

The other issue that has a bearing on the effectiveness of the Department's programmes is the low participation level of girls in youth development activities. The picture is currently heavily skewed in favour of boys. An attempt to change this scenario was started through a project, "Meeting Development and Participation Rights for Adolescent Girls". Even though the project had useful lessons and was a success the activities were not vigorously pursued after the project due to challenges in funding. This was further complicated by the fact that a number of districts did not have District Youth Officers who could have advanced such activities in the districts.

Apart from the effects highlighted earlier, low levels of human resources has had further dual implications on youth programming. Due to funding constraints the department has not invested much in staff development and office infrastructures. This has weakened the department's ability to benefit from information technology and in providing the same to the many young people who are in need of such information and skills. This has negatively affected provision of services to young people especially those in the rural areas who have limited access to information.

13.5 Opportunities and Challenges

The Youth Development and Empowerment priority area offers major opportunities to develop the youth in Malawi. The establishment of the Youth Enterprise Development Fund reflects the Government's commitment to support the youth in their efforts to improve their well-being. The Ministry of Youth and Sports is in the final stages to finalize the formulation of its Strategic Plan in response to the inclusion of Youth Development amongst the key priorities in the MGDS II. The adoption of Sector Based Approaches to planning and implementation through the Sector Working Groups has resulted in increased efforts by various stakeholder to coordinate, fund and implement youth programmes under the Gender, Youth Development and Sports Sector Working Group (SWG) whose institutionalization is underway.

The inclusion of youth and children as a priority area in the Malawi Growth and Development Strategic II provides a strategic opportunity for both the youth and those who work with young people to address issues of young people with a focussed vision and shared effort.

The significant level of interest by development agencies in youth issues both at national and international level offers additional hope for potential of resources where resources may be mobilized and invested in youth development However, major challenges still exist, including inadequate among members in the SWG.

This is likely to be less of a challenge with the drafting of the Joint Strategic Plan for the SWG which will entail joint planning and rationalization of resources. low staffing levels and capacities, lack of sector visibility, inadequate funding for district youth activities and programmes, under-developed M&E system and inadequate and dilapidated youth structures and offices at the local level.

13.6 Sports Department

In the 2011-2012 Financial Year the Sports Department was allocated K44.7 million under ORT and K360 million under development budget (Part II). From the development budget, the department used K273.5 million for renovations of sports grounds, stadium stands, buildings, toilets and to procure various equipment while under ORT the Department used all the allocation for office operations and programmes highlighted in this report.

13.6.1 Development Projects

1. *Installation of Floodlights at Kamuzu Stadium*

   In the 2011-2012 financial year Kamuzu Stadium was allocated K260 million for installation of Floodlights. The Ministry engaged MK Electrical Installation Limited in this project. The project commenced in November 2011. Installation of the floodlights will enable the football games and other activities to take place at any time.

2. *Maintenance Works at BAT Ground and Kamuzu Institute for Sports*

   BAT Ground and Kamuzu Institute for Sports fall under one project titled, Rehabilitation of Sports Facilities, where K30 million was allocated in the 2011/12 financial year.

   Maintenance works at BAT Ground included renovation of toilets, drainage systems, playing field, the offices, stands and increasing water points along the playing field.

   At Kamuzu Institute for Sports, the Department maintained covered stands at the football pitch and the gymnasium. The Department procured gym equipment. Additionally, the Department procured fridge and music equipment for aerobic training in the gym. Mirror glasses were fixed along the walls of the gymnasium. The Department also maintained some old gym equipment.

   Further, the Department is currently working on football pitch landscaping, constructing the dressing rooms and maintenance of ablution block at the football pitch. The Department procured two computers and printers and office tables for the institution.

   Brick fence will be built around Kamuzu Institute for Sports premises, and courts for minor sport disciplines will be constructed shortly.

3. *Construction of National Stadium and Indoor Sports Complex*

   National Stadium was allocated K20 million and Indoor Sports Complex was allocated K50 million. In the 2011/12 financial year. Construction of these sports facilities did not commence because site for the National stadium project was shifted from Lilongwe to Blantyre. Construction of Indoor Sports Complex did not commence because the contractor was the same for the National Stadium.

4. *Construction of Mzuzu Youth Centre*

   In the 2011/12 financial year Mzuzu Youth Centre was not allocated any funds, consequently, no construction works were done. The project was planned to commence in the year 2012-2013.

13.6.2 Other Activities Conducted

1. *Procurement of Sports Equipment*

   The Department procured sports equipment worth K1.8 million. The equipment was distributed to selected primary and secondary schools; and clubs; through some members of Members of Parliament. The Department also bought gym equipment worth K3 million to furnish Kamuzu Institute for Sports.

2. *Grant to University of Malawi.*

   The Department paid a grant of K5 million to University of Malawi to be used for Chancellor's Trophy. This is an annual event aimed at promoting sport at university level.

3. *Launch of Presidential Initiative on Sports*

   To ensure effective and efficient organization of the launch of Presidential Initiative on Sports, the Department spent about K3 million for the renovations of toilets, painting and cleaning at Kamuzu Stadium.

4. *Facilitation of Participation of National Teams to International Competitions*

   The Department facilitated participation of National Football Team in the World Cup Qualifier Games and Africa Cup of Nations Competition. The National Netball Team participated in Africa Netball Championship where it was crowned as Africa Champions for the year 2012.

5. *Recruitment of Officers*

   The Sports Department facilitated recruitment of 28 District Sports Officers (DSOs), 2 Principal Sports Officers (PSOs) at Headquarters and 2 Gym Assistants at Kamuzu Institute. The PSOs and Gym Assistants are working while the process of recruiting the DSOs is in progress. The names of the candidates have been shortlisted waiting to conduct interview very shortly.

6. *Payment of Subscription Fees*

   To enable Malawi national teams participate in international competitions, the Sports Department paid K5.1 million subscription fees to World Anti-Doping Association (WADA); and Supreme Council of Sports Associations in Africa and Zone VI. This subscription also ensures Malawi's membership and compliance to treaties and policies of these bodies.

13.7 Prospects in 2012/13

In continuing to promote sports development in the country, the Department has planned to carry out the following activities in the year 2012-2013:

1. Finalize rehabilitation of sports facilities;
2. Construct new sports facilities;
3. Train sports personnel in sports management;
4. Procure and distribute sports equipment;
5. Facilitate international participation of national teams in international competition;
6. Facilitate recruitment of national Football Coaches and Technical Director;
7. Pay subscription fees to international sports bodies;
8. Facilitate talent identification and development programmes in schools and communities; and
9. Promote mass participation in sports.

Chapter 14

CLIMATE CHANGE AND ENVIRONMENT

14.1 Introduction

This chapter outlines the performance of Environment and Climate Change programmes in the 2011/2012 financial year. In the year, Malawi experienced dry spells in some parts of the country including during critical stages of crop development. Some areas received more rains that triggered flooding. For example, there was an increased water level in the Ruo River from Mulanje mountain that led to flooding in the Shire Valley leaving most of the people, their crops, land and property submerged in the waters. Both these phenomena were climate induced. The economic costs of these climate change eventualities to society are very high with respect to rehabilitation of affected areas, provision of infrastructure, relief provisions, lost crop production and peoples' property.

Furthermore, natural resources and environmental degradation through infrastructure development, industrial wastes and residential wastes were addressed in a number of programmes such as environmental impact assessment, pollution control, enforcement on compliance on sound environmental management, environmental information, education and public awareness and monitoring of the programmes. Without any immediate action to address the environmental challenges occurring from these development projects and industries, the country pays high costs to society in economic terms.

Adequate financial resources are required if all these programmes to address climate change, natural resources and environment are to be realized in order for sound and sustainable management and utilization of the environment and natural resources and are to provide vital role in boosting the economy.

14.2 Climate Change

Climate change is one of the major challenges of the world in our times. Malawi, like many African countries that are agro-based, is vulnerable to the impacts of climate changes. While global warming, caused by increases in the concentration of Green House Gases such as carbon dioxide, methane and nitrogen dioxide. in the atmosphere, is a global issue its impact on African countries is more serious as it causes problems such as drought, dry spells, and flooding.

In order for Malawi to address these climate change impacts, Government is engaged in the international negotiations in the conference of parties of the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol to stabilize the greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. For example, Government was represented at the 17th Conference of Parties meeting that was held from 28th November to 9th December, 2011 in Durban, Republic of South Africa where a number of decisions related to adaptation, mitigation, capacity-building, technology development and transfer, reduction of emissions from forest deforestation and degradation (REDD plus) and finance mechanism were adopted.

At a national level, Government is implementing a number of activities to address climate change impacts. One of these initiatives being implemented is the National Programme for managing climate change in Malawi wich is being funded by the Norwegian Government, the DFID, Flemish Government and UNITAR. In addition, Government is also implementing the Africa Adaptation Programme Malawi which is being funded by the Japanese Government.

One of the major outputs from these initiatives has been the development of the Climate Investment Plan. The plan will assist Government to negotiate with prospective donors and development partners to support its efforts in addressing the challenges of climate change in the country.

A National Environment and Climate Change Communication Strategy was finalized and is awaiting publishing. The strategy has outlined ways that will be used for communicating to the communities and the target groups on issues of sound environment and climate change management in the country.

Under the National Climate Change Programme, Government conducted the National Enviroment and Climate Change Symposium from 19th to 21st October 2011 under the theme "Environment and Climate Change; our Collective Responsibility". The symposium which brought together participants from many sectors in Government, private sector, NGO community, the academia, the development partners and some local leaders aimed at sensitizing participants on climate change issues and the efforts taken by different stakeholders to address the issues. It finally called participants to take part in providing adaptive and mitigation measures of climate change in the country.

A total of 21 project proposals on climate change adaptation were reviewed and approved for funding for the seven districts of Karonga, Kasungu, Salima, Zomba, Chikhwawa, Nsanje and Mulanje under African Adaptation Project (executed by WFP component). The districts were funded and commenced implementation of activities. The projects would ensure that the communities targeted would adapt to climate change and to sustain their livelihoods during the time of climate change impacts.

The other component of climate change activity that Government is promoting is the implementation of cleaner technologies under the Clean Development Mechanism (CDM). Under the CDM Government developed guidelines based on the United Nations Framework Convention on Climate Change requirements for appraisal of projects that would qualify accessing financial support from the Clean Development Mechanism (CDM) Board.

Five project identification notes (PINs) that included improved cook stoves for Malawi coordinated by CO2 Balance, UK; Carbon Soft Open Source Programme Activity, LED lighting distribution - Pan-Africa submitted by Carbon Soft

Corporation United Kingdom and Solar Solutions Malawi; Programme Activity for Landfill Gas Capture Project by City Councils Environment Consortium; Programme Activity for the Reduction of Emissions from Non-renewable fuel from cooking at household level submitted by Green development AS; and Off-Grid Rural Electrification Project For Malawi and Mozambique (using suppressed demand methodology) submitted by Chinansi Foundation were appraised and given letters of No Objection to start the preparation of the Project Design Document (PDD) which would be submitted to the CDM board for consideration on financing.

Out of the several PDDs that the Designated National Authority (DNA) has received for review before recommending them to the CDM board, only Carbon Soft Open Source Programme Activity LED lighting distribution and Solar Solutions Malawi has been reviewed by the CDM Technical Committee. The DNA has issued a Letter of Approval for the project which will be submitted to the CDM Executive Board for consideration and financing.

To address the phase out of use of ozone depleting substances (ODS), custom officials impounded 35 fringes in the border posts in the country as a way of enforcing compliance on the ban of fringes and cooling equipment that continue to use ODS. Government furthermore trained refrigerant technicians on good practices that minimize the emission of ozone depleting substances into the atmosphere. The training will strengthen capacity of refrigerant technicians on the phase out of ozone depleting substances in the country.

14.3 Environment and Natural Resources Management

Environment and natural resources management were addressed through a number of areas that included the enforcement of compliance of industries to discharge effluents into natural water courses in accordance with the acceptable environmental standards, and that city, municipal, town and district council management complied with acceptable standards of effluents discharges and waste disposal.

14.3.1 Pollution Control

In the period under review, 42 premises were inspected in government, industries and local authorities. These included Mzuzu waste dump site, Chibuku processing plant, Dwangwa Sugar factory, Domasi water treatment plant, Zomba waste dump site, Fuel depots (Petroda, Engen, Total and Energem), and S&K Cold Storage. In many of these places inspected, industries followed remedial actions they were advised to undertake on previous inspections. However, in a few circumstances, some failed to adhere to the recommended sanitary measures such as not allowing effluent with high biochemical oxygen demand (BOD) discharge into water courses. Industries were advised to correct the situation.

In addition to the inspections, Government conducted three stakeholders' consultative meetings in Blantyre, Mzuzu and Zomba cities for the development of Pollution and Waste Management Action Plan for each city which will eventually feed into a National Pollution and Waste Management Strategy.

14.3.2 Enforcement of Environment Impact Assessment

Under Section 24, 25 26 of the Environment Management Act, 1996, Government is required to process applications for Environmental Impact Assessment and monitor implementation of their environmental management plans for approved development projects, plans, programmes and policies to ensure sustainable development.

