# CPIA Detailed Report

## Country: Malawi

### Exercise Year: CPIA Exercise 2023

**Currency:** Malawian Kwacha (MWK)

**City:** Lilongwe

**Income Group:** Low income

**Lending Category:** IDA

## Final CPIA Score: 3.501

## (A) Economic Management

**Cluster Score: 3.167**

### 01. Fiscal Policy

**Criteria Score: 2.5**

**1. Fiscal Policy**

| Score Type | Value |
|---|---|
| Draft Score | 2.5 |
| Reviewed Score | 2.5 |
| Second Draft Score | 2.5 |
| Final Score | 2.5 |

**Country Notes:**

Malawi’s fiscal deficit increased by 1.6 percentage points of GDP to 8.7% over FY2021/22, due weak performance in tax collection as revenue targets were missed for the fiscal year. Budget overruns were experienced as compensation for civil servants, the Affordable Input Programme, social benefits and interest payments were above targets. Although revenue rose to 14.6% of GDP from 12.7% the previous year, performance was below the targetted 15.7% of GDP due to a shortfall in income taxes, profits and capital gains. Underperformance in tax revenue collections was mainly due to the continued closure of international borders to contain the COVID-19 pandemic affected both tourism and merchandise trade taxes. Other measures such as the tax rate reduction in the middle Pay-As-You-Earn bracket (MK 100,000 to MK 1 million per month) from 30% to 25% and the introduction of a duty-free week during the year contributed to the revenue underperformance. On the other hand, expenditures amounted to 19.4% of GDP. The 14% adjustment on wages and salaries in FY2021/22, coupled with new hirings, contributed to overruns in wages and salaries reaching 6.3% of GDP and higher than the initial target of 5.7% of GDP. Interest expenses also rose to 3.4% of GDP in FY2021/22 although they remained within the target of 3.8% of GDP. Overall, civil servants wages and salaries as well as interest payments made up 42% of total expenditure, thereby reducing fiscal space for discretionary policies and government's ability to respond to shocks.

During the FY2022/23, government expenditure was about 4% of GDP higher than the target in the revised FY2022/23 budget. Overspending occurred even though the performance in taxes and grants surpassed the FY2022/23 target due to higher than budgeted expenses on wages and salaries andacquisition of non-financial assets. Recent data from the IMF estimates a deficit of about 11.8% of GDP compared to a target of 9% of GDP. Statutory expenditures, including salaries and wages, and interest payments constitute about 67% of revenue in FY2022/23. On the revenue side, the outturn of 12.7% of GDP was not too far from the 13.1% target. While acknowledging that the steep devaluation of the Malawi Kwacha in May 2022 and higher than expected inflation during this period partly explains the expenditure overruns, there are underlying capacity constraints in budget management. Poor performance in fiscal management in recent year has had a deliterious effect on the debt situation, with the country experiencing debt distress. Poor fiscal performance has arisen from responses to exogenous shocks like the COVID pandemic and climate-related shocks such as cyclones and limited capacity to control expenditures when revenue performance has been below targets.

Malawi’s growth performance has shifted to a lower growth trajectory, which averaged 2.8% during 2018-2022 period and lower than the 3.9% registered over the previous decade. In 2023, growth is expected to be about 1.8% before increasing to 3.3% in 2024.

Private investment continues to be low,at about 2.8% of GDP since 2021. This situation partly reflects the effect of the large demand of public sector credit demand at about 70% of total, and shortages of foreign exchange disuading foreign investment flows.

Malawi is also faced with a significant problem with unemployment, considering that 21 percent of the population and 23 percent of youth, respectively, are unemployed, according to the NSO (2014).

Sources [AEO (2023); IMF First Review Under the Staff-Monitored Program (2023); World Bank Economic Monitor (2022 &2023); GoM Reports]

## 02. Monetary Policy

**Criteria Score: 4**

### 2. Monetary Policy

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

The Reserve Bank of Malawi (RBM) is mandated ensure price stability and continue the stabilization of the Malawi kwacha and supporting economic activity. This mandate is fulfilled through the Monetary Policy Committee (MPC) which uses different tools to achieve its objective. The tools used by the RBM include the policy rate (or Bank rate), which is the interest rate that commercial banks earn on their deposits or “reserves” placed with the Central Bank, and Open Market Operations (OMOs) which involve the buying and selling of Government securities. Monetary policy is mainly forward-looking.

The Reserve Bank of Malawi has continued to maintain its stance on targeting single-digit inflation. Following the upward movement in prices since 2020 from 8.7% to 24.6% in July 2022, due to the pass-through of exchange-rate depreciation, global supply-chain disruptions, recovery in global oil prices which saw domestic fuel pump prices being revised upwards, and the increase in utility tariffs in November 2021, the RBM increased the policy rate to 14% in July 2022, 18% in April 2023 and to 22% in June 2023. Inflation has however continued to rise despite the rate increases and in August 2023 inflation was recorded at 28.6%.

Total domestic credit grew from K2.7 trillion at the end of 2021 to K3.6 trillion at the end of 2022 and continued the upward trend in 2023 when it reached K4.1 trillion by end of the Q2 2023. Private sector credit in Q4 2022 stood at K1.0 trillion compared to K821.9 billion in Q4 2021 clearly indicating the dominance of public sector credit and therefore signifies private sector crowding out.

The exchange rate continued to face pressures as demand for foreign currency outstripped supply, with the local currency continuing to depreciate since the May 2022 devaluation of 25%. A foreign exchange auction system was adopted in early 2023 and since then the local currency has depreciated by about 8%. Although Gross foreign reserves increased from K422.8 million in 2021 to K496.5 million, they were lower than the K566.9 million recorded in 2020. As a result, the foreign exchange reserves have remained at less than 1.3 months of import cover.

The banking sector is adequately capitalized and experienced high profitability and liquidity in 2022. However, there was a decline in asset quality due to banks downgrading their facilities. Non-performing loans (NPLs) rose to 6.3% of total loans, thereby exceeding the recommended prudential benchmark of 5.0%. The branch, agent and ATM infrastructure in Malawi is relatively concentrated, with four banks (National Bank of Malawi, FDH Bank, Standard Bank Malawi and NBS Bank) supplying 75% or more of the infrastructure. Additionally, there is a high concentration of loans, with agricultural, power and infrastructure, telecommunication and media sectors accounting for more than 75% of loans. Regarding the stock exchange, the total number of listed companies remained at 16, comprising 14 domestic and two foreign counters. The pension sector experienced growth in pension contributions and investment income. However, outstanding pension contributions remained high, raising concerns about employer compliance with pension laws and increased credit risk within the sector. AML/CFT/CPF onsite examinations for two banks revealed that the banks provided adequate AML/CFT/CPF training to staff members, conducted sanction screening for Politically Exposed Persons (PEP) and other customers transactions and further established compliance functions. However, gaps were observed in policies, transactional monitoring systems, risk assessments and Due Diligence practices and some correspondent banking relationships. The Registrar engaged the concerned banks to address the shortfalls.