In the year under review, the Technical Committee on Environment and the National Council of the Environment reviewed and approved a number of projects for implementation after being satisfied that the measures presented in the Environmental Impact Assessment reports and the Environmental Management Plans can provide adequate environmental protection and sustainable utilization of natural resources. These are the development of offices, research workshops and laboratories at Maone Industrial Park in Blantyre for MIRTDC at an estimated cost of MK2.8 billion; Green Belt Irrigation Project in Salima worth MK 3.75 billion; the Malangalanga Infrastructure Development Project, Lilongwe for development of Warehouses and Residential for Dudu Estate; Limphasa Sugar Project, Nkhata Bay; MM Fruit Processing Project, Salima at an estimated cost of MK2 billion; Chenkumbi Limestone Mining and Cement Production, a Lafarge company that is expected to increase annual production of cement to 600,000 tons in Balaka. Other approved projects include Kaoshing Brick Making which is estimated at a cost of MK300 million; International Conference Centre and hotel in Lilongwe estimated at MK9 billion and Golden Peacock Hotel in Lilongwe estimated to cost MK425 million. Environmental monitoring and audits for the approved projects were conducted to ensure that the developers are compliant with the requirements stated in the Environmental Management plans in order that environmental concerns are integrated during implementation of the development projects.

Furthermore, Government undertook four environmental monitoring inspections to previous years approved projects of Chanthulo Agricultural development project in Mangochi, Kulimba Cement Factory in Lunzu, Blantyre; Njuli quarry in Blantyre and Nathenje in Lilongwe. Following the monitoring visits, the project developers are required to address all environmental issues identified during the monitoring and comply with approved Environmental Management Plans for the respective projects.

14.3.3 Biodiversity Conservation

Government has started to conduct a preliminary inventory of the alien invasive species that affect biodiversity management. The inventory will be used to strategize control and eradication means to minimize their impacts on biodiversity in the country.

As a way of supporting African countries in the implementation of the Nagoya Protocol on access to genetic resources and the fair and equitable sharing of benefits (ABS) arising from their utilization to the Convention on Biological Diversity, the Government of Malawi hosted the African Regional ABS workshop at Club Makokola in Mangochi funded by the GIZ. The objective of the workshop was to assist African countries ways of speeding up the signing and ratification of the Nagoya Protocol so that adequate numbers are met to enforce the protocol.

Government has also conducted a stakeholder workshop to the different sectors involved in biodiversity on the need for Government to accede to the Nagoya Protocol for Access to and Benefit Sharing of genetic and biological resources. The workshop endorsed the protocol because it will ensure that Government and in particular the communities shall benefit from revenue realized as a result of use of the genetic and biological resources through permits, fees, loyalties, licenses etc.

14.3.4 Environmental Legislation

The Atomic Energy Act was passed in 2011, and Atomic Energy Regulations were drafted to provide for the enforcement of the Act. The regulations have been finalized and will be gazetted in May 2012. The regulations contain comprehensive provisions to enable Malawi to regulate activities involving the use of atomic energy in various sectors including; mining, health, and agriculture, energy and water sectors. The regulation will contribute to the economic growth of the country and will ensure the protection of human health and the environment.

Government conducted a preparatory meeting for the external audit of International Atomic Energy Agency (IAEA) programmes in Malawi. The external audit was carried out in all the programmes in sectors such as health, energy, water, agriculture, occupational health and safety and the environment. The report of the results of the audit is yet to be submitted to government.

Government procured radiation monitoring equipment that will be used to conduct and maintain an inventory of radiation sources in industry, mining, health, laboratories etc. Some government staffs were trained on the use of the equipment.

Government continued to build the capacity of Malawians in the atomic energy field through training in the areas of mining, water, health, radiation monitoring and project management.

The Biosafety Act of 2002 and the Biosafety (Genetically Modified Organisms) Regulations of 2007 were reviewed in the light of policy and legislation developments at national, regional and international level and in order to develop new legislation that responds to these different developments. The review of the legislation will be finalized in the second half of 2012. The reviewed legislation will enable Malawi to better regulate biotechnological activities in Malawi.

Government issued a number of licenses and permits to regulate the use, transportation, storage and disposal of waste, hazardous waste and chemicals. Government is currently in the process of preparing a schedule of fees for issuing licenses and permits for these activities. These funds will be put into the Environmental Management Fund and will be used for improved protection and management of the environment and sustainable utilization of natural resources thereby contributing to the sustainable growth of Malawi.

14.3.5 Environmental Information, Education and Public Awareness

Government prepared the National Environmental Outlook Report for Malawi, and in the year under review, continued to conduct training of District Environment Sub Committees (DESC) on the preparation of District State of Environment and outlook report in Salima, Ntchisi, Mulanje, Chiradzulu, Chikhwawa, Machinga and Kasungu districts. The districts are expected to prepare district reports which will provide information for environmental planning to address areas that need improvements for sustainable development at both the district and the national levels.

In addition to the training programmes for district State of the Environment and Outlook Reports, Government produced a video on Biodiversity thematic area of the National State of the Environment and Outlook Report and was continuing the production of videos on other thematic areas.

After printing the Malawi National State of Environment and Outlook Report (SOER), the Second National Communication report on Climate Change, the Environment Sustainability Criteria framework, the Environment and Natural Resources Monitoring and Evaluation framework and the Economic report on Environment and Natural Resources, Government launched all these reports to make them available for wider use by other Government institutions, the private sector, the NGO community, the academic and the public in order to promote sustainable development of the country.

Finally, Government developed a Climate Change and Environment website and members of staff were trained how to maintain it. The climate change website is accessible on http://www.nccpmw.org

CHAPTER 15

EMPLOYMENT, GENDER, COMMUNITY AND CHILD DEVELOPMENT

15.1 Overview

This chapter evaluates developments in the labour market and social services sector during the 2011/12 financial year.

15.2 Employment

15.2.1 Unemployment Levels

The official statistics on levels of unemployment will be available after a labour force sample survey is undertaken. It is, however, understood that most of the labour force in Malawi live in rural areas and are engaged in subsistence farming. Youth unemployment is high in urban areas, especially in the cities because of the desire to clamour for modern facilities, infrastructure and related economic opportunities.

15.2.2 Decent Work

Decent work is loosely connected with quality of employment, which in turn helps improve labour productivity. Figure 15.1 illustrates that productivity in Malawi has been slowing down over the time. It is an opportune time that the country emphasises more on the decent work concept to complement efforts aimed at improving productivity.

FIGURE 15.1: LABOUR PRODUCTIVITY GROWTH

Source: Ministry of Labour

15.2.3 Minimum Wages

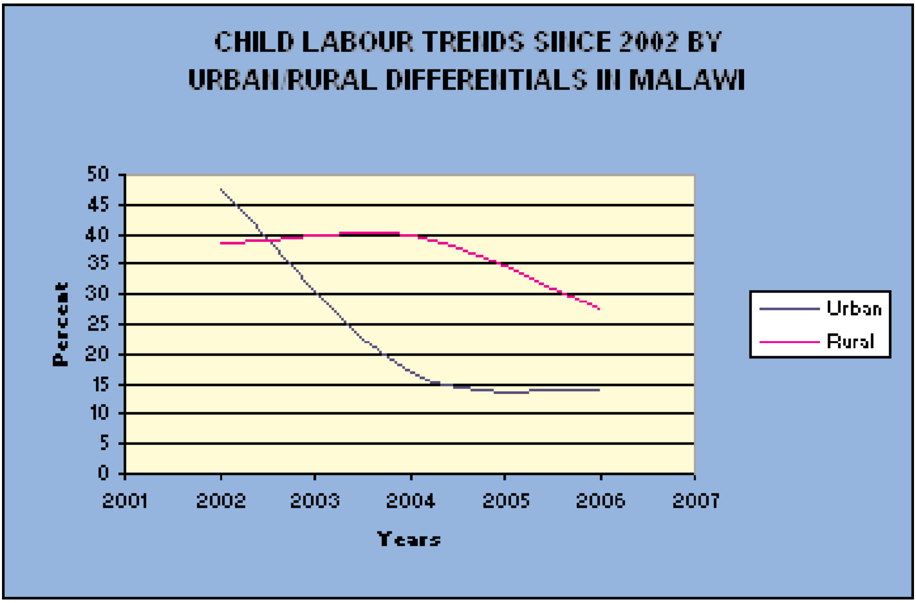
The minimum wage for Malawi is at K178.25 per day (a proposal has been submitted to Government for a revision of the same). The current minimum wage was effected from January 2011. Prior to this, the minimum wage for rural areas was K95.45 per day plus a housing allowance of K10.00 per day. For the urban areas, minimum wage was K117.30 per day plus a housing allowance of K12.00 per day. This was with effect from 9th October, 2007.

Segmented minimum wages for craftsmen for each month are as follows: Malawi Craft Certificate holders - K6,500, Malawi Advanced Craft Certificate holders - K7,500; For tradesmen are as follows: Tradesmen Grade III - K5,500, Tradesmen Grade II - K6,500, Tradesmen Grade I - K7,500 per month. These minimum wages prevailed from 2008 through to 2012.

15.2.4 Child Labour

The Malawi Child Labour Study Report (2002), Demographic Health Survey Report (2004) and Multiple Indicator Cluster Survey Report (2006) have documented a decline on child labour. There was a decline of about 75,000 children in child labour per annum between 2002 and 2006. Rural areas needed more efforts to reduce child labour in comparison to urban areas. Efforts on fighting child labour are now appreciated by all sectors and child labour is being mainstreamed in all sectors of the economy.

FIGURE 15.2: RURAL-URBAN DIFFERENTIALS IN CHILD LABOUR ELIMINATION IN MALAWI



Source: Ministry of Labour

15.2.5 Labour Inspections

Government continued to conduct labour inspections throughout the country as a way of enforcing labour laws as well as monitoring the labour market dynamics. Sweeping integrated labour inspections were conducted. During the inspections, the following infringements were checked: lack of holidays; unpaid overtime; absence of written terms of conditions of employment; unattended water and sanitation problems especially in shops; locking in of bakery workers in bakeries at night; lack of funeral management policies (lack of decent working conditions); lack of HIV and AIDS policies; presence of sexual abuse and conspicuous use of abusive and foul language.

TABLE 15.1: REGISTERED CUMULATIVE NUMBER OF LABOUR INSPECTIONS PER MONTH PER DISTRICT

Year	2006	2007	2009	2011
Labour inspections	9	6	7	5

Source: Ministry of Local Government and Rural Development

Table 15.2 shows that strikes continue to exist but at a low scale. Most of the strikes are on clamour for wage progression.

TABLE 15.2: AVERAGE NUMBER OF STRIKING WORKERS AND MAN DAYS LOST CLASSIFIED BY TYPE, YEAR

	2006	2007	2008	2009
Striking workers	60	132	3,000	457
Man days lost	2	968	6,000	725
Business establishments	1	5	1	11

Source: Ministry of Labour

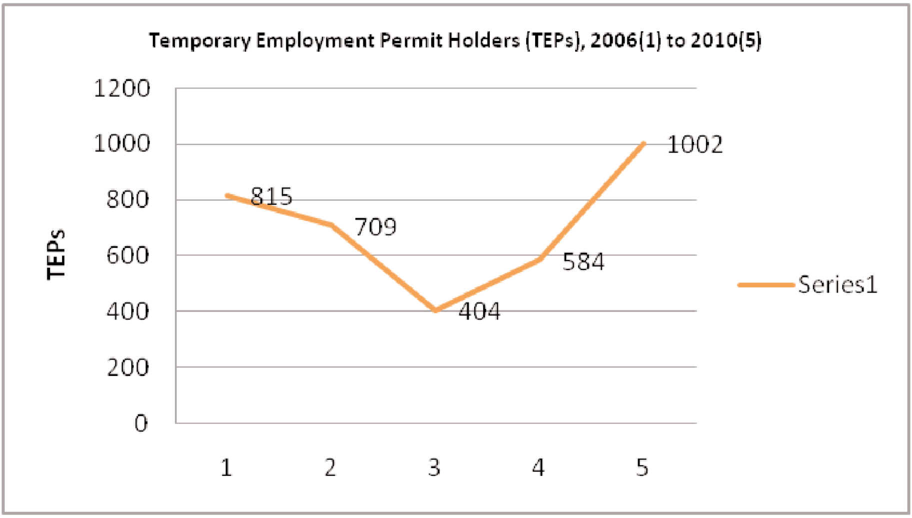
15.2.6 Trade Testing Services

Trade testing services continue to register increases in number of candidates being tested for grades I, II, and III. In 2011, Government registered 8,692 and tested a total of 8,123 candidates. In 2012 March/April 3,770 candidates were registered and a total of 2,771 candidates were tested through the trade testing services.

15.2.7 Employment of Expatriates

Malawi continued to experience inflows of human resources from other countries due to the growing demand for skilled labour. Figure 15.3 shows the temporary employment permit numbers over the years.

FIGURE 15.3: TEMPORARY EMPLOYMENT PERMIT HOLDERS 2006–2010



Source: Ministry of Home Affairs (Immigration Department)

The number of expatriate workers in Malawi on temporary employment permits (TEPs) are largely in the classes of managers and other professionals. The teacher/lecturer and religious Pastors/Priest/Minister classes are in professional classes but are reclassified separately.

TABLE 15.3: MAJOR CLASSES OF OCCUPATIONS OF TEP HOLDERS AND THEIR ANNUAL TRENDS

CLASS	2006	2007	2008	2009	2010
Administrators / Managers	269	274	169	260	454
Professionals	121	179	102	139	245
Pastors/Priests/Ministers	173	172	65	101	117
Teacher/Tutor/Lecturer	163	64	40	43	112
Technicians	89	20	28	41	74

Source: Ministry of Home Affairs (Immigration Department)

15.2.8 Occupational Safety and Health

The registration of work places is crucial to business start ups and the trend in registration of work places is generally upward. It, however, took a downturn in 2011 as shown in Table 15.5 below.

TABLE 15.4: NUMBER OF OCCUPATIONAL SAFETY AND HEALTH INSPECTIONS CONDUCTED, 2006-2010

Activity	2006	2007	2008	2009	2010	2011
Workplace Inspections conducted	321	282	191	213	254	142
Pressure vessels examined	741	644	745	464	404	209
Industrial accidents reported and investigated	11	8	6	10	17	3
Registered workplaces	278	296	238	301	306	223

Source: Ministry of Labour

Table 15.6 below provides details for the years 2006 through to 2011, in terms of facilitating payment for workers' compensation for occupational injuries or diseases.