The performance of the microfinance sector which constitutes the deposit taking, non-deposit taking, and financial cooperatives sub-sectors was fairly sound as evidenced by adequate capital, liquidity and profitability. Aggregate assets for the sector increased by 14.2% to K147.5 billion. Total number of licensed and registered microfinance institutions stood at 111, comprising 5 deposit taking institutions, 11 non-deposit taking institutions, 57 microcredit agencies, and 38 financial cooperatives. The number of clients served by deposit taking microfinance sub-sector decreased by 37.9% to 117,478.

[2022 TheHERegistrar of EGISTRAR OF FinancialINANCIAL Institutions (2022) Financial Institutions Annual ReportFinancial Sector Report]

## 03. Debt Policy

**Criteria Score: 3**

### 3. Debt Policy

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Malawi continues to face a debt crisis which has resulted in severe macroeconomic instability. There is a clear realization that the debt crisis in Malawi emanates from a combination of inadequate fiscal, monetary, and financial policies. Malawi has remained committed to the implementation of reforms around fiscal consolidation, PFM, foreign exchange rates realignment, debt management reforms and debt restructuring under the IMF Staff Monitoring Program (SMP) program, which is supported by the Bank and other DPs.

The Ministry of Finance and Economic Affairs hired debt advisors to review the debt situation and also to evaluate the domestic debt profile with a view of restructuring debt towards longer maturity period, which will address the current debt sustainability concerns. The Public Finance Management Act (2003) was also reviewed to address gaps that have been observed in the current legal framework on issues of contracting public debt. These efforts did not produce the desired outcome as debt continued to rise. In the context of the negotiations for an IMF Extended Credit Facility, the Government committed to exercise fiscal discipline to avoid debt creating policies and reduce granting of extra budgetary financing at Treasury and has secured debt restructuring agreements on its commercial debt. The Ministry of Finance also intensified efforts to refinance all expensive and near-maturing debt using cheaper debt to create fiscal space. This enabled Government to have resources for financing export enhancing projects especially in the mining sector. In line with the G20 and the Paris Club Debt Service Suspension Initiative (DSSI), Government engaged all its creditors to suspend debt service payments for the period January to December 2021. The initiative was aimed at supporting poor countries to overcome the intertwined health and economic effects of covid-19 pandemic. Government would like to acknowledge the temporary relief provided under the DSSI. Abu Dhabi Fund for Development and Saudi Fund for Development agreed to debt repayment suspension. Government managed to free up K1.0 billion that could have been used for debt service during this period.

On the fiscal front, the Bank is working together with other DPs to address weaknesses in the PFM system. The Bank chaired the PFM Donor Group that supported the development of the PFM Reform Strategy and Action Plan and would also provide training and technical assistance, through the Public Finance Academy, to support the implementation of the strategy and action plan. Moreover, the Bank is supporting domestic revenue mobilization by digitizing revenue collection and will widen the tax base through private sector development. The IMF signed a staff level agreement with the government last week on the last review of the IMF SMP. This agreement paves the way for the Extended Credit Facility (ECF) package of about $174 million (to be presented to IMF Board in November). The IMF program will open the door for other development partners, e.g., World Bank, AFDB, EU etc., to provide the much-needed budget support.

In terms of the institutional frameworks covering debt, the policy, legal, and institutional framework for debt management are sound. The updated debt management policy seeks to ensure that financing and debt service obligations are met adequately and at the lowest possible cost and reasonable risk. The Finance Ministry, Debt and Aid Division have a mandate to ensure the debt management function is carried out. The debt data recording is adequate, and the data is regularly updated using the Commonwealth Debt Recording and Management System. However, debt management capacity and oversight needs strengthening so that debt sustainability is maintained. The World Bank and MEFMI in the recent past have provided the support for external debt management, however this needs to be accompanied with more dialogue on macro-fiscal and debt generally.

A Debt Management Committee (DMC) (which includes the Reserve Bank of Malawi) was established, and as such, steps have been taken to strengthen the DMC. The DMC ensures that borrowing options are properly assessed to ensure debt sustainability; and are guided the revised Debt Policy. Generally, Government has continued to review strategies for reducing the cost of domestic borrowing underpinned by fiscal discipline. The strategies include gradual reduction in reliance on TBs, issuance of medium to long term Government paper. Discussions are on-going on how to manage contingency plans.

Malawi however, has a weak debt coordination mechanism due to the composition of its debt. Most of Malawi's debt is held by private entities and Paris club Debt is low. In the conxt of the ECF negotiations with the IMF, major creditors ofto Malawi are being engaged individually.

## (B) Structural Policy

**Cluster Score: 3.333**

### 04. Policies and Institutions for Economic Cooperation, RI and Trade

**Criteria Score: 3.167**

#### 4.a. Regional Integration and Economic Cooperation

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

**The Malawi government continues with efforts aimed at deepening African regional integration. On 18 January 2021, the Malawi government ratified the AfCFTA,** the largest trading block globally, connecting 1.3 billion people with a combined GDP of US$3.4 trillion, and has the potential to boost intra-regional trade by over 50 percent (AfCFTA, 2022). **It developed the Malawi Country Strategy and Implementation Plan (2021-2026), which aims to (a) implement the continental agreement; (b) contribute to building of Malawi's goods and services productive base and competitive capacities.** To this end, the AfDB Bank under its project support for Digitalization, Financial Inclusion and Trade competitiveness, alongside other Development Partners is supporting Malawi to develop the Malawi AfCFTA readiness roadmap, and totrain theirTrade negotiators for the Tripartite AfCFTA and WTO trained on ecommerce matters.

Malawi is developing new policies to succeed the National Trade Policy 2017-2021 and the National Industrial Policy 2017-2021. Through the second National Export Strategy (NES II) 2021-2026, which is anchored on industrial development through manufacturing of value-added products for exports, Malawi intends to promote investments by local manufacturing SMEs, to produce locally and maximize regional and global value chains. NES II intends to increase exports as a percentage of GDP from 14.6% to 18% between 2021-2026, largely through trading within the regional economic blocs.