TABLE 15.5: WORKERS' COMPENSATION FOR THE YEARS 2006 - 2011

Activity	2006	2007	2008	2009	2010	2011
Cases Paid	701	1,545	1,117	1,331	722	637
Amount Paid in K '000'	64,657	196,816	186,470	163,218	123,107	168,621

Source: Ministry of Labour

Government has embarked on the registration of employers in an effort to establish workers' compensation fund. The workers' compensation Act in 2010 is still under review. It will provide further foundation for the establishment of the workers' compensation fund. The cost per case has risen to about K300,000 in 2011 from K200,000 in 2010 and also K100,000 in 2008.

15.2.9 HIV and AIDS at the Workplace

With regard to HIV and AIDS, the 2010 Demographic Health Survey compiled by the National Statistical Office (2011) established that population that has high income is more likely to be infected with HIV than the one with low income. It further indicates that population that communicates frequently is more likely to be infected with HIV than the one that communicates less frequently. Workers communicate frequently and earn incomes, and are more likely to be infected. Government, through the Ministry of Labour, has published a report on HIV and AIDS Workplace Policies and Programmes that aims to provide information on policy and programme activities. The results have shown that at the time of the survey (November 2007) there was not enough evidence that there existed a business establishment that had an HIV and AIDS policy that was both comprehensive and anti-discriminatory. The intention is to re-examine situations in workplaces and review the draft National Workplace Policy. Efforts will continue to offer business establishments with technical assistance on the construction of respective workplace policies.

15.3 Gender, Community and Child Development

This section reviews performance of gender, community and child development. The implementation of these activities is guided by the MGDS II and the Strategic Plan for the Ministry of Gender, Children and Social Welfare. Government endeavours to promote equal participation of women, men, girls and boys in the national development agenda. It envisions a self reliant Malawi with economically and socially empowered women, men, girls and boys.

15.3.1 Gender Affairs

15.3.1.1 Gender Mainstreaming

As a national gender machinery, the Ministry of Gender, Children and Social Welfare continues to provide guidance and technical services to ensure effective gender responsive policies, programs and projects to enable the country achieve gender equality. In 2011/12 financial year, the Ministry conducted training for gender trainer of trainers for 50 officers from the districts and headquarters and conducted a gender audit in 11 districts from all the regions of Malawi. As part of efforts of ensuring gender mainstreaming and budgeting at District Council level, gender mainstreaming and budgeting guidelines were disseminated to district councils in the Central and Southern regions. The districts are now using the guidelines in budgeting, planning and implementation of District initiatives. 25 public sector gender focal point officers in gender analysis were also oriented.

15.3.1.2 Gender Related Laws and Legislatives

The promotion of gender equality requires supportive institutional and legal structures. As such, the national gender policy was reviewed in order to incorporate the current emerging issues related to gender. Lobby for the enactment of the two outstanding gender related bills i.e. Marriage, Family Relations and Divorce and Wills and Inheritance bills also continued.

15.3.1.3 Gender Based Violence

Gender Based Violence (GBV), especially violence against women, has been recognized as a severe impediment to poverty reduction. To reduce cases of GBV, Government developed a National Response (2008-2013) to combat gender based violence. As part of the response, in the 2011/12 financial year the following were carried out:

- trained service providers in psycho social support (from Police, Social Welfare and VSU) and effectively provided services to GBV survivors;
- trained 40 survivors of GBV in psycho social support. The survivors have now been reintegrated into their communities;

- conducted awareness campaign meetings on gender based violence;
- provided psychosocial support to victims of GBV at the Social Rehabilitation Centre;
- commemorated 16 days of activism against gender based violence and International Women's Day. During the 16 days of activism, advocacy activities on preventing BGV were intensified across the country;
- in collaboration with the Police, the Ministry has established 100 Community Victim Support Units (CVSU) since the 2009/10 financial year; and
- finalized the development of GBV guidelines.

15.3.1.4 Women, Girls and HIV/AIDS Programme (WGHA)

Government is implementing a program that aims at reducing Women`s and Girls' vulnerability to HIV and AIDS. In 2011/12 financial year, 4 radio programs and jingles on harmful cultural practices that promote gender inequalities and the spread of HIV/AIDS were developed. The programs were aired on Malawi Broadcasting Corporation (MBC) once a week. 160 bicycles were also procured and distributed to community facilitators who are spearheading the implementation of the WGHA program at community level. The manual and resource handbooks for peer educators who conduct community mobilization and sensitization campaigns on retention of girls in schools and on cultural/traditional factors that create and perpetuate gender inequalities at the ground level were translated and printed.

15.3.2 Community Development

15.3.2.1 Economic Empowerment

Recognizing that poverty in Malawi has a distinct gender dimension as shown by several low human development indicators on women, Government is committed to enhancing the economic empowerment of the grassroots with primary focus on women as key beneficiaries. It has been engaging the target beneficiaries in various aspects of entrepreneurship development through formation of business groups and training them in business management and productions skills in various enterprises of their choice. During the 2011/2012 Financial Year the following were achieved:

- trained 31 entrepreneurs (15 males and 16 females) in business management;
- trained 343 business groups in business and credit management, marketing and group dynamics;
- trained 15 women groups in food processing business, juice making and baking;

- 15 groups were linked to OIBM for business loans averaging K100,000 per group;
- supervised 800 economic empowerment groups;
- formed 2 business cooperatives;
- 175 cooperative members have been trained;
- conducted a sensitization meeting for 56 district staff in entrepreneurial skills in Liwonde; and
- monitoring visits were conducted in Kasungu, Salima, Mzimba, and Chikhwawa where 900 groups were reached.

15.3.2.2 Community Mobilization and Capacity Building

Government continues to build capacity of local leaders and the communities themselves on issues of community development. This has ensured identification of existing communities` problems, which has facilitated development of solutions to solve them either through local mobilization of resources, or engaging outside stakeholders for technical and financial support depending on the nature of the problem. An important aspect in terms of community mobilization and capacity building of local leaders is the creation of an enabling environment for effective implementation of development programs and projects by various development players working in rural communities. Under this program, the following were accomplished during the year under review:

- trained 82 VDCs and 22 Area Executive Committees in various fields including Project Management, Millennium Development Goals Decentralization, Harmful Cultural Practices and HIV and AIDS;
- trained 6 CBOs in HIV and AIDS, Transparency, Accountability and Good Governance;
- trained 60 community leaders in leadership skills;
- trained 6 school management committees in infrastructure maintenance;
- supervised 220 development projects;
- facilitated formation of 1 water User's Association at Usisya;
- trained 66 Water Point Committees in community based management of boreholes; and
- trained 42 youths in Youth Participation in Development.

Under the Home Management Program, the formation 6 nutrition groups were facilitated. 5 ADCs were sensitised in home management and nutrition. 12 community nutrition committees and 32 groups were trained in proper household resource mobilization and utilization. Furthermore 20 chiefs' spouses were trained in home management and community nutrition. Refresher course for 20 CDAs were conducted in home management.

15.3.3 Child Development

Government promoted that families and communities to provide support, care and protection to vulnerable children, the aged, marginalized families and those affected by HIV/AIDS. Furthermore, it promoted access to Early Learning and Stimulation to Children. Government also facilitated the provision of assistance to orphans and other vulnerable children (OVCs) by strengthening the capacity of families and communities to adequately care and support OVCs.

15.3.3.1 Orphans and other Vulnerable Children

To allow children grow and achieve their potential, Government has been supporting OVCs in various ways across the country. In the 2011/12 financial year, it supported over 15,000 OVCs with education support to enable them remain in school and perform well.

15.3.3.2 Social Cash Transfer

Over 4 million Malawian children live in poverty that is characterised by low income, low literacy, food insecurity and child malnutrition which is at 48 per cent. Additionally children are orphaned due to HIV, 50 per cent of under-5s are stunted, and 15 per cent of children of primary school age have not enrolled due to poverty, hunger and cultural barriers.[1] The Social Cash Transfer Scheme is being implemented targeting ultra poor and labour constrained households to reduce the impact of poverty. During the year under review, 28, 000 households, of which over 75 per cent are children, have been provided with cash transfers. Currently the programme is in seven districts namely: Mangochi; Machinga; Phalombe; Salima; Chitipa; Likoma; and Mchinji. Plans are underway to upscale the programme to cover more districts across the country. The project also made the following achievements during the 2011//12 financial year:

- trained 21 new social cash transfer trainers;
- reviewed the community and interagency models of case management in Lilongwe and Mchinji;
- trained 5 core team members from Mchinji, Lilongwe, Mzimba, Zomba and Blantyre in case management;
- trained 25 local leaders, extension workers and members of Chimteka CBO in Mchinji in case management; and
- oriented DEC members of Mzimba, Blantyre, Zomba, Lilongwe and Mchinji in case management.

15.3.3.3 Early Childhood Development

Government recognizes that the first eight years of life of a person are crucial for optimal development. Early Childhood Development (ECD) program is therefore

[1]UNICEF (June 2008), *Social Protection Profile, p.i*

very pertinent as it gives chance to children to grow up in an environment conducive for physical and mental development while also building advantageous social relations. During the 2011/12 financial year, the following were achieved:

- opened 240 new ECD centres;
- upgraded and rehabilitated 3 ECD centres;
- oriented 56 District Officers and 12 ministry officials on parenting;
- sensitized 18 chief executive officers of companies and parastatals to provide support to ECD interventions at the community level;
- developed and pretested ECD instruction materials; and
- trained 145 caregivers in Zomba, Blantyre and Mzuzu.

15.3.3.4 Child Protection

Malawian children are vulnerable to abuse, violence, exploitation, discrimination and neglect. Currently, there are 3.1 million[2] children that have grown up in violent homes, witnessed domestic violence or experience its negative effects. To ensure that the Malawian children are protected, Government is implementing child protection programs. During the 2011/12 financial year, the following achievements were made:

- 85 children were rehabilitated in the rehabilitation institutions;
- provided reformatory services to 122 children in conflict with the law at Chilwa Reformatory Centre and Mpemba Boys Home;
- trained 30 Social Workers on rehabilitation;
- conducted 12 Children Parliament sessions in 12 twelve districts;
- established child protection committees in 15 districts in every Traditional Authority;
- finalized the psychosocial support community guide;
- conducted mapping of and assessment of child care services and organizations;
- oriented 28 District Social welfare Officers, prosecutors and magistrates on the Child Protection and Justice Act 2010;
- conducted a Trainer of Trainers for the Journey of Life manuals;
- trained 24 quality improvement coaches; and
- provided educational, kitchen and recreational equipment to the Social Rehabilitation Centre.

[2]Government of Malawi (2000), *Malawi Demographic Health Survey*

Chapter 16

POVERTY REDUCTION WITHIN THE NATIONAL DEVELOPMENT STRATEGY

16.1 Overview

The MGDS II is the overarching operational medium term national development strategy for the period 2011-2016, formulated to attain the country's long term development aspirations. This chapter outlines the poverty reduction within the National development strategy whose objective is wealth creation and reduction of poverty through sustainable economic growth and infrastructure development.

16.2 Selected Achievements towards Poverty Reduction in 2011

16.2.1 Agriculture

With regard to food security, maize remains the main staple food for Malawians. During the 2011/12 crop season, Government implemented the Farm Input Subsidy Programme (FISP) for the seventh season running on maize fertilizers, maize and legume seeds. This constituted 140,000 metric tonnes of subsidized fertilizers, 7,000 metric tonnes of maize seed subsidy and 2,800 metric tonnes of legume seeds (groundnuts, beans, soybeans and pigeon peas) as well as maize storage pesticides. As a result, 2011/12 maize production according to the second round national crop estimates will be 3,618,699 metric tonnes against the country's national maize requirement of 2,800,335 metric tonnes. This represents a surplus of 566,552 metric tonnes.

The national food availability, therefore, remains stable with adequate national stocks pegged at more than 200,000 metric tonnes in the ADMARC and the SGR stocks. Details can be found in Chapter 3 (Agriculture).

16.2.2 Education

The Net Enrolment in primary school stands at 80.2 per cent up from 78 per cent in 2000, and the proportion of pupils starting grade one, who reach grade five without repeating a grade has also increased from 69 per cent in 2000 to 73.5 per cent in 2011. The youth literacy rate is currently at about 84 per cent from 68.1 per cent in 2000. According to linear projections, the attainment of universal primary education by 2012 will depend on capacity to scale up efforts beyond the historical levels. Details on progress in basic, secondary and tertiary education can be found in Chapters 9 (Education), 13 (Youth Development and Empowerment) and 15 (Gender, Community and Child Development).

16.2.3 Public Health, Sanitation, Nutrition and HIV and AIDS Management

16.2.3.1 Public Health

Government is committed to efforts aimed at reducing child mortality and improving maternal health. To date, the proportion of births attended by skilled health personnel is at 73 per cent from 55.6 per cent in 2000, while one year-old children immunized against measles is at 93 per cent from 83.2 per cent in 2000 and OPD service utilization is 488 per 1000 against a target of 1000 per 1000 population. Details can be found in Chapter 12 (Public Health).

16.2.3.2 Sanitation

Government commenced the implementation of initiatives and programmes aimed at, inter alia, decreasing open defecation and accelerating increased use of improved sanitation and hygiene in rural areas and undertaking increased sanitation and hygiene promotion campaigns and promotion activities at district level. Details can be found in Chapter 12 (Sanitation).