Furthermore, at the International level, Malawi is a beneficiary of the European Union Generalised Scheme of Preferences (EU-GSP) which has been applicable since 1st January 2014. The EU-GSP offers non-reciprocal trade preferences to different group of countries under three arrangements of the scheme. Under the EU-GSP Everything but Arms (EBA) Scheme, beneficiary countries (UN 49 LDCs, 2 of which have effectively graduated out of LDC) have full duty free and quota free access for all products except arms and ammunitions. The EU is a main trading partner of Malawi. Prior, to opting for the EBA, Malawi was a beneficiary under the Lomé Convention and its successor Cotonou Agreement. Malawi also has access to the American market through and has the AGOA Response Strategy 2018 still under implementation.

Malawi has been a member of the World Trade Organization (WTO) since 1995 and its General Agreement on Tariffs and Trade since 1964. The WTO’s mandate is to promote international trade through a rules-based system that ensures the smooth and free flow of goods and services among countries. Malawi also subscribes to two regional blocs, the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). COMESA was established as a large economic and trade unit that seeks to overcome trade barriers faced by individual member states. With its 21 member states, COMESA seeks to provide a common market for both internal and external trading by focusing on three priority areas: (i) creating a free trade area, which became operational in 2000 when nine member states, including Malawi, eliminated tariffs on COMESA-originating products: the removal of non-tariff barriers is under way; (ii) steps towards establishing a customs union have been outlined; (iii) harmonization of legal frameworks and macroeconomic and monetary policies. Malawi's membership in the WTO and other regional blocs enables it to negotiate jointly with member countries on agreements with other regional trading blocs.

The SADC has made good progress in regional integration since its establishment in 1992 but faces challenges in fostering economic development (Table 9) and meeting the requirements for establishing a monetary union. The SADC Protocol, which took effect in 2008, stipulates the gradual elimination of tariffs between member states. However, Malawi is still in the process of implementing the scheduled tariff phase-down.

Malawi is a member of the COMESA Customs Union, launched in June 2009, and the host to COMESA’s Competition Commission. COMESA, SADC and the EAC formed a Tripartite Free Trade Area that was launched in 2015 in Egypt. Malawi is among the sixteen countries that have signed the Agreement. Consequently, Malawi reduced import tariffs for SADC countries and has taken steps towards harmonization in advancement of regional integration. Plans are underway to migrate the Malawi Revenue Authority from the Malawi Customs and Excise (Tariffs) Nomenclature to the COMESA Common Tariff Nomenclature (CNT). Malawi has fully implemented its commitments to remove tariffs on trade with SADC countries except for South Africa its largest regional trading partners; 15% of trade with South Africa is not yet liberalized.

In the European Union, Malawi enjoys preferential market access through the Everything But Arms Initiative. It also enjoys preferential duty and quota free access to the U.S. market under AGOA. The extension of AGOA provides opportunity for Malawi to expand its exports.

Despite Malawi's membership to regional groups and access to other international markets, its integration efforts face some challenges, including transport corridors, such as the Nacala Transport Corridor (with Zambia and Mozambique). In the Africa Regional Integration Index 2021, Malawi's overall score remains low at 0.28, ranking the country at 42out of 54 countries. On trade integration, it scored 0.53, productive integration 0.25, and 0.20 in infrastructure integration indices. As a small country without direct access to the sea, Malawi relies on its neighbours to access the seaports for global trade. However, trade facilitation remains weak, underlining the imperative for continued reforms to enable the country to automate trade and improve infrastructural connectivity to markets. Malawi is served by four major international transport corridors, namely Dar es Salaam (1,890 km), Nacala (800 km), Beira (825 km), and Durban (2340 km). The Nacala Transport Corridor is the shortest route to the seaport. Malawi's competitiveness in both domestic and international trade is limited by high cost of transportation. Transportation costs account for about 55% to 60% of the price of import and export commodities, which is significantly higher than the sub-Sahara average of 20%. Malawi's membership of several regional economic bodies and participation in trade cooperation agreements (EU's Everything But Arms and AfCFTA) presents potential benefits for the country. Currently its exports comprise mainly raw agricultural products such as legumes, tea, cotton, and nuts that have potential for value addition. Moreover, based on its Product Complexity Index[i] (greater than 1) and recent export data, Malawi has regional export potential in such products as railway m aintenance vehicles, soldering machines, earth moving equipment, tramway maintenance equipment and paintings.To effectively derive these benefits, Malawi needs to increase its investments in infrastructure, particularly for transport and energy, develop critical skills, diversify its product range, and implement reforms to improve the investment climate, facilitate trade, and promote value-addition activities.

[i] Malawi has potential to increase its exports of earthmoving and other heavy equipment for the transport sector as indicated in its Product Complexity Index, https://oec.world/en/profile/country/mwi

#### 4.b. Trade restrictiveness

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Despite having been implementing trade reforms aimed to expand trade and improve competitiveness, tariff reduction has been minimal. Malawi's trade regime faces challenges that continue to impose some restrictions on trade and stifle competitiveness. This calls for a need of making Malawi's average tariffs comparable to neighboring countries. Secondly, the tariff structure remains complex and lacks transparency. For instance, trade Tariffs on agricultural imports are higher than on industrial imports.

The Malawi trade openness index is at about 35.7 percent, which implies high integration into the world economy. Also, the World Bank's World Integrated Trade Solution (WITS) scored Malawi 63.3/100 on trade openness, indicating that the country is relatively open (World Bank, 2022b). In terms of the tariff structure, Malawi applies 24 different tariff rates, depending on the products category. 98.5% of all products enter under three tariff rates (zero, ten and twenty-five). Many of the tariff rates are nuisance tariffs with rates below 5% imposing a burden to importers. Overall, the tariff structure comprises six bands: duty free, 0 %, 5%, 7.0%, 15%, 20% and 25%. The tariff rate, applied, weighted mean, in Malawi was reported at 6.18% in 2020, according to the World Bank collection of development indicators, compiled from officially recognized sources. The complexity of the tariff regime creates incentives for corrupt practices especially in determining which rates to apply.

Tariff exemptions are widespread such that effective import duty collection is only 3% compared to weighted tariff average of 6.9% for trade tariff in 2016, while 50% of all imports enter duty free.

With regards to Non-Tariff Barriers (NTBs), some progress has been achieved, however, Small and medium sized businesses are disproportionately affected by NTBs. Malawi made a gradual relaxation to NTBs including foreign currency restrictions and import licensing. Despite this, NTBs remains an encumbrance and time-consuming licensing requirements for certification of imports.
Cumbersome border procedures continue to restrict trade and increase cost of doing Business. The list of products requiring export permit were reduced from 25 to 10 items. Recently implemented policy reforms include the 2020 Commodity exchange guidelines, the Cannabis Act of 2020, Export Processing Zone (EPZ) regulations that require 20% local sales by an export enterprise under EPZ. Electronic Permit System launched by the Immigration Department. The 2021 Control of Goods Act (COGA) where all grains, legume, and oil seed export transactions must take place through licensed commodity exchange. Currently maize and rice are subjected to an export ban and this has the effect of discouraging local production since their domestic prices are also controlled.

La note est complète et bien écrite (sur le fond). La structure pourrait une nouvelle fois être améliorée en se focalisant sur la structure de ce que l'on veut démontrer plutôt que de lister tous les indicateurs disponbiles. Néanmoins, l'information est disponible et relativement à jour. Malheureusement, il y a tellement d'informations que l'on ne comprend pas ce qui justifie de dégrader le score. A la lecture cela n'est pas clair du tout, la plupart des éléments mis en avant sont relativement positifs, et aucun ne va dans le sens d'une dégradation. Il faudrait ajouter un paragraphe clair se focalisant sur la justification de la dégradation.Il serait nécessaire de fournir la source du score sur la facilité du commerce du premier paragraphe.La mention du rapport doing business 2020 est désormais ancienne et surtout il n'est plus approprié de le mentionner.Le dernier paragraphe ne parait pas pertinent dans cette section et devrait être placé dans la section précédente.Going forward, Malawi has continued to use the 'Tri-Partite The Mechanism for Reporting, Monitoring & Eliminating Non-Tariff Barriers found at https://www.tradebarriers.org/about. The Regional Economic Communities (RECs) are integrating the economies of their member states into a single enlarged market through the grand Tripartite Free Trade Area (FTA). To this end, COMESA, EAC and SADC are implementing an Non-Tariff Barriers (NTBs) reporting, monitoring and eliminating mechanism which incorporates concrete timelines for the removal of NTBs. All three RECs have established NTB monitoring mechanisms to address NTBs. **In this regard,**

**4.c. Customs/trade facilitation**

| Score Type | Value |
| --- | --- |
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

Under the requirements of the World Customs Organization, Malawi established its National Committee on Trade Facilitation on 8 July 2015. Since then, according to the UN Global Survey on Digital and Sustainable Trade Facilitation, Malawi is making incremental progress on trade facilitation. Comparatively, Malawi's score on trade facilitation has risen from 22.58% in 2015 to 70.97% in 2023. The survey measures five indicators of which Malawi's scores in 2023 are as follows - Transparency: 93.33%; Formalities: 83.33%; Institutional Arrangement and Cooperation: 100%; Paperless Trade: 70.37%; Cross-Border Paperless Trade: 22.22%.

**Despite this progress, Customs and Trade facilitation remain cumbersome in Malawi. The 2020 World Bank Doing Business Index, trading across borders has worsened from 117 out of 190 countries in 2018 to a ranking of 127 in 2020DB, however comparably lower compared to Namibia whose ranking stood at 138 out of 190 countries.** Time to export across borders in Malawi takes 78hours; and cost USD243 in terms of border compliance. Similarly, Time to export (documentary) takes 75hours and cost USD 342 (documentary). In addition, the border import compliance takes 55hours and cost USD 143, while the import documentary also takes 55hours and cost USD 162.

**The African regional integration index (ARII)**which measures the extent to which African countries are meeting their commitments under the various pan-African integration frameworks, such as Agenda 2063 and the Abuja Treaty, confirms that Malawi ranks *moderately to poorly* overall within both the SADC and COMESA index, attaining eleventh place (refer to https://www.integrate-africa.org/rankings/countries/malawi/). Malawi ranks 11th out of 16 countries in SADC (with a score of 0.3) and ranks 17th out of 21 countries in COMESA (Score 0.26, below the average COMESA average of Score 0.37).

ARII covers five dimensions of regional integration: trade integration, productive integration, macroeconomic integration, infrastructural integration, and the free movement of people. Malawi scored: 0.53 in Trade integration dimension in 2021, a decline from a score of 0.57 in 2020, (also average score of other peer Regional economic community countries of 0.45). In terms of Regional infrastructure, Malawi scored a low of 0.20 (below 0.32 average peer scores. Other dimensions like productive integration (score of 0.25, below peer average of 0.33). *The two dimensions that performed lowest are 'Free movement of people' which scored 0.18; and Macroeconomic Integration scored the lowest at 0.17 far below its SADC peers of 0.37.*

Within the SADC region, the country performs well on cross-border trading as an importer/exporter and transit country. Its geographical location makes it a natural gateway to other landlocked countries in the region. However, the time and cost incurred to ensure border and document compliance for imports are greater than for comparator countries. Despite efforts to strengthen regional integration, agreements on eliminating tariffs have been delayed. There are also non-tariff barriers that disrupt the free flow of goods and services. These include infrastructure deficiencies. In addition, there is limited potential for regional trade due to the relatively low population in areas immediately adjacent to Malawi in neighbouring countries (Eastern Zambia and the north-west part of Mozambique). For almost all its imports and exports Malawi depends on transit countries for infrastructure, procedures, and the logistics performance of foreign ports. Since ratifying its membership to the WTO, Malawi’s binding tariff coverage is 73.2 percent for all products, 121.1 percent for agriculture, and 41.8 percent for non-agricultural products. Based on this data, the trade-weighted average effective tariffs are 8 percent for all product groups and 12.2 percent for the MFN (most favoured nation)-applied average for all products. However, the World Bank’s World Integrated Trade Solution (WITS) scored Malawi 63.3/100 on trade openness, indicating that the country is relatively open (World Bank, 2022b). The score is similar to the average in the SADC region, but lower than that of its immediate neighbours Zambia and Mozambique, and higher than Tanzania and South Africa (major trading partner in the region). Based on the Africa Regional Integration Index that measures integration on five dimensions – trade, production, macroeconomics, infrastructure and movement of people – Malawi ranks poorly in the SADC region with its worst scores on infrastructure and productive integration. It however, scores well on the free movement of people.