16.2.3.3 Nutrition

Progress has been made with respect to prevalence of underweight children declining to 12.8 per cent to date from 25.4 per cent in 2000. The proportion of the population below minimum level of dietary energy consumption stands at 15 per cent from 23.6 per cent in 2000. These reductions can also be attributed to FISP which has resulted in food surpluses for the country since 2005. Details can be found in Chapter 12 (Nutrition).

16.2.3.4 HIV and AIDS, Malaria and other Diseases

Death rates associated with malaria have declined from 3.6 per cent in 2000 to 2.8 per cent in 2011 and access to malaria treatment has increased from 8 per cent in 2000 to 28 per cent in 2011. For TB, death rates associated with the disease have significantly been reduced from 22 per cent in 2000 to 7 per cent in 2011. For HIV and AIDS, the prevalence among 15-24 year old pregnant women has fallen from 24.1 per cent on 2000 to 12 per cent in 2011. Government has implemented a number of activities during the period under review broadly under prevention and behavioural change interventions; treatment, care and support; impact mitigation interventions; mainstreaming and decentralization; research, monitoring and evaluation; and development of the National HIV and AIDS strategy 2011-2016. Details can be found in Chapter 12 (HIV and AIDS management).

16.2.4 Integrated Rural Development

Government is using an Integrated Rural Development (IRD) approach to resuscitate rural economies and transform them into potential drivers of economic growth and development. To that effect, Government completed construction of the basic social infrastructure in two Rural Growth Centres (RGCs) of Neno

(Neno) and Nthalire (Chitipa). The construction and completion of market structures has been one of the greatest milestone in the sector in terms of infrastructure development in the rural and urban areas. Currently, construction of Thyolo, Matawale, Mangochi, Dwangwa, Bvumbwe and Ekwendeni markets are mostly completed and awaiting handovers to respective district councils. Details can be found in Chapter 11 (Integrated Rural Development).

16.2.5 Child Development, Youth Development and Empowerment

In a bid to economically empower the youth in the country, the Government trained youth groups in enterprise development and young people were equipped with vocational and entrepreneurial skills and provided with start-up tools; established 161 youth structures and strengthened 161 coordination structures; provided the youths of Malawi with information to allow them to make informed choices about their sexual behavior. Government also continued with the rehabilitation and maintenance of existing youth infrastructures. Details can be found in Chapter 13 (Youth Development and Empowerment) and Chapter 12 (HIV and AIDS management).

16.2.6 Social Support

Government continued to provide a package of social support interventions which support the poor and vulnerable groups in society. Among numerous others, these interventions include:–

(*a*) Social Cash Transfers Programmes; and

(*b*) Public Works Programmes.

16.2.6.1 Social Cash Transfer Programme

The Social Cash Transfer (SCT) Pilot Program is currently being implemented in 7 districts reaching out to 28,000 households, directly benefiting 106,000 individuals monthly. The objective is to reach out to 215,000 households that are ultra poor and labour constrained benefiting almost 1 million Malawians by 2016. As part of Malawi's Social Support (Protection) Strategy, the SCT programme has a plan to be rolled out nationally to cover all the 28 districts.

The SCT has been largely funded by the Global Fund since 2007. This funding has currently been depleted. The Government of Malawi allocated MK50 Million (US$300,000) in the 2010/2011 fiscal year and another MK70 Million in the period 2011/2012. This funding has mainly gone towards scaling up to additional Traditional Authorities in Machinga.

Irish Aid provided EURO 850,000 to cover a funding gap from November 2010 to January 2011 and has provided additional funding for capacity building in 2012. The German Government through a German Development Bank (KfW) has provided EURO 13 Million which will support the current level of coverage in the 7 districts for three years (2012-2015).

The European Union has earmarked EURO 25 Million for the Social Cash Transfer under its MDG Initiative that seeks to accelerate attainment of the MDGs. These funds will enable full coverage in the existing 7 districts and allow scale up to an additional 6 districts from 2013 to 2015. UNICEF supported the design of the program and continues to provide technical, financial and infrastructure support to the tune of approximately US$2.5 Million annually since 2006

16.2.6.2 Public Works Programmes

The Public Works Programme (PWP) includes various labour intensive works targeting the moderately poor and extreme poor households nationwide, who have some labour capacity to invest in the works and earn an income. PWP also includes projects implemented by MASAF, which have typically been short term programmes linked to the Farm Input Subsidy Programme (typically 10-12 day workfare). The wage rate is indexed to the price of a minimum basket of farm inputs. As of 2012, there have been 796,887 beneficiaries, of which 48.5 per cent were female. 75 per cent of beneficiaries were then able to buy agricultural inputs following participation. PWP is expected to be scaled up as part of the economic recovery plan so that 1,475,125 beneficiaries will be targeted by 2014.

Chapter 17

PUBLIC ENTERPRISES

17.1 Introduction

This chapter reviews performance of the parastatal portfolio in the financial year 2010/11 compared to 2009/10. The review also provides a brief overview of midyear unaudited results, to December 2011.

The review covers the following parastatals; the Northern Region Water Board (NRWB), Central Region Water Board (CRWB), Lilongwe Water Board (LWB), Southern Region Water Board (SRWB) and Blantyre Water Board (BWB), all under the water utility portfolio; the Malawi Housing Corporation (MHC) and Airports Development Limited under the property development and management portfolio; the Malawi Posts Corporation (MPC) and Malawi Communication and Regulatory Authority (MACRA) under the telecommunications portfolio; Electricity Supply Commission of Malawi Limited(ESCOM), ADMARC Limited and Air Malawi.

17.2 Water Utility Portfolio

17.2.1 Blantyre Water Board (BWB)

Blantyre Water Board (BWB) continues to strengthen its operations in all areas. During the year under review, the focus was on putting best management practices in order to reduce the high levels of non-revenue water, currently averaging 48 per cent to 51 per cent. This is a major challenge faced by the Board which is a consequence of aged water pipes and meters. To address this challenge, Government concluded negotiations with funding partners under the Second National Water Development Project to provide funding for projects that will reduce the water losses and enable the Board deliver its services efficiently. Once the project is completed, it is expected that water losses should reduce to below 20 per cent within the next two years.

The Board realized total revenues of K1.5 billion during the year under review compared to K1.1 billion in the previous year. Mid year to December 2011 unaudited results shows a loss of K3.3 million. The key to unlocking this position is reduction in the water loss levels, increase in tariff and efficient management of working capital.

Table below shows the financial performance indicators as at 31st December, 2010.

TABLE 17.1: SELECTED PERFORMANCE STATISTICS (BWB)

Performance Targets	*2011/12 First half*	*2010/11 Audited K'millions*	*2009/10 Audited K'millions*	*2008/09Audited K'millions*
Total Revenue	1,459	2,612	2,402	1,883
Total Expenditure	1,273	2,279	2,158	1,799
PAT	41	58	142	174
Net Profit	-	-	76.8	(30.9)
Current ratio	1.47	0.98	1.5	0.6
Non Revenue Water	44%	47%	48%	-
New Connections	1,731	1,502		
	1,370	-		
Debtors collection days	194	207	249	137

The Board continues to focus on the following challenges:

- low water tariff - there is need to continue a gradual increase of the tariff rates in order to achieve cost reflective tariff rates. This is an ongoing process;
- aged water systems resulting in huge levels of unaccounted for water currently at over 50 per cent; and
- huge trade receivables - resulting in borrowing to cover up the financial gap and complement working capital. Aggressive debt collection measures continue to be implemented to mitigate this challenge.

17.2.2 Northern Region Water Board (NRWB)

Unaudited results to December, 2011 show a decline in performance with cumulative total revenue of the board for the second quarter of 2011/12 financial year falling to MK588 million - 3 per cent below budget but 13 per cent above last year's performance. The profit after tax leveraged at K20.3 million, compared to K35.9 million in the same period. Working capital management practices and cost control measures continued to be applied in the management of the entity.

TABLE 17.2: SELECTED PERFORMANCE STATISTICS (NRWB)

Performance Targets	*2011/12 First half K'000*	*2010/11 Audited K'000*	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenue	588,953	1,060,306	853,549	714,632
Total Expenditure	547,635	939,606	777,548	616,275
PAT	20,313	50,763	(90,401)	(464,680)
Return on Total Assets	0.3%	1%	15%	28 %
Current Ratio	1.4 : 1	1.4 : 1	94%	123 %
Profit Margin	5%	5%	-11%	-72 %
Debt Collection Days	80	77	72	46

17.2.3 Lilongwe Water Board (LWB)

In 2010/11 the Board registered a marginal increase in revenues at K2.18 billion compared to K1.77 billion in the previous year. Overall the Board realised a profit of K2.46 million compared to a loss of K11million in the previous year.

Management has been maintaining measures to ensure a return to profitability. The measures cover various cost control strategies, reduction in water losses, and enhancement of the revenue base by connecting more customers to the water supply grid. These measures are showing positive results as demonstrated by the unaudited six months results to December 2011, which show a profit after tax of K209.0 million.

Table below shows the non financial performance targets for the year.

TABLE 17.3: SELECTED PERFORMANCE STATISTICS (LWB)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'millions*	*2009/10 Audited K'millions*	*2008/09 Audited K'millions*
Total Revenue	1,268	2,180	1,772	1,640
Total Operating Expenditure	798	1,578	1,512	1,279
Net Profit After Tax	209	2	(48)	46
PAT	208	2.5	(11.0)	46
Current Ratio	196%	153%	1.01:1	3.5:1
Debt Collection Days	89	95	113	116 days
Number of clients	40,183	38,839	36,822	32,673
Number of new connections	1,344	2,017	2,977	1,170
Levels on Non Revenue Water	27.9%	35.6%	36%	31%

17.2.4 Southern Region Water Board (SRWB)

The Board realised a total revenue amounting to K945.2 million compared to K735.0 million in the previous year. The Board made a profit of K30.0 million lower than previous year in which a profit of K56.7 million was made. The lower profit in the year is due to the higher water loss level at 31 per cent compared to the level in the previous year, which was at 28 per cent. The Board embarked on various projects aimed at replacing old pipe network with a view to reducing the water losses. There are also plans to procure leak detection devices which will help reduce maintenance lead times and also reduce water losses. As is the case with the other water boards, the Board continues to increase its tariffs gradually with a view to achieving a cost reflective tariff.

Table below shows the financial performance indicators for the period ending December, 2010.

TABLE 17.4 SELECTED PERFORMANCE STATISTICS (SRWB)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'million*	*2009/10 Audited K'million*	*2008/09 Audited K'million*
Total Revenue	531.3	1,068	945.2	735
Total Expenditure	415.5	1,032	915.2	678.9
PAT	31.3	35.6	30.0	56.7
Current ratio	6.3	0.76	6.2	9.8
Profit Margin	5.8%	3%	3%	8 %
Debtors collection days	152	177	181	221

17.2.5 Central Region Water Board (CRWB)

During 2010/11, the Central Region Water Board achieved a profit position of K68.9 million compared to a profit of K20.3 million previous year. The result is a combination of increase in revenues, reduction in costs especially for financing costs. However, control over water losses was problematic, and the estimated for the same was maintained at 26 per cent during the year under review. The Board was to benefit under the National Water Development Project and Infrastructure Services Projects. Under these projects, the Board would continue upgrading and expanding most of the systems it currently operates. This would result in connection of new customers that will enhance income earnings base and further improve performance of the Board. In the table below, the results to December 2011 show a profit of K6.9 million.

TABLE 17.5 FINANCIAL PERFORMANCE (CRWB)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'million*	*2009/10 Audited K'million*	*2008/09 Audited K'million*
Total revenue	429	728	589	518
Total expenditure	423	659	568	778
EBIT	7.85	73	25	21
Net profit after Tax	6,88	68	20.3	(257)
Current ratio	0.66	0.68	0.65	0.25
Profit margin	8.79%	18%	12.9%	15.8 %
Number of customers	17,656	16,880	18,878	15,878
Number of new connections	869	1,435	1,150	2,500
Levels of unaccounted for water	24%	26%	20 %	22 %

17.2.6 Challenges in the Water Utility Portfolio

The following are common challenges faced by parastatals in the water utility category:

- tight cash flow position - this is as a result of debt collection challenges and low tariffs. Management continues to implement measures that will mitigate the impact of this challenge;

- aged infrastructure - most of the distribution network equipment is old and results in heavy leakages. This has seen water loss level rising to 50 per cent as is the case with Blantyre Water Board. Efforts to replace the systems are underway and it is hoped that water losses be reduced to below 20 per cent;
- poor and inadequate water sources;
- high operating costs- the nature of the water distribution business is such that operating costs are high. Management continues to implement cost control measures with a view to arresting potential run-away costs; and
- inadequate financial resources for capital investment for new water source development to enable the Boards meet any future demands in the various water supply areas. This has resulted in slow growth in customer base and distribution network. Efforts continue to be applied to address challenge.

17.3 Property Development and Management

17.3.1 Malawi Housing Corporation (MHC)

The corporation continues to harness resources to ensure maximum utilisation of such resources. The drive to beef up the land bank continues in the country. As a strategic move, the corporation is building capacity in its contracting unit. This is where the future lies as pieces of valuable land continue to decrease. In the year under review, there was substantial investment in construction equipment. This will reduce equipment hiring expenses and therefore increase profitability.

Table 17.6 shows the financial and non-financial performance for MHC under period review.

TABLE 17.6: PERFORMANCE STATISTICS (MHC)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'000*	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenues	621,046	977	982	855
Total Expenditure	622,274	(1,205,557)	954	749
Net Profit after Tax	(1,227)	18,999	11.8	111
Return on Operating Assets	(0.06)	0.11	0.65	0.66
Current Ratio	1.06:1	1.94:1	1.94:1	0.92:1
Rent Collection Days (With Government Rent Arrears)	70 Days	73 Days	33 Days	80 Days
Rent Collection Days (Without Government Rent Arrears)	23 Days	28 Days	50 Days	47 Days

17.3.2 Airport Development Limited (ADL)

ADL generated income amounting to K482.0 million in the reporting period compared to K395.0 million in the previous period. This an increase in revenues, profitability also increased ending up with a net profit of K97.0 million against a loss of K14.5 million in the previous year.