The MRA has migrated customs administration to the ASYCUDA World to improve efficiency in customs administration. MRA has strengthened its risk management systems and installed cargo scanners at two border posts.  Malawi is developing One Stop Border Posts to enhance trade facilitation.  Two One Border Posts will be constructed as part of the Nacala Road Corridor Project (Chiponde with Mozambique and Mchinji with Zambia) due for completion by 2023.

Moreover with the on-going installation of the National Single Window through Public Private Partnership, this aims to simplify and speed up cross-border document processing and customs documentation. Despited this, the cost of doing business in Malawi remains very high, due to significant challenges relatedto transport, communication, energy, and administrative barriers - whose delays means that corruption is high at customs.

These trade facilitation reforms are intended to improve trade facilitation, and also improve Malawi's competitiveness. Other reforms relate to the reduction of Border Posts agencies from 14 to four to streamline border management processes. The opening of One-Stop-Border Post is also another action that is meant to enhance facilitation. The web based NTBs reporting, monitoring and eliminating mechanism is accessible to economic operators, government functionaries, academic researchers and other interested parties. Category 1 entail: Government participation in trade & restrictive practices tolerated by governments, Category 2: Customs and administrative entry procedures, Category 3: echnical barriers to trade (TBT), Cateogry 4: Sanitary & phyto-sanitary (SPS) measures, Category 5: Specific limitations, Category 6: Charges on imports, Category 7: Other procedural problems, and; Category 8: Transport, Clearing and Forwarding. According to a 2018 World Bank Report No. 1327853 - The Malawi Systematic Ccountry Diagnostic, Non-tariff barriers should also be reduced further, particularly the ad hoc imposition of export bans especially on Maize exports. Additionally, Malawi needs to should develop its logistics services sector to improve NTBs further. This should be implemented alongside the North-to-South Transport Corridor. Therefore. while Malawi the Government re-imposed a maize export ban in January 2018 to. Historically, trade in food staples has long been discouraged by national policies that place a high priority on improve food self-sufficiency following the drought of 2016, during 2019 Malawi enacted the Control of goods Act, which allows the Minister of Trade to approve the export of Maize and other goods when there is surplus harvests. This is an big improvement to the earlier Non-Tariff barriers on Maize export.

According to the most recent WTO Trade Policy review (WT/TPR/S/335), Malawi has bound 31.6% of its tariff lines at ad valorem rates ranging from 20% to 125%; by and large, it retains considerable flexibility for autonomous tariff increases. On six tariff lines,Malawi's applied rates exceed the corresponding bound levels by 75 percentage points; theauthorities have indicated their intention to address these breaches in the budgetary deliberationsfor FY 2016-17.AThe mccording  Malawi maintains licensing requirements and a system of trade permits for the importationand exportation of certain goods; permits typically specify the total quantity and value of aparticular product that can be traded, however, the number of items controlled on exportationwas reduced from 25 to 10. The importation or exportation of certain goods, such as agricultural products, requires both a trade permit and a licence

## 05. Financial Sector Development

**Criteria Score: 3**

### 5.a. Financial stability

| Score Type | Value |
| --- | --- |
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

The financial sector risks include sectoral credit concentration, single name credit concentration, tight liquidity and the COVID-19 pandemic (RBM, 2021). The sector is, however, expected to remain resilient supported by measures adopted by the Registrar of Financial Institutions to mitigate the impact of the COVID-19 pandemic on the financial sector. These measures include closely monitoring the financial condition of individual banks and the entire banking sector using supervisory techniques such as enhanced off-site surveillance, weekly monitoring of liquidity positions for some banks, and monthly monitoring of the performance of all credit facilities on moratoriums because of COVID-19 pandemic.

The banking subsector remains sound and resilient and is supported by adequate capital, sufficient liquidity, improved earnings, and asset quality. This notwithstanding, threats to the subsector persist, particularly considering the COVID-19 pandemic leading to the heightening of risk such as credit risk and liquidity risk as well as exchange-rate risk. However, the banking subsector displays some resilience to shocks on interest rate risk, income risk and liquidity risk when haircuts are applied on liquidity assets, at both bank- and sector-wide levels. The subsector, however, has some vulnerabilities to credit shocks on successive default of the top borrowers and increase on exposures to various economic sectors and the scarcity of foreign exchange (RBM, 2021). The banking sector was well capitalized as all banks, but one met the regulatory minimum core and total capital ratios of 10.0 percent and 15.0 percent, respectively. Core and total capital ratios for the banking sector were at 19.0 percent and 22.4 percent, an increase from 17.5 percent and 21.2 percent 2021 positions, respectively.

The pension subsector continues to be negatively affected by the COVID-19 pandemic as remittance of pension contributions by employers remains relatively low, thereby weighing negatively on pension contribution arrears. Nonetheless, the Registrar of Financial Institutions is still in the process of taking legal action on employers that have not honoured their obligations. The insurance subsector remained sound and resilient except for one of the eight general insurers which had solvency issues. Meanwhile, the microfinance sector remained sound and resilient. Nevertheless, the pandemic and its lagged effects on the economy still pose risks to the sectors' performance and the general financial system's stability (RBM, 2021).

According to the Financial Sector Report (2022), the performance of financial sector was generally satisfactory, with a majority of financial institutions maintaining soundness and stability throughout the year. The banking sector had high profitability, capitalization, and liquidity. However, there was a decline in asset quality due to banks downgrading their facilities. The ratio of non-performing loans (NPLs) to total loans exceeded the recommended prudential benchmark of 5.0 percent, reaching 6.3 percent. Additionally, the high concentration of loans in four sectors remained a supervisory concern, accounting for 75.9 percent of the loan book. Despite these challenges, total assets grew by 24.1 percent to K3.6 trillion, primarily driven by growth in investments, securities, and loans. Deposits continued to be the major source of funding.

To facilitate increased access to financial services and spur rapid economic growth and development, the Financial Sector Policy Section under the MoFEA coordinates three main areas of financial sector reforms: policy and regulatory framework, innovation, and capacity development. This covers banking, insurance, microfinance, capital markets, pension funds and asset management, debt market, financial intermediaries, payment systems, credit reference systems, foreign exchange markets, and money transfer systems (GoM, 2022a).