From 2006/07 to 2009 the company's operating activities continue to be characterised by maintenance activities as most of the company's infrastructures were in bad state. These improvements have enabled the company to raise rentals significantly and to review its concession fees to ensure that optimal rates are charged. These actions improved the company's financial performance, as results for 2010/11 and 2011/12 half year showed profit.

TABLE 17.7: SELECTED PERFORMANCE STATISTICS (ADL)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'000*	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenue	260	482	395	430
Total Expenditure	227	384	410	357
PAT excl. Revaluation surplus	33	98	(15)	72.2
Return on Assets	1%	38%	1 %	12 %
Current Ratio	0.81:1	0.69:1	0.61:1	1:1
Profit Margin	12.84%	20.26%	16.78%	13.36%
Debt Collection Days	321	142	283	283

17.3.3 Challenges in the Property Development and Management Portfolio

The following are the challenges in this portfolio:

- inadequate contractors' capacity - this is with respect to MHC. To address the challenge, contract provisions now provide for stringent conditions of application;
- delays in the provision of utility services - the utility providers fail to provide in good time their services on house construction project sites, thereby delaying completion resulting in unforeseen cost over runs;
- cost of building materials - house construction has high percentage of imported materials which traditionally land at very expensive prices;
- inadequate construction equipment- management has planned to gradually re-equip the construction unit;
- debt collection challenges- ongoing collection efforts are in place;
- high cost of financing construction projects. Innovative funding sources are being considered in order to reduce funding costs; and
- high risk of delinquency due to non-payment of rentals. This applies more to ADL which has a portfolio with core long overdue amounts.

17.4 Power Portfolio

17.4.1 Electricity Supply Corporation of Malawi (ESCOM)

ESCOM made a modest profit of K5,8 million during the year under review. The modest profit is on account of a large provision for bad debts made in the year amounting to K1.1 billion. This is a major area of focus and management is in the process of procuring an efficient billing system and increasing the number of prepaid meters in order to mitigate the risk of bad debts. Turnover grew substantially at K10.4 billion but the net positive effect has not been realized due to bad debts provisions. The two tariff increases in recent months are now showing a positive impact. However the need for gradual increase in tariff remains a vital input in the turnaround strategy of the company.

Mid year results show a profit after tax of K1.1 billion. Management continues to closely monitor costs, efficiently manage working capital resources and manage procurement processes efficiently.

TABLE 17.8: SELECTED PERFORMANCE STATISTICS (ESCOM)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'000*	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenue	7,834	15,877	10,491	8,729
Total Expenditure	5,444	11,382	9,892	8,381
EBIT	2,399	4,495	743	1,058
Net profit after Tax	2,161	5,806	86	(982.9)
Current Ratio	0.85 : 1	0.42 : 1	0.40 : 1	0.65 : 1
Profit Margin	28%	6%	6%	-5 %
Debt Collection Days	82	82	120	100
New Connections	15,000	10,002	8,582	12,264
Access to Electricity	9	8.9	8.9 %	8 %
Generation Plant Availability (%)	90	94.44	91.89	90
Distribution faults/100 customers per year	15	20	20	20

Government is committed to improving Escom's ability to deliver its services efficiently. With Government's support the following projects will be undertaken in Escom:

- Government using its own resources has financed the Kapichira phase II generation project amounting to $55.0 million. Once completed, an additional 64 megawatts will be fed into the grid. This will reduce the power supply gap which currently exists;
- Government has also signed a grant financing agreement with the United States Government under the Millennium Challenge Corporation (MCC) to finance projects in the energy sector. The total funding amounts to $350.0 million. The focus in Escom will be towards improving and strengthening the transmission and distribution systems. This will reduce technical losses which are currently at 22.0 per cent. It will also enable evacuation of any additional power from future generation plants including power from Kapichira phase II; and
- Government is discussing with the World Bank for funding in the energy sector. Escom will also benefit out of this funding once concluded. Some transmission projects which could not be accommodated under the MCC

funding will be included under bank's funding. To free more power even with the current generation facilities, the World Bank funding will also allocate funding towards demand side management activities in ESCOM.

17.5 Telecommunication Portfolio

17.5.1 Malawi Posts Corporation (MPC)

The overall strategic objectives for MPC in the reporting period was to ensure that the business plan achieves, among others, an increase in revenue base through the introduction of new product lines and that it enhances the use of Information Communication Technologies (ICT) in order to achieve efficiency in service delivery and enhance partnerships with other players in the industry to bring about synergies and growth in traditional mail volumes. The strategy saw an increase in turnover from K965.0 million in the previous to K1.3 billion in the year under review. However, profitability declined from previous pr0fits of K140.0 million in previous year to a profit of only K59.8 million in the year under review. The drive for better results and efficiencies remains a continuing process. One key challenge faced by the corporation is that of unprofitable postal branches. There is continuous focus to ensure that innovative ways are developed to turn such branches into profitable centres. Mid-year results to December 2011 show a profit position of K162.0m.

With dwindling trends in physical mail, MPC continues to leverage on technology based products and other new products. The route taken will help sustain the organisation's profitability and keep its relevance in the economy. Continued implementation of cost control strategies will further consolidate the business profitability in the current year.

TABLE 17.9: SELECTED PERFORMANCE STATISTICS (MPC)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'000*	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenue	709,645	1,249,848	965,300	856,000
Total Expenditure	510,000	1,189,961	825,443	1,049,000
Net Operating Profit	162,312	59,887	139,857	(149,000)
Return on Assets	17%	5%	14 %	(38 %)
Current Ratio	0.36	0.79	0.77:1	.50:1
Total Capital Employed	936,764	1,198,166	971	863
Gearing	16%	29%	48%	61 %

Key challenges include continued declining volumes of physical letter mail, uneconomical postal offices, high operating costs due to the nature of the business and relatively lowly regulated regime in other sectors of the postal business such as the courier business.

17.5.2 Malawi Communications and Regulatory Authority (MACRA)

MACRA continues to post commendable results over the years. During the year under review, revenues grew to K1.9 billion from K1.7 billion, and profit after tax was K704.0 million against K611.0 million profits in the previous year. There is potential for growth and improved performance as more operators enter the telecommunication industry. Mid-year results to December 2011 show a profit position of K436.0 million.

TABLE 17.10 SELECTED PERFORMANCE STATISTICS (MACRA)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'000*	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenue	1,052,263	1,999,536	1,711,506	1,450,801
Total Expenditure	616,206	1,178,630	1,099,595	1,501,091
Earnings Before Interest and Tax	422,309	688,641	611,911	(50,290)
Net Profit after Tax	436,057	703,829	679,937	31,831
Return on Assets	14%	23%	29 %	2 %
Current Ratio	3	1.7	4.5	5.05
Debt Collection Days	260	155	238	167
Number of Mobile Operators	4	6	2	2
Number of Fixed Line Operators			2	1
Number of Internet Service Providers	10	10	10	10
Number of Mobile Users (Teledensity)	22	21	17	12
Number of Courier Operators	16	15	15	8
Number of Commercial Radio Stations	10	7	7	7
Number of Community Radios	5	4	4	4
Number of Religious Radio Stations	11	11	11	10
TV Stations	7	4	2	2

17.6 Air Malawi (QM)

The airline operated at below capacity due to financial challenges. Most of its equipment has not been operational during the year under review forcing air line to lease aircrafts for its operations. This has proved to be an expensive way of operating. Passenger levels reduced substantially during the year. Consequently, turnover reduced from K2.6 billion in previous year to K1.6 billion. The air line made a loss after tax of K1.1 billion. During the previous year the air line also incurred a loss of K1.3 billion. Such levels of losses are unsustainable. Government is reviewing restructuring options for the air line. The objective is to halt the downward trend in overall performance of the air line.

TABLE 17.11: SELECTED PERFORMANCE STATISTICS (QM)

Performance Targets	*2009/10 Audited K'000*	*2008/09 Audited K'000*
Total Revenue	2,600	3,078
Total Expenditure	2,461	4,000
Net profit after Tax	(1,471)	(922)
Return on Operating Assets (%)	-51.2%	-21.46%
Current Ratio	0.28: 1	0.59:1
Debt Collection Days	177	119

17.7 ADMARC

The Corporation continues to play a key role in hunger eradication and agricultural food sustainability in line with the overall Government objective as outlined in the Malawi Growth Development Strategy II (MGDS II).

Due to the continued years of maize surplus situation in the country, ADMARCs's intervention in the maize market have been very limited. This has resulted in the corporation holding on to most of its stocks for longer than usual, thereby reducing its margins substantially. Consequently, turnover reduced from K4.2 billion to K1.8 billion. The company made a loss of K2.3 billion during the year compared to a loss of K1.9 billion in the previous year. Such magnitude of losses is a heavy strain on the company's resources.

To address the challenges in the maize business, the company is increasing its presence in the commercial crop marketing with a view to realizing decent margins. However, these efforts have met with the challenge of inadequate financial resources due to failure to liquidate borrowings from the previous season.

TABLE 17.12: SELECTED PERFORMANCE STATISTICS (ADMARC)

Performance Targets	*2011/12 first half*	*2010/11 Audited K'millions*	*2009/10 Audited K'millions*	*2008/09 Audited K'millions*
Total Revenue	2,212	2,036	3,017	4,442
Total Expenditure	2,832	3,716	5,231	6,411
EBIT	(626)	(916)	(1,304)	(1,967)
Net Profit after Tax	(626)	(1,680)	(2,213)	(1,968)
Return on Total Assets	-7%	-18%	-23%	-42 %
Current Ratio	0.43 : 1	0.49 : 1	0.56 : 1	1.1:4
Debt Collection Days				92

17.8 Restructuring of Parastatals

Following Government's decision to streamline the parastatal sector with a view to utilising the various synergies that exist and also to reduce duplication in the provision of services and therefore costs, among others, the following parastatals will be affected as follows:

(i) the Blantyre Water Board will expand its services to take over all water facilities which are within the southern Region boundaries. BWB will then be renamed Southern Region Water Board;

(ii) the current Southern Region Water Board will be renamed Eastern Region water Board and will be responsible for the Eastern region; and

(iii) the Central region Water Board will be merged with the Lilongwe Water Board.

Chapter 18

BANKING AND FINANCE

18.1 Overview

The conduct of monetary policy in 2011/2012 was directed at anchoring price dynamics in order to maintain low and stable inflation. This was premised on the fact that persistently high levels of inflation are, in the long run, detrimental to economic growth. Furthermore, the attainment of internal and external balance as well as a sound and stable financial system remained part of monetary policy thrust. In order to do this, the Reserve Bank of Malawi (RBM) complemented government's effort by spearheading the establishment of an Export Development Fund (EDF) that would help to generate foreign exchange in order to cushion the country against external shocks.

The framework for monetary policy management in 2011/2012 remained that of monetary targeting. The Bank's operational target was the growth rate in reserve money with specific targets set on the supply side components, namely, net domestic assets and net foreign assets of the Reserve Bank. In order to achieve monetary policy decisions, the RBM continued to use the Bank rate as an anchor to short-term interest rates and pursued its monetary policy using open market operations, discount window operations and the liquidity reserve requirement (LRR). In view of controlling high liquidity conditions that prevailed in the banking system in 2011/2012, open market operations were used to a large extent.

18.2 The Banking System

The stock of broad money supply (M2) expanded to K315.9 billion in March 2012 from K265.9 billion recorded at the end of June 2011. Expansionary pressures arose from a K58.5 billion growth in net domestic assets which was somewhat offset by a K8.1 billion contraction in net foreign assets. Annually, M2 growth averaged 36.5 per cent for the period July 2011 to March 2012.

As alluded to above, on the supply side, the growth in M2 was shored up largely by a build up in net domestic assets particularly through net domestic credit. These expansionary effects were partly offset by declining net foreign assets position mainly due to low tobacco foreign exchange earnings realised during the 2011 marketing season.

Net credit to government from the banking system rose by K49.3 billion to K176.6 billion as of end-March 2012 from K124.6 billion in June 2011, contributing 16.8 per cent to the monetary growth. Government's increased recourse to the banking system's resources was on account of suspension of budgetary support by development partners and revenue collection hiccups associated with slowing economic activity. Credit extended to the private sector also increased by K16.2 billion to K179.0 billion in March 2012 from K162.7 billion recorded in June 2011 and contributed 13.9 per cent to the growth in M2. In terms of sectoral distribution, households accessed K6.7 billion (41.4 per cent) followed by the commercial and industrial sector at K3.2 billion (19.7 per cent), the agriculture at K2.5 billion (15.1 per cent) and the real estate sector accessed K1.9 billion (11.5 per cent). Reflective of low foreign exchange earnings realised from tobacco, however, foreign currency denominated loans dropped by 5.9 per cent between June 2011 and March 2012

On the demand counterparts, the growth in M2 was attributed to both quasi money and narrow money balances which recorded increases of K38.8 billion and K11.5 billion from their end June 2011 positions of K144.0 billion and K121.6 billion, respectively. This development was a reflection of aggressive deposit mobilisation by the banking system which resulted in the accumulation of K37.1 billion term (time and savings) deposits, K11.3 billion demand deposits and K1.7 billion foreign currency denominated deposits. Meanwhile, currency in circulation rose albeit marginally by K206.9 million from the end -June 2011 position of K37.1 billion to K37.3 billion in March 2012.