In 2021, the World Bank proposed some reform areas that the Government should undertake to improve the fiscal space and encourage the private sector in the financing of infrastructure. Specifically, the World Bank suggested that the Government should: (i) improve the efficiency of the public investment management framework and integrate it with the PPP framework, and (ii) deepen the domestic long-term finance market by availing long-term liquidity facilities to catalyze bank lending to infrastructure, issuing regulations to expand the range of long-term finance instruments and vehicles, and introducing a programme of transaction testing, piloting, and market sounding to systematically link supply and demand side of the infrastructure finance, among others (World Bank, 2021b). Some of these reforms are now being implemented.

Overall, banking sector vulnerable to shocks in the medium term. The share of NPLs and the level of capital at risk are moderately high. Adherence to Basel Core Principles is limited (capital adequacy requirements in line with or below Basel I requirements but enforcement is weak) and quality of risk management in financial institutions is poor but improving. Supervisors' ability to adequately assess risk is very limited.

**5.b. Sector's efficiency, depth, and resource mobilization strength**

| Score Type | Value |
| --- | --- |
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Although the financial system is considered sound and functioning well, the sector still faces several challenges which affect its contribution to the overall performance of the economy. The Malawi Financial Sector Development Strategy II (2017-2021) outlines the challenges to efficient financial markets in Malawi to include: (i) high fiscal deficit resulting in high domestic borrowing, (ii) underdeveloped capital markets that remain narrow and illiquid, (iii) a lack of innovative financial instruments, (iv) low intermediation arising from banks' reluctance to lend to critical growth sectors, and (v) low financial literacy affecting the uptake of financial services and products.

The size and reach of financial markets and capital markets are underdeveloped but growing. High but falling interest rate spreads, and moderately low ratio of private sector credit to GDP, disproportionate allocation of credit to the public sector (70% of total) and an ineeficient microfinance and pension sectors call for major improvements.

In the most recent Global Competitiveness Report (2019) Malawi scored 48.8 on a scale of 0 to 100 scale for the depth of its financial system, which placed it 118th out of 141 countries assessed. Malawi'sMalawi's financial sector is developing rapidly, but still lacks depth. Credit to the private sector as a % of GDP data was 8.2 % in 2022. This records an increase from the previous number of 8.1% of GDP for 2021. Malawi credit to private sector has averaged 7.3% from 1980 to 2022 and therefore to meet the demand for private sector development. AugustInnn 20225, the maximum lending rate stood at 25.35% compared to down from 23.95% 2021compared to a minimum deposit rate of 9 %. High interest rates have increased the cost of borrowing to unsustainable levels, thereby compounding the problem of access to credit. Both the lending and deposit rates are low in negative in real terms, which is an impediment to more savings/deposit mobilization. The ROA and ROE ratios were 3.2% and 23.6%, respectively in June 2020 (IMF country report No. 20/288, October 2020).

The latest Finscope Report reveal that access to financial services in 20144 increased to 39% from 2020 % in 20122. This expansion has been driven by innovation through increased use of mobile phones for money transfers. Great efforts are required to deepen financial inclusion. In addition, aThe FinScope MSME Malawi survey findings indicate that Financially included businesses in the MSME sector increased by 33 percentage points, with formal access up by 23 points fromsince 2012. The main drivers of access to financial products particularly formal were through mobile money, SACCOs and MFIs. While banking access grow by 2 percentage points from 22 percent to 24 percent between 2012 and 2019. The re was an increase in the absolute banked MSMEs increased from 170,000 in 2012 to 276,000 in 2019. showed improvements in the number of In a bid to spur access to finance for MSMEs, in 2019, the GOM launched the Malawi Agriculture and Industrial Investment Corporation (MAIIC) as a development Bank.

### 5.c. Access to financial services

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Several pieces of legislation were passed in the recent years to regulate and improve the financial sector, such as the Financial Services Act (2010), Banking Act (2010), Micro finance Act (2010), Securities (2010), Insurance Act (2010), Credit Reference Bureau Act (2010) and Reserve Bank Amendment Bill, Payment Systems Act (2016) and Financial Crimes Act (2017). In addition, the country also enacted a Pensions Fund Act and Financial Cooperatives Bill in 2011. Further, in trying to increase access to financial services by the rural populations, eg); the government has provided incentives to encourage mobile banking services and is promoting non- banking services, e.g through MFIs and Saving Cooperatives. The creation of the credit bureau will help increase access to credit, which constitutes one of the biggest challenges for businesses particularly the SMEs. The payment system infrastructure has undergone major improvement with the introduction of the MALSwitch, which has facilitated electronic payments.  Nevertheless, there are still gaps in the sector and the sector is not sufficiently competitive, the spread between maximum lending rate (23.75 %) and savings rate (7.4%).

Though underdeveloped the payments and clearance systems function relatively well and credit reporting systems. Agrowing percentage of the population has access to formal sector financial services. Access to finance by SMEs is improving, while the legal and regulatory framework is  burdensome for access to financial services. According to a World Bank Report , only 40% of the adult population in Malawi use financial services. Access to and the cost of credit remains one of the biggest challenges for businesses and particularly SMEs. The reference lending rate in March 2023 was 17.3 percent.

In the DB 2020 Malawi’s rank on ease of getting credit improved to 11th position out of 190 countries from 130 in 2013 out of 186 countries and from 6 out of 190 countries in 2018. Overall, Malawi is making progress in financial inclusion. The 2014 Finscope consumer Survey for Malawi reveal that interventions and reform initiatives in the financial sector have enhanced access to financial services resulting in an increase in financial inclusion from 45 % in 2008 to  54 % in 2018.  The banked population increased by 14%. This expansion in access has been driven by product innovation (e.g ATMs, mobile payments etc), despite this, the Number of ATMs per 100,000 adults remains low and was equated to 4.11 in 2021 (World Bank, 2021).

## 06. Business Regulatory Environment

**Criteria Score: 3.833**

**6.a. Regulations affecting entry, exit, and competition**

| Score Type | Value |
|---|---|
| Draft Score | 4.5 |
| Reviewed Score | 4.5 |
| Second Draft Score | 4.5 |
| Final Score | 4.5 |

**Country Notes:**

The competition policy for Malawi was adopted in 1997. Its broad policy objective is to promote economic efficiency and protect consumer interests. It has three broad strategies: lowering barriers to entry; reducing restrictive business practices; and protecting the consumer. According to the policy, the focus areas are business behavior calculated to eliminate or reduce competition, including price fixing, collusive tendering, customer allocation and tied sales; and market structures which permit abuse by an entity in a position of market power.