TABLE 18.1: MONEY, QUASI-MONEY AND COMPONENTS (K' MILLION)

	2010	2011				2012
	IV	I	II	III	IV	I
A. Balance (end of quarter-K'mn)						
1. Currency outside banks (Cu)	30,663.0	26,427.9	37,126.3	41,451.7	42,251.0	37,333.3
2. Private demand deposits (Dd)	94,530.4	95,287.5	106,881.2	117360.8	121711.2	118,184.5
3. Money (M1)	125193.3	121,715.4	144,007.6	158,812.4	163,962.2	155,517.8
4. Private, time, savings and foreign currency deposits (Qm).	106,517.4	113,447.6	121,582.7	133,469.7	150,368.5	160,419.7
5. Money and Quasi money (M2)	231,710.7	235,163.0	265,590.3	292,282.1	314,330.7	315,937.6
B. Percentage changes from end of corresponding quarter						
6. Currency outside Banks	-1.7	-0.1	40.5	11.7	1.9	-11.6
7. Private demand deposits	3.7	0.0	12.2	9.8	3.7	-2.9
8. Money	2.3	0.0	18.3	10.3	3.2	-5.2
9. Private, time, savings and Foreign currency deposits	13.6	0.1	7.2	9.8	12.7	6.7
10. Money and Quasi-money	7.2	0.0	12.9	10.1	7.5	0.5
C. Financial Ratios:–						
11. (Cu/M2)	13.2	11.2	14.0	14.2	13.4	11.8
12. (Dd/M2)	40.8	40.5	40.2	4.02	38.7	37.4
13. (M1/M2)	46.0	48.2	45.8	45.7	47.8	50.8
14. (Qm/M2).	36.7	38.6	36.3	36.1	39.5	42.3

Source: Reserve Bank of Malawi

18.3 Commercial Banks

Total resources of the commercial banks increased by K60.4 billion to K383.4 billion in March 2012 from K323.0 billion in June 2011. Private sector deposits accounted for K55.0 billion of the resource growth, the bulk of which constituted term (time and savings) deposits placed for precautionary purposes. The capital account explained K10.4 billion of the accumulated resources, reflecting principally profits and retained earnings realised by the banks during the period under review. However, commercial banks' holdings of official sector deposits and liabilities to non-residents dropped by K4.0 billion and K1.8 billion between June 2011 and March 2012, respectively.

In terms of usage, commercial banks' placed K31.5 billion of their accumulated resources in lending to the domestic economy comprising K16.3 billion to the private sector, K10.8 billion to government and K4.4 billion to the statutory corporations. Commercial banks further increased their placements with the central bank by K21.4 billion during the period under review. Unsectored assets and foreign investments of the commercial banks grew by K5.2 billion and K2.3 billion between June 2011 and March 2012, respectively.

TABLE 18.2: COMMERCIAL BANKS SOURCES AND USES OF FUNDS (K' MILLION)

	End month balances					Changes during periods				
	2011				2012	2011				2012
	Mar	June	Sept	Dec	Mar	I	II	III	IV	I
A. Sources of Funds										
1. Private sector Deposits	204,912.6	218,361.3	244,246.8	266,686.2	273,291.7	9,148.0	13,448.7	25,885.5	22,439.4	6,605.4
2. Official sector deposits	11,525.2	16,892.9	15,118.9	12,039.4	12,823.2	(1,332.5)	5,367.7	(1,774.0)	(3,079.5)	783.8
3. Borrowing from RBM										
4. Liabilities to non-residents.	3,421.8	6,837.6	6,756.3	6,039.6	5,055.7	1,826.8	3,415.8	()081.3	(716.8)	(983.9)
5. Capital accounts	47,191.5	48,993.5	50,635.7	54,911.6	59,428.2	2,032.6	1,802.0	1,642.2	4,275.9	4,516.6
6. All other liabilities	32,347.8	31,900.4	32,797.2	33,354.3	32,791.6	1,576.8	(447.4)	896.8	557.1	(562.7)
7. Total sources	**299,398.9**	**322,985.6**	**349,554.9**	**373,031.0**	**383,251.8**	**13,251.8**	**23,586.8**	**26,569.3**	**23,476.1**	**10,359.2**
B. Uses of Funds										
8. Gross Domestic Credit to:–										
8.1 Private sector	152,108.3	162,733.3	165,208.2	174,538.2	178,981.7	7,265.8	10,625.0	2,474.9	9,329.8	4,443.7
8.2 Central Government	33,665.4	28,446.2	35,945.2	44,410.4	39,279.1	3,572.9	(5,219.2)	7,499.0	8,465.2	(-5,131.3)
8.3 Statutory Bodies	5,690.1	13,812.2	16,123.3	20,024.0	18,221.9	1,726.7	8,122.1	2,311.1	3,900.7	(1,802.1)
8.4 Total Domestic Credit	191,463.8	204,991.7	217,276.7	238,972.5	236,482.7	12,565.4	13,527.9	12,285.0	21,695.7	(2,489.7)
9. Deposits with RBM plus currency in banks.	25,685.2	25,623.0	36,578.8	37,280.8	47,036.5	1,675.4	(62.2)	10,955.8	702.0	9,755.7
10. Foreign sector claims on non-residents	13,168.8	16,680.0	24,626.5	17,469.8	18,951.6	(1,321.6)	3,511.3	7,946.5	(7,156.7)	1,481.8
11. All other assets.	6,9081.1	75,690.9	71,072.9	79,308.0	80,919.4	332.7	6,609.8	(4,618.0)	8,235.1	1,611.5
12. Total Uses	**299,398.9**	**322,985.6**	**349,554.9**	**373,031.1**	**383,390.3**	**13,251.8**	**23,586.7**	**26,569.3**	**23,476.1**	**10,359.2**

Source: Reserve Bank of Malawi

18.4 Reserve Bank of Malawi

As at end March 2012, resources of the Reserve Bank of Malawi (RBM) amounted to K195.0 billion, representing an increase of K24.1 billion from the end June 2011's position of K170.9 billion. The outturn was largely explained by commercial banks' deposits plus till money which increased by K28.3 billion largely reflecting receipts from net maturities of government securities. Further, the central bank's all other liabilities increased by K10.2 billion through open market operations (OMO) in particular, repurchase agreements. Meanwhile, deposits of the official sector, dropped by K17.0 billion to K174.4 billion.

TABLE 18 3: RESERVE BANK OF MALAWI SOURCES AND USES OF FUNDS (K' MILLION)

	End month balances					Changes during periods				
	2011				2012	2011				2012
	Mar	June	Sept	Dec	Mar	I	II	III	IV	I
A. Sources of Funds										
1. Currency outside Banks	26,427.9	37,126.3	41,451.7	42,251.0	37,333.3	(4,235.0)	10,698.4	4,325.3	799.3	(4,917.7)
2. Com banks Deposits plus till money.	25,517.8	23,544.9	38,031.2	30,968.8	51,834.6	(1,236.6)	(1,972.9)	14,486.3	(7,062.4)	20,865.8
3. Deposits of official sector	24,453.7	34,456.7	18,900.1	40,206.2	17,447.9	(5,744.5)	10,002.9	15,556.6	21,306.1	(22,758.3)
4. Sub-total (1+2+3)	76,399.5	95,127.9	98,383.0	113,426.0	10,6615.7	(11,216.2)	18,728.4	3,255.1	15,043.0	(6,810.3)
5. Foreign Sector	38,572.3	38,923.9	41,806.4	40,491.3	41,305.2	1,105.2	351.6	2,882.6	(1,315.2)	814.0
6. All other Liabilities	49,135.2	36,877.2	50,090.7	43,291.8	47,034.2	2,911.8	(12,258.0)	13,213.5	(6,798.9)	3,742.4
7. Total Sources (4+5+6)	**164,107.0**	**170,929.0**	**190,280.1**	**197,209.1**	**194,955.2**	**(7,199.1)**	**6,822.0**	**19,351.1**	**6,929.0**	**(2,253.9)**
B. Uses of Funds										
8. Commercial Banks.	581.4	471.2	61.2	1.2	2,517.0	569.6	(110.2)	(410.0)	(60.0)	2,515.9
9. Statutory bodies	726.3	0.0	0.0	0.0	0.0	27.3	(726.3)	0.0	0.0	0.0
10. Central Government	116,012.0	120,567.7	129,062.3	143,634.5	142,747.1	12,840.5	4,555.8	8,494.6	14,572.2	(887.4)
11. Sub-total (8+9+10)	117,319.6	121,038.9	129,123.5	143,635.7	145,264.2	13,437.3	3,719.3	8,084.6	14,512.2	1,628.5
12. Foreign Sector	28,683.7	32,884.4	43,644.8	31,151.2	23,009.3	(16,400.7)	4,200.6	10,760.4	(12,496.5)	(8,142.0)
13. Other assets	18,103.6	17,005.6	17,511.8	22,422.2	2,6681.7	(4,235.7)	(1,098.0)	506.2	4,910.3	4,259.6
14. Total Uses (11+12+13)	**164,107.0**	**170,929.0**	**190,280.1**	**197,209.1**	**194,955.2**	**(,7199.1)**	**68,22.0**	**19,351.1**	**6,929.0**	**(2,253.9)**

Source: Reserve Bank of Malawi

On the utilisation of resources, the Reserve Bank of Malawi availed K22.2 billion of its resources to the central government during the period under review and further placed K9.7 billion in OMO investments. The central bank further extended K2.0 billion to the commercial banks through discount window accommodations. Meanwhile, investments in the foreign sector declined by K9.9 billion mainly due to the central bank's continued support to importers of strategic commodities.

18.5 Money Market

Expansionary monetary and fiscal policies as well as foreign exchange unavailability resulted in increased excess reserves at the commercial banks which averaged K9.0 billion in March 2012 compared to K5.0 billion in June 2011. Open market operations were therefore geared towards withdrawing liquidity from the market as low foreign exchange reserves amidst persistent demand from the market denied authorities a steady alternate supply of resources for mop up exercises.

In response to the supply of liquidity, only a few banks sought accommodation from the discount window consequently, the interbank market was very active with volumes averaging K2.1 billion per day in March 2012 whilst discount borrowing was moderate. The interbank market rate dropped to 5.7 per cent in March 2012 from 12.7 per cent in June 2011.

TABLE 18 4: BANKING SYSTEM LIQUIDITY

	QTR 1 2011	QTR 2 2011	QTR 3 2011	QTR 4 2011	QTR 1 2012
(K'bn)					
Daily Average Total Reserves	31.91	30.49	32.60	38.71	42.31
Daily Average Required Reserves	24.12	25.51	26.74	31.24	33.30
Daily Average Excess Reserves	7.79	4.98	5.85	7.47	9.01
Daily Average Inter-bank market trading	2.61	2.55	2.01	1.22	2.14
Daily Average Discount Window Borrowing	0.28	0.37	0.58	0.42	0.67
Percentage					
Inter-bank Market Rate (End Period)	6.17	12.70	4.13	7.05	5.72

Source: Reserve Bank of Malawi

18.6 Government Securities Market

In general, treasury bills yields were subdued during the period under review mainly on account of the availability of excess liquidity in the market as evidenced by oversubscriptions. The 91, 182 and 273 day tenors averaged 7.1 per cent, 7.0 per cent and 8.9 per cent in March 2012 compared to respective average yields of 7.5 per cent, 8.0 per cent and 8.5 per cent recorded in June 2011.

The 273 day tenor was phased out and was replaced by a 364 day tenor in December 2011. At the end of 2011, treasury notes were introduced. The treasury notes comprised 2, 3, 4 and 5 year tenors. The introduction of these treasury notes, in addition to the 364 treasury bill, was part of government efforts to restructure its domestic debt which was mainly characterised by very short term treasury bills whose longest tenor was 273 days.

18.7 Capital Markets

18.7.1 Primary Share Market

There has been no new stock listed on the local market since October 2008. However, the Packaging Industries Malawi Ltd (PIM) counter was delisted on 30th September 2011. As a result, the number of counters on the Malawi Stock Exchange declined to fourteen (14) from fifteen (15). PIM was delisted following a buy-out of minority shareholders by the majority shareholder namely Transmar Limited effectively reducing the number of shares in issue by 67.2 million.

In 2011, NBS Bank Limited issued 102. 95 million shares at K9.60/share for cash to International Finance Corporation (IFC) Capitalization Holdings Company, an investment arm of the World Bank and followed through with a second tranche of the capital raising exercise through a rights issue of 103.94 million shares at K9.60/share in the ratio of 1 ordinary share for every 6 shares held, effectively increasing the amount of shares in issue on the stock exchange by 206.9 million shares.

18.7.2 Secondary Share Market

During the period under review (July 2011 to March 2012), the secondary share market remained active as a total of 184.4 million shares valued at K2.4 billion were transacted. In a comparable period of the previous year, K860.7 million shares valued at K2.3 billion were traded. The Malawi All Share Index (MASI) closed off at 5,667.1 in March 2012 from 4,914.3 points in June 2011. The increase in MASI was attributed to the rise in both the Domestic Share Index (DSI) from 3,878.7 points to 4,472.3 points and the Foreign Share Index (FSI) from 477.6 points to 576.9 points during the review period. This outcome arose from price gains in several counters on the stock market.

Chapter 19

PUBLIC FINANCE

19.1 Overview

The following chapter reviews Central Government budgetary operations for the 2011/12 fiscal year compared to the 2010/11 year. It outlines the functional and economic classifications of estimates for the 2012/13 financial year. It presents a summary of Central Government budgetary operations, the total revenue, recurrent expenditures, the development budget, highlights of the 2012/13 budget and implementation challenges.