Following the ratification of the Competition and Fair-Trading Act (1998), the Government established in 1998 the Competition and Fair-Trading Commission (CFTC) as a watchdog to protect consumer interests and promote competition. The Commission has had to intervene in some sectors in a bid to protect consumers for instance in the mobile telephone industry. However, the capacity to enforce the competition law and regulation is, generally, weak. This is compounded by limited awareness both on the side of businesses and consumers. In September 2015,
the Government approved reforms to enhance the effectiveness of CFTC. The reforms involved amendment of the legal framework for competition to make it easier to enforce and lessen the burden of compliance on businesses. The reform was also to enhance complementarity and synergy between competition policy and law and sectoral regulatory frameworks, for example in telecommunication.

Having submitted itself to a Voluntary peer review of competition law and policy during the period 2020-2021, the following are some of the issues that need to be addressed going forward:

· Placing the competition and economic regulation institutions under one central ministry for ease of policy harmonization between the competition and economic regulation regimes,

· Repealing of the 1998 Competition and Fair-Trading Act to expand the scope of the law in relation to the regulated sectors; remove flaws in the appointment of Commissioners and the functioning of the Commission; clarify provisions on the operational autonomy of the competition authority; address the lack of comprehensive consumer protection provisions and provisions that allow possible non-competition interventions by the executive, including undue powers of the Ministers; address the unfriendly elements of the law to users; and including a provision for the supremacy of competition law over other laws to eliminate the possibility of the competition legislation being subordinate to other subsequent laws.

· Separate the CFTA advocacy component for competition issues from consumer protection actions.

· Remove conflict between the CFTA and other sectoral legislations as noted in the Telecommunication and Energy Sector Acts.

Whereas the new law is not in place yet, some progress had been registered. The 2020 Global Competitiveness Index (GCI) ranked Malawi 128th out of 140 countries, an improvement by one rank compared to 2019. Major challenges to doing business and in need of attention include the high cost of infrastructure services (transport and energy), limited access to credit, skills shortages and high taxation, all of which constrain investments in high value products and reduce the country's competitiveness.

Regarding arbitration and mediation of cases involving foreign entities, the court system in Malawi accepts and enforces foreign court judgments registered in accordance with established legal procedure. There are reciprocal agreements among Commonwealth countries to enforce judgments without this registration obligation. Judgments involving the two countries can be enforced if the judgment is registered in Malawi. In terms of international commercial arbitration, mediation is the first step. The High Court's Assistant Registrar maintains a list of approved mediators and experts. If the matter cannot be resolved during mediation, the action proceeds to the appropriate court. Malawi does not have an arbitration body, but in August 2022, the government of Malawi and Malawi Law Society (MLS) signed a memorandum of understanding with Arbitration Foundation for Southern Africa as part of the constructive engagement towards the establishment of the Malawi International Commercial Arbitration Centre. MLS is spearheading the establishment of a center in partnership with the Southern Africa Development Community (SADC) Lawyers Association. There are no statutory requirements for parties who have contractually agreed to arbitration to go through mediation.

**[Voluntary peer review of competition law and policy]**

### 6.b. Regulations of ongoing business operations

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Malawi's legal system is generally unbiased but is slow. The government continues to work on policy reforms to support business development and investment. The legal, regulatory, and accounting systems are partially transparent and consistent with international norms. Investors have the right to establish, acquire, and dispose of interests in business enterprises. Operating a business in Malawi is regulated by several legislations including the revised Consumer Protection Act (2004), Business Registration Act (2012); Business Licensing Act (2014); Cannabis Regulation Act (2020); Competition and Fair Trade Act (1998), Employment Act (2021), Workers Compensation Act (2000), etc. The new Business Licensing Act of 2012 (section 37) under the mandate of the Minister of Trade made the Business Licensing Regulations, 2014 came into operation in November 2014. Applying for business license takes 7 days and cost where the premises are in a city or municipal council such as Blantyre at a cost of MWK 30,000. Under the Business Licensing Act, wholesalers must apply for a wholesaler's license; and retailers, for a retailer's license. For industrial activities, relevant fees, procedures, and licensing requirements depend on the manufactured goods. Licenses are thus administered by the corresponding ministry.

Similarly, for industrial activities, the relevant fees, procedures, and licensing requirements depend on the manufactured goods. Licenses are thus administered by the corresponding ministry. By law, a business is to be deemed as fully licensed if the authority does not respond within 7 days of the day of the application. The Department of Planning checks whether the premises location and business use is consistent with the city code. It takes on average 7days to apply for a license from city assembly and cost Malawi Kwacha 1,000.

Malawi's land acquisition and registration process is weak. The *"registering property"* indicator in the 2018 DB has improved to the rank of 90 out of 190 countries in 2020, down from the worsening of 96 out of 190 economies from DB 2015. In DB 2020, transferring property improved to six  procedures, 47days and costs 1.7% of property value to transfer property in Malawi. Whereas the improvement two years ago emanated from the elimination of stamp duty on the transfer of property in 2012 and the transferring property was made easier by reduction of stamp duty in 2015, the momentum of these reforms was not sustained. As such, the land registry search remains slower; conducted either by title number or plot number. Malawi still has two systems of land registration including the Title registration under the Title Registration Act and Title registration and the Deeds Registration Act. Property search under Title registration is quicker takes about 30 minutes; while Deeds registry takes longer owing to cross reference. Applying for registration at the Deeds Registry however takes 7days  and cost MK, 54,000. Progress has also been registered in obtaining City rates clearance certificate which now takes 1-3days; and cost only MK 500. The longest delay relates to getting the Ministry of lands consent to transfer property which on average takes 2months and cost MK 5,000

The government aims to maintain a three-month gross international reserves level, but this has been a challenge, with the scarcity of foreign exchange resulting in rationing has led to several months wait for business to remit foreign investment funds. Despite the long wait times, there are currently no restrictions on remittance of foreign investment funds if the capital and loans initially came from foreign sources and were registered with the Reserve Bank of Malawi. The Malawi Investment and Trade Center assists investors and businesses by providing insight and local knowledge to help navigate the myriad regulations, processes, and procedures required to operate a business.

Regarding foreign investment, investors may invest in most sectors of the economy and may access government investment incentives. There are no restrictions on ownership, size of investment, source of funds, investment sector, or whether the products are destined for export or for domestic markets. An investor can disinvest 100%, make international payments, and cannot be forced into local partnerships. The Malawi Stock Exchange limits individual foreign investments to 10% of any company's initial public offering (IPO) and limits foreign investment to 49% of total shares in the company.