19.2 Summary of Central Government Budgetary Operations

The main objective of the 2011/12 budget was to ensure a tight fiscal policy essential to reduce inflationary and real exchange rate pressures and help bolster reserves. Under the aegis of the Zero Deficit Budget concept, Government committed meeting recurrent expenditures from domestically generated resources. To achieve this, Government targeted a net repayment of domestic borrowing of around 1.5 per cent of GDP which would be achieved by undertaking additional measures to cut lower priority expenditures or shore up revenues while at the same time protecting pro-poor spending. Furthermore, fiscal policy together with monetary policy discussion in Chapter 18 were geared at achieving development against consumption. In addition, Government continued to implement medium term policies of promoting economic growth, ensuring food security in the country and civil service wage reform in the 2009/10 fiscal year. Government continued to align expenditure with the priorities of the MGDS II.

The fiscal performance of the Central Government budgetary operations had some problems during the 2011/12 fiscal year compared to the previous year. This was mainly due to slightly lower domestic revenues collections and poor disbursement of grants and foreign aid, especially budget support. The suspension of the IMF program for Malawi and freeze of budget support from other donors in the absence of the program, were major challenges in the year. Nontax revenues were lower than expected owing to non-performance in some departmental collections. Similarly, tax revenues underperformed when compared to targets mainly on account of a slump in import duties reflecting a slowdown in import demand owing to low foreign exchange reserves. In the face of low donor inflows and poor revenue collection. Government resorted to domestic financing of its operations.

During the fiscal year under discussion, total expenditures and net lending shrunk by 1.5 per cent of GDP, from 35.5 per cent in 2010/11 to 34.0 per cent in the year 2011/12. The year under review recorded a fiscal deficit including grants of 7.1 per cent of GDP which translated into net domestic borrowing of 5.5 per cent of GDP. This was much higher than the targeted repayment of at least 1.5 per cent of GDP. Looking forward, total expenditure is estimated to increase to 34.4 per cent of GDP in 2012/13 financial year. This increase is as a result of Government's effort to achieve satisfactory expenditure on key sectors like agriculture, health, education and infrastructure development. The fiscal deficit including grants is estimated at 1.1 per cent of GDP and there will be no net domestic financing.

TABLE 19.1: CENTRAL GOVERNMENT BUDGETARY OPERATIONS 2010/11-2012/13

	2010/11 Actual	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Projection	2014/15 Projection
Total Revenue and Grants	296,908	307,710	259,437	394,895	368,273	430,354
Domestic Revenue	212,574	242,477	207,572	270,366	297,641	375,931
Grants	84,334	65,233	51,865	124,529	70,632	54,423
Total Expenditure and Net Lending	309,995	299,127	328,106	408,390	461,576	522,610
Recurrent Expenditure	222,643	229,098	250,687	332,139	366,292	413,080
Development Expenditure	85,052	70,029	77,419	76,251	95,284	109,530
Net Lending	2,300	-				
Deficit						
Excluding Grants 1a	(97,421)	(56,650)	(120,534)	(138,024)	(163,935)	(146,679)
Including Grants 1b	(13,087)	8,583	(68,669)	(13,495)	(93,303)	(92,256)
Financing	13,087	(8,583)	68,669	13,495	93,303	92,256
Foreign Borrowing (Net)	24,948	12,942	15,514	12,930	26,791	11,938
Borrowing	27,004	15,311	18,260	19,010	26,791	11,938
Repayment 2a	(2,056)	2,369	(2,746)	(6,080)		
Domestic Borrowing (Net) 2b	(11,861)	(15,363)	53,206	-	609	(7,133)
Privatisation Proceeds						
Other Financing (Including bills)						
(As Percentage of GDP)						
Revenue (Excluding Grants)	24.4	25.1	21.5	22.8	21.6	24.1
Revenue (Including Grant)	34.0	31.9	26.9	33.2	26.7	27.5
Total Expenditure	35.5	31.0	34.0	34.4	33.5	33.4
Recurrent Expenditure	25.5	23.8	26.0	28.0	26.6	26.4
Development Expenditure	9.7	7.3	8.0	6.4	6.9	7.0
Deficit (Excluding Grants)	-11.2	-5.9	-12.5	-11.6	-11.9	-9.4
Deficit (Including Grants)	-1.5	0.9	-7.1	-1.1	-6.8	-5.9
Domestic Borrowing (Net)	-1.4	-1.6	5.5	0.0	0.0	-0.5
GDP at Current Prices	**872,638**	**964,469**	**964,469**	**1,187,987**	**1,378,429**	**1,562,776**

Source: Ministry of Finance

19.3 Total Revenue and grants

Total revenue including grants fell to 26.9 per cent of GDP in 2011/12 compared to 34.0 per cent in 2010 financial year.

19.3.1 Domestic Revenue

Performance of domestic revenues slumped both in absolute and relative terms. In 2011/12 domestic revenues represented 21.5 per cent of GDP compared to 24.4 per cent of GDP in 2010/11 fiscal year. The underperformance in domestic revenues was in both tax and non tax revenues. Net tax revenues in 2011/12 shrunk to 18.8 per cent of GDP compared to 20.7 per cent in the preceding fiscal year. This outturn is attributed to a significant drop in taxes on goods and services and taxes in international trade. Underperformance in tax revenues in 2011/12 is attributed to the economic challenges that characterized the year in terms of foreign exchange and fuel supply shortages that, in turn, impacted production in manufacturing and transport sectors. Similarly, non tax revenues fell to 2.8 per cent of GDP in 2011/12 compared to 4.4 per cent of GDP that was registered in 2010/11 on account of dismal performances in departmental receipts and fuel levies.

Looking forward, net tax revenues are estimated to increase marginally to 19.9 per cent of GDP in 2012/13 from 18.8 per cent of GDP buoyed by fuel levies, and will continue on an upward trend in the medium term. The performance of the domestic revenue collections mirrored the overall growth of the economy that slowed down to 4.3 per cent of GDP in both 2011 and 2012.

TABLE 19.2: CENTRAL GOVERNMENT REVENUE 2010/11-2014/15

	2010/11 Actual	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Projections	2014/15 Projections
A. GROSS TAX REVENUE	183,022.0	211,656.7	189,103.0	245,899.0	264,020.0	290,423.0
1. TAXES ON INCOME & PROFITS	76,171.7	86,813.1	91,345.0	112,516.0	121,078.0	133,186.0
Companies	23,354.2	27,240.6	26,870.0	33,098.0	35,616.0	39,178.0
Individuals	52,152.0	58,814.4	63,053.0	77,666.0	83,577.0	91,935.0
Non Resident Tax	1,019.9	1,167.8	1,243.0	1,531.0	1,647.0	1,812.0
P.A.Y.E	36,921.7	42,775.4	43,154.0	53,155.0	57,201.0	62,921.0
Withholding Tax	11,423.3	11,680.1	16,374.0	20,169.0	21,704.0	23,874.0
Fringe Benefit Tax	2,787.0	3,191.1	2,282.0	2,811.0	3,025.0	3,328.0
Other*	665.5	758.1	1,422.0	1,752.0	1,885.0	2,073.0
2. TAXES ON GOODS & SERVICES	87,608.7	102,811.9	79,798.0	101,656.0	109,917.0	120,909.0
VAT	59,156.2	69,733.8	59,007.0	72,262.0	78,308.0	86,139.0
Excise Duties	28,452.5	33,078.2	20,791.0	29,394.0	31,609.0	34,770.0
3. INTERNATIONAL TRADE TAXES	19,241.6	22,031.7	17,960.0	31,727.0	33,025.0	36,328.0
Customs Duties	19,241.6	22,031.7	17,960.0	31,727.0	33,025.0	36,328.0
Import Duties	19,044.6	21,806.0	17,602.0	31,286.0	-	-
Miscellaneous Duties	197.1	225.6	358.0	441.0	-	-
4. Less: TOTAL TAX REFUNDS	8,000.0	8,152.4	8,152.0	9,465.0	5,282.0	5,810.0
5. NET TAX REVENUE	**175,022.0**	**203,504.3**	**180,951.0**	**236,434.0**	**258,738.0**	**284,613.0**
B. NON TAX REVENUE	**37,552.4**	**38,972.5**	**26,621.0**	**33,932.0**	**38,903.0**	**42,754.0**
Stabilization Fund	-	-	4,456.0	9,727.0	-	-
Departmental Receipts	14,869.4	13,300.4	9,567.0	11,857.0	14,693.0	16,162.0
Other Revenue (dividends etc)	1,917.8	2,195.9	2,196.0	1,338.0	1,400.0	1,500.0
Receipts from PIL	20,765.2	23,476.2	10,402.0	11,010.0	12,111.0	13,322.0
Rural electrification levy					8,670.0	9,538.0
Storage levy					2,029.0	2,232.0
GROSS DOMESTIC REVENUE	**220,574.4**	**250,629.2**	**215,724.0**	**279,831.0**	**302,923.0**	**333,177.0**
NET DOMESTIC REVENUE	**212,574.4**	**242,476.8**	**207,572.0**	**270,366.0**	**297,641.0**	**327,367.0**
Percent of GDP						
GROSS TAX REVENUE	*21.6*	*21.9*	*19.6*	*20.7*	*19.2*	*18.6*
Taxes on Income and Profit	*9.0*	*9.0*	*9.5*	*9.5*	*8.8*	*8.5*
Taxes on Goods and Services	*10.4*	*10.7*	*8.3*	*8.6*	*8.0*	*7.7*
International Trade Taxes	*2.3*	*2.3*	*1.9*	*2.7*	*2.4*	*2.3*
NET TAX REVENUE	*20.7*	*21.1*	*18.8*	*19.9*	*18.8*	*21.3*
NON-TAX REVENUE	*4.4*	*4.0*	*2.8*	*2.9*	*2.8*	*2.7*
GRAND TOTAL	*26.1*	*26.0*	*22.4*	*23.6*	*22.0*	*21.3*
GDP at Current Market Prices	***846,097.0***	***964,469.0***	***964,469.0***	***1,187,987.0***	***1,378,429.0***	***1,562,776.0***

Source: Ministry of Finance

19.4 Central Government Recurrent Expenditures

In 2011/12 fiscal year total expenditure and net lending were projected at K299.1 billion and revised upwards to K328.1 billion towards the end of the year. Conversely, recurrent expenditures rose from K222.6 billion in 2010/11 fiscal year to K250.7 billion in 2011/12 fiscal year (see Table19.1). Going forward, it is estimated that recurrent expenditures, as a percentage of the nominal GDP, will go slightly up from 26.0 per cent in 2011/12 fiscal year to 28.0 per cent in 2012/13 and come down to 26.6 and 26.4 per cent in 2013/14 and 2014/15, respectively.

Table 19.3 and Table 19.4 present functional and economic classifications of the recurrent budget, respectively. Table 19.3 shows that although recurrent expenditure increased by 12.6 per cent in 2011/12, allocations within different functional groups varied significantly. While allocation to General Public Services grew by 54.5 per cent and as usual accounting for the largest share of the recurrent expenditure, allocations to Social-Community Service and Economic Service sub-functions contracted by 2.8 and 3.3 per cent, respectively. This trend, however, is expected to reverse. From 2012/13 onwards Social and Community service is expected to replace General Public Services as the largest sub-function of the recurrent expenditure budget, accounting for 42.5 per cent of the total recurrent budget, signifying Government deliberate policy shift in resource allocation in a bid to ensure that more and more resources are channeled to social and community services in line with the MGDS II and the MDGs. On the other hand, recurrent expenditure allocation to economic services sub-function is expected to be steady around 20.7 per cent in the next three fiscal years, with agriculture sector accounting for 76.7 per cent of the total recurrent allocation to economic services. In the medium term, in terms of recurrent expenditure allocation, Government will continue to prioritize social and community, and economic services especially agriculture, health and educational services in order to meet aims and objectives of the MGDS II and the MDGs.

TABLE 19.3: FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE 2010/11 - 2014/15

	2010/11 Actual	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Projection	2014/15 Projection
General Public Services	**60,231.3**	**85,075.5**	**93,092.6**	**122,216.6**	**134,783.8**	**152,000.3**
General Administration	42,448.0	65,357.5	71,516.4	95,979.9	105,849.2	119,369.8
Defence Affairs	6,798.3	8,834.8	9,667.3	7,970.6	8,790.2	9,913.1
Public Order and Safety Affairs	10,984.9	10,883.3	11,908.9	18,266.1	20,144.3	22,717.4
Social and Community Services	**101,032.2**	**89,766.5**	**98,225.6**	**141,146.9**	**155,660.6**	**175,543.8**
Education Affairs and Services	43,726.3	36,385.0	39,813.7	65,425.7	72,153.3	81,369.7
Health Affairs and Services	43,418.2	31,154.6	34,090.5	45,831.2	50,543.9	57,000.1
Social Security and Welfare Affairs Services	8,609.9	15,896.0	34,090.5	20,258.7	22,341.9	25,195.7
Housing and Cummunity Amenity Services	3,507.6	4,378.8	4,791.4	6,974.3	7,691.5	8,673.9
Recreational, Cultural &Other Social Services	786.7	657.7	719.6	996.3	1,098.8	1,239.1
Broadcasting , Publishing Affairs & Services	983.6	1,294.4	1,416.4	1,660.6	1,831.3	2,065.2
Economic Services	**61,379.5**	**54,256.0**	**59,368.8**	**68,775.6**	**75,847.6**	**85,535.9**
Energy and Mining Services	295.0	331.1	362.3	332.1	366.3	413.0
Agriculture and Natural Resources	32,782.8	39,871.1	43,628.4	52,805.5	58,235.4	65,674.0
Tourism Affairs and Services	739.4	830.9	909.2	664.2	732.5	826.1
Physical Planning and Development	2,906.6	1,964.6	2,149.7	2,989.0	3,296.3	3,717.4
Transport and Communication Services	8,868.7	4,705.9	5,149.3	9,963.3	10,987.8	12,391.3
Industry and Commerce	489.0	644.7	705.4	859.0	947.3	1,068.3
Labour Relations and Employment Services	319.8	639.3	699.6	830.3	915.7	1,032.6
Scientific and Technological Services	112.4	253.7	277.6	332.1	366.3	413.0
Other Economic Services	14,865.8	5,568.6	6,093.3	-	-	-
Total Recurrent Expenditure	**222,643.0**	**229,098.0**	**250,687.0**	**332,139.0**	**366,292.0**	**413,080.0**
GENERAL PUBLIC SERVICES	6.9	8.7	9.6	10.4	9.8	9.7
SOCIAL AND COMMUNITY SERVICES	11.6	9.2	10.1	12.0	11.3	11.2
ECONOMIC SERVICES	7.0	5.6	6.1	5.8	5.5	5.5
TOTAL RECURRENT EXPENDITURE	25.5	23.5	25.7	28.2	26.6	26.4
GDP at Current Market Prices	**872,637.7**	**964,469.0**	**964,469.0**	**1,187,987.0**	**1,378,429.0**	**1,562,776.0**

Source: Ministry of Finance

Recurrent expenditure as shown in the Economic Classification table (see Table 19.4), shows that in 2011/12 fiscal year a large portion of funds were allocated to gross consumption, which comprises compensation of employees and use of goods and services, less fees, sales and recoveries. However, relative to the GDP, gross consumption marginally declined by 0.8 per cent in 2011/12, from 18.2 per cent in 2010/11 to 17.4 per cent in 2011/12 fiscal year. In 2012/13, gross consumption is expected to go slightly up again, to about 18.9 per cent of the GDP. However, it estimated that recurrent expenditure allocation to gross consumption will drop to 18.0 per cent in 2013/14 and decline further to 17.9 per cent in 2014/15. The declining trend, although not very significant, is a testimony of Government's commitment to ensure that more resources are channeled toward development expenditure, more particularly towards infrastructural development and agriculture. Conversely, interest on debt which accounted for 3.9 per cent of the GDP in 2011/12 is expected to increase to 4.3 per cent in 2012/13 before settling around 4.0 per cent in the next two subsequent fiscal years.

TABLE19.4: ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT GOVERNMENT EXPENDITURE 2010/11-2014/15

	2010/11 Actual	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Projection	2014/15 Projection
Gross Consumption	159,031.1	154,911.1	169,509.2	222,403.9	247,678.8	279,315.8
Compensation of Employees	57,948.0	68,620.1	75,086.5	98,517.0	109,712.9	123,727.0
Use of Goods and Services	101,083.1	86,291.0	94,422.6	123,886.9	137,965.9	155,588.8
Less: Fees, Sales and Recoveries	0.0	0.0	0.0	0.0	0.0	0.0
Net Consumption	159,031.1	154,911.1	169,509.2	222,403.9	247,678.8	279,315.8
Interest on Debt	**20,127.0**	**35,046.1**	**38,348.7**	**50,315.3**	**56,033.3**	**63,190.7**
Pensions and Gratuities	**7,600.0**	**11,043.6**	**12,084.3**	**15,855.2**	**17,657.0**	**19,912.4**
Grants, Subventions and Transfers	**35,884.9**	**15,785.9**	**17,273.5**	**22,663.6**	**25,239.2**	**28,463.1**
Local Authorities	11,757.0	4,577.8	5,009.2	6,572.4	7,319.3	8,254.2
Public Bodies	24,127.9	11,170.2	12,222.8	16,036.9	17,859.4	20,140.7
Private	0.0	1.5	1.6	2.2	2.4	2.7
Abroad	0.0	36.0	39.3	51.6	57.5	64.8
Gross Fixed Capital Formation	**0.0**	**7,485.8**	**8,191.2**	**10,747.2**	**11,968.6**	**13,497.4**
Loans and Capital Transfers	**0.0**	**4,825.5**	**5,280.2**	**6,927.8**	**7,715.1**	**8,700.6**
Total Recurrent Expenditures	**222,643.0**	**229,098.0**	**250,687.0**	**328,913.0**	**366,292.0**	**413,080.0**
Grand Total	**222,643.0**	**229,098.0**	**250,687.0**	**332,139.0**	**366,292.0**	**413,080.0**
Gross Consumption	*18.2*	*15.9*	*17.4*	*18.9*	*18.0*	*17.9*
Interest on Debt	*2.3*	*3.6*	*3.9*	*4.3*	*4.1*	*4.0*
Pensions and Gratuities	*0.9*	*1.1*	*1.2*	*1.3*	*1.3*	*1.3*
Grants, Subventions and Transfers	*4.1*	*1.6*	*1.8*	*1.9*	*1.8*	*1.8*
Gross Fixed Capital Formation	*0.0*	*0.8*	*0.8*	*1.1*	*0.9*	*0.9*
Total Recurrent Expenditures	*25.5*	*23.5*	*25.7*	*27.9*	*26.6*	*26.4*
GDP at Current Market Prices	**872,637.7**	**964,469.0**	**964,469.0**	**1,187,987.0**	**1,378,429.0**	**1,562,776.0**

Source: Ministry of Finance

19.5 Development Expenditure

Despite efforts to make the 2011/12 fiscal year budget more development-oriented, the total development expenditure budget declined in nominal terms to K70.03 billion from K85 billion in the preceding year mainly on account of lack of budgetary support from the donors following the suspension of the country's Extended Credit Facility programme with the IMF in June 2011. With the forthcoming austerity budget, total development expenditure is expected to slow down further to 6.4 per cent of GDP in 2012/13 FY, on the understanding that Government will not undertake any new projects during the year. The functional and economic classification of development expenditures are presented in Tables 19.5 and 19.6 respectively.

Under the functional classification, Economic Services as a share of GDP (3.5 per cent) was still dominant in 2011/12 although it marginally declined from the previous year. Expenditures in the Social and Community Services increased to 3 per cent in 2011/12 from 2.2 per cent in the preceding year reflecting Government's commitment to increase spending to the social sectors of Agriculture, Education and Health in particular, in line with the MGDS II priorisation. However, the percentage share of all expenditures in GDP is expected to slightly decline in 2012/13 such that total development expenditures are projected to fall to 6.4 per cent of GDP. This has been mainly attributed to tightened spending as well as halt in the implementation of new projects for the period.

TABLE 19.5: FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE

	2010/11 Actual	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Projection	2014/15 Projection
General Public Services	**11,139.9**	**17,742.1**	**14,729.1**	**14,605.3**	**18,279.5**	**20,895.5**
General Administration	9,418.4	15,024.1	11,576.8	11,730.2	14,753.0	16,569.1
Defence Affairs	284.0	685.4	991.9	890.2	1,087.3	1,352.9
Public Order and Saftey Affairs	1,437.4	2,032.6	2,160.4	1,985.0	2,439.2	2,973.5
Social and Community Services	**19,584.4**	**21,847.3**	**29,146.7**	**28,825.9**	**36,055.8**	**41,304.9**
Education Affairs and Services	4,743.7	6,540.3	11,099.7	10,565.3	13,096.6	15,490.4
Health Affairs and Services	3,505.0	5,540.6	4,151.3	3,782.2	4,637.8	5,695.1
Social Security and Welfare Affairs and Services	2,715.3	1,223.7	9,138.6	9,866.8	12,580.1	13,432.1
Housing and Cummunity Amenity Services	5,765.2	7,827.2	4,088.9	4,011.8	5,008.8	5,775.9
Recreational, Cultural and Other Social Services	2,855.3	500.4	111.4	99.9	122.1	151.9
Broadcasting and Publishing Affairs and Servies	0.0	215.1	556.9	499.7	610.4	759.5
Economic Services	**54,327.7**	**30,439.6**	**33,543.1**	**32,819.8**	**40,333.2**	**47,329.6**
Energy and Mining Services	2,952.0	1,695.0	1,487.7	1,421.6	1,763.9	2,079.4
Agriculture and Natural Resources	11,313.6	11,874.8	15,064.2	16,117.1	20,510.1	22,056.0
Tourism Affairs and Services	787.5	2,149.5	2,126.8	1,940.5	1,763.9	2,919.3
Transport and Communication Services	38,933.9	14,640.3	14,846.9	13,323.9	16,274.6	20,250.4
Labour Relations and Employment Services	0.0	80.0	17.5	16.8	20.8	24.5
Scientific and Technological Services	340.7	0.0	0.0	0.0	0.0	0.0
Total Development Expenditure	**85,052.0**	**70,029.0**	**77,419.0**	**76,251.0**	**94,668.6**	**109,530.0**
GENERAL PUBLIC SERVICES	1.3	1.8	1.5	1.2	1.3	1.3
SOCIAL AND COMMUNITY SERVICES	2.2	2.3	3.0	2.4	2.6	2.6
ECONOMIC SERVICES	6.2	3.2	3.5	2.8	2.9	3.0
TOTAL DEVELOPMENT EXPENDITURE	**9.7**	**7.3**	**8.0**	**6.4**	**6.9**	**7.0**
GDP at Current Market Prices	**872,637.7**	**964,469.0**	**964,469.0**	**1,187,987.0**	**1,378,429.0**	**1,562,776.0**

Source: Ministry of Finance

Under the economic classification as shown in Table 19.6 below, dominance of gross consumption in development expenditure in the 2010/11 fiscal year persisted through 2011/12. However, there was a decline in the share of both gross consumption and gross fixed capital formation relative to GDP in 2011/12 to 4.0 and 3.2 per cent from 4.9 to 3.7 per cent in the 2010/11 financial year, respectively. This was mainly due to low domestic revenue generation coupled with lack of external budget support. In the 2012/13 fiscal year, shares of gross consumption and gross fixed capital formation are expected to diminish further to 3.2 and 2.4 per cent of GDP respectively as policies aimed at restoring fiscal discipline through tight control on spending are implemented.

Table 19.6: ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE

	2010/11 Actual	2011/12 Approved	2011/12 Revised	2012/13 Estimate	2013/14 Projections	2014/15 Projections
Gross Consumption	42,854.3	35,284.8	39,008.6	38,420.1	48,010.2	55,188.2
Compensation of Employees	2,927.5	2,410.4	2,664.9	2,624.7	3,279.9	3,770.3
Use of Goods and Services	39,926.8	32,874.4	36,343.7	35,795.4	44,730.3	51,417.9
Grants	**10,087.0**	**8,305.3**	**9,181.7**	**9,043.2**	**11,300.5**	**12,990.0**
Gross Fixed Capital Formation	**32,110.8**	**26,438.9**	**29,228.6**	**28,787.7**	**35,973.4**	**41,351.8**
Building	12,870.0	10,596.7	11,715.2	11,538.4	14,418.5	16,574.3
Construction Works	7,821.0	6,439.5	7,118.9	7,011.5	8,761.6	10,071.6
Services	4,343.9	3,576.6	3,953.8	3,894.2	4,866.2	5,593.7
Equipment	7,075.9	5,826.1	6,440.8	6,343.6	7,927.0	9,112.2
Total Development Expenditures	**85,052.0**	**70,029.0**	**77,419.0**	**76,251.0**	**95,284.0**	**109,530.0**
% GDP						
Gross Consumption	4.9	3.7	4.0	3.2	3.5	3.5
Compensation of Employees	0.3	0.2	0.3	0.2	0.2	0.2
Use of Goods and Services	4.6	3.4	3.8	3.0	3.2	3.3
Gross Fixed Capital Formation	3.7	2.7	3.0	2.4	2.6	2.6
Total Development Expenditures	9.7	7.3	8.0	6.4	6.9	7.0
GDP at Current Market Prices	**872,637.7**	**964,469.0**	**964,469.0**	**1,187,987.0**	**1,378,429.0**	**1,562,776.0**

Source: Ministry of Finance

In the medium term, development expenditure is projected to recover in 2013/14 and 2014/15 as the macroeconomic environment becomes more stable, growth momentum picks up and the recovery becomes more robust. Growth in all the sectors is expected to pick up through 2014/15 as implementation of new projects is revived and continued budget support. A steady growth is expected to be maintained for all development expenditures as a share of GDP for the two financial years.

19.6 Highlights of the 2012/13 Budget

The 2012/13 budget will aim to restore fiscal discipline. In particular, it will be anchored around a no net domestic financing target representing a complete departure from the 5.5 per cent of GDP net domestic borrowing in the 2011/12 FY. There will be substantially a greater need for donor support in form of grants and concessional loans to reduce domestic financing requirement while at the same time enhancing domestic revenue generation efforts and controlling expenditures. Government will increase spending towards social sectors including agriculture, health, education and social protection programes.

In order to mitigate the effects or recent policy reforms, Government's spending priorities will include scaling up of the FISP and intensifying resources for social protection programes such as cash transfers, school feeding and public works programmes. Focus will, therefore, go to the social sector especially protecting spending for Health, Education and Agriculture.

Government intends to establish and enforce quarterly spending limits on all MDAs consistent with the available resource envelope. Implementation of PFM reforms will be continued to ensure commitment control and timely and accurate reporting of budget execution based on Integrated Financial Management and Information System (IFMIS).

In order to ensure fiscal consolidation, no new projects will commence in the 2012/13 financial year.

The budget will continue to be formulated within a medium term budget framework, in line with the MGDS II.

19.7 Major Challenges of the 2012/13 Budget

The major challenge of the 2012/13 budget is that it has been built on the assumption of unwavering donor support, and any delays or cuts in donor disbursements will affect the implementation of the fiscal program.

In addition, due to the devaluation of the Kwacha and fertilizer prices on the international market may affect the implementation of the budget. Low volumes of tobacco on the auction floors also pose challenges with possible negative effects on incomes and tax revenue collections.

A significant portion of domestic revenues depends proportionally on fuel levies. There are risk to revenue collection if fuel uplift is lower than assumed in the framework.