Regarding investment disputes, Malawi ratified the **Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID)** in 1966 and the **New York Convention** on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) in March 2021. As a member of ICSID, Malawi accepts binding international arbitration for investment disputes between foreign investors and the government.

**6.c. Regulations of factor markets (labor and land)**

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Malawi's Employment Act No. 6 of 2000 provides for employment regulations as well as consider hiring and firing. The fundamental policies include equal pay, prohibition against forced labour, anti-discrimination; and remedial measures for infringement of an employee's fundamental rights. It caters for both temporary and long-term employment and take into account the overall cost of employing formal labor, i.e. payroll taxes and safety regulations.

In 2022, property rights index for Malawi was 4.34 score. Though Malawi property rights index fluctuated substantially in recent years, it tended to decrease through 2013 - 2022 period ending at 4.34 score in 2022. Changes to the Registered Land Act that came into effect in March 2023 capped access to agricultural land at 1,000 hectares and introduced ceilings on ownership or leasing of urban residential and commercial land. The new legislation prohibits 'nonindigenous' Malawians from owning land and limits them to 50-year leases on customary land. Also, the reforms also give the government sweeping powers to seize land which has not been developed within two years of being acquired and decide whether expired leases should be renewed.

There is no electronic database for recording boundaries, checking plans and providing cadastral information (geographic information system). The High Court of Malawi is the Court of First Instance in charge of a case involving a standard land dispute between two local businesses over tenure rights located in the largest business city. According to the US Department of State, the Government enacted amendments to the land laws in 2022 which include clauses that negatively affect foreign ownership and investment in land-based enterprises.

In 2020, Malawi scored 43.7 in the global competitiveness index. Global competitiveness index of Malawi increased from 40.64 score in 2017 to 43.7 score in 2019 growing at an average annual rate of 3.69%. **Malawi's overall position was 128th out of 141 countries in 2020, a one point improvement from 129 out of 140 countries in 2018 – implying that Malawi remains the 11th least competitive country**

**in the world.** On the Global Competitive Index 2019, Malawi scored 3.37 in internal labour mobility, 5.1 in flexibility of wage termination, and 3.37 in hiring and firing practices on the scale of 1-7. Where 1 is lowest and 7 is best. The World Bank Report (2018) further strengthens this submission by stating that there are no fixed-term contracts prohibited for permanent tasks, dismissal due to redundancy is allowed by law, local and foreign employees are hired, and that there is no minimum wage applicable to the worker that is strictly adhering This shows that that while the labour market is flexible, it is not adequately unionized. Moreover, employee's salary bargaining process is mostly decentralized at a company level; hence creating a possibility of a risk generating wide salary disparities across the same salary bands across the country due to different bargaining powers of workers and companies.

Labour issues continue to be handled through a tripartite arrangement comprised of the Employers Consultative Association of Malawi, the Malawi Congress of Trade Union and the Ministry of Labour. Malawi's labour laws conform to the conventions of the International Labour Organization and are administered under the Ministry of Labour.

## (C) Policies for Social Inclusion/Equity

**Cluster Score: 3.72**

### 07. Gender Equality

**Criteria Score: 3.333**

**7.a. Promotion of equal access for men and women to human capital development opportunities**

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Access to human capital development in Malawi is guided by various policies, legal instruments and strategies. The Constitution of the Republic of Malawi recognizes and promotes gender equality as one of the ways of promoting the welfare and development of the people of Malawi. The Gender Equality Act of 2014 promotes gender equality, equal integration, influence, empowerment, dignity and opportunities, for men and women in all functions of society, to prohibit and provide redress for sex discrimination, harmful practices and sexual harassment, to provide for public awareness on promotion of gender equality. In addition, recent successive development strategies have elevated gender equality and women empowerment. However, Malawi has one of the highest maternal mortality ratios globally, although it decreased from 439 to 381 per 100 000 live births between 2017 and 2020. Adolescent pregnancies comprise 25 percent of all births and 20 percent of maternal deaths.

The promotion of gender equality is an integral part of the GoM’s agenda. Nonetheless significant gender gaps continue to persist in various economic spheres. The World Economic Forum’s Global Gender Gap Report (WEF, 20221) ranks Malawi 1101 out of 14651 in the Economic Participation and Opportunity Index reflecting the extent to which women are disadvantaged from economic participation. Its score improved from 0.632 in 2021 to 0.676 in 2022. The Forum’s 20221 Global Gender Gap Index benchmarks progress towards gender parity and compares gender gaps across countries in four main dimensions. For Malawi, the ranks arefor: Economic participation and opportunity (109), Educational attainment (129), Health and survival (1), and Political empowerment (67).

From a sectoral perspective, approximately 59 percent of women are employed in agriculture compared to 44 percent of men(NSO and ICF, 2017**)**. Yet men produce an average of 25 percent higher agricultural yields compared to land managed by women (World Bank, 2021a). Low productivity in women-owned farms is due to several constraining factors including land ownership (men own 83 percent of land compared to 17 percent of women), small land holdings, and lower access to farming resources including inputs, technology, and labour. Female participation is lower in the production of cash crops which have the potential to generate income for the export market value chains, such as cotton, tobacco, and rice, with participation limited to staple crops such as maize and beans.

Limited opportunities are available in the workspace with a significantly high gender wage gap as female workers received in 2021 MK512 for each MK800 earned by men (approximately US$0.64 and $1 at 2021 exchange rates) (World Bank, 2021a). Furthermore, only 16 percent of managerial positions were occupied by women in 2013, meaning the equal participation of women in leadership and decision-making roles is limited. According to NSO and ICF (2017), 60 percent of men are paid in cash compared to just 30 percent of married women. The problem in the wage gaps in Malawi is also rooted in the education sector where low literacy and secondary enrolment rates affect employment prospects. Although there are laws and policies to protect gender equality in the labour market, these tend to be overshadowed by patriarchal aspects. On a global scale, the gender gap inequality in the hourly wage is higher at 50.8 percent in Malawi compared to the global average of 36 percent (ILO, 2018). In addition, political representation in Government is still very low in some posts. For example, men make up 83 percent of MPs compared to 22 percent for women. Representation of women at council level is at a mere 16.5 percent compared to 83.5 percent for men. So far, there are only three areas where targets have been met. These are ambassadors (50/50) and cabinet ministers and board members (60/40).

Globally, Malawi has one of the highest rates of child marriage with half of girls getting married before they turn 18 years (World Bank, 2021a). For girls this scenario often results in low school-to-work transition, consequently affecting their ability to participate in the country’s labour force. The labour force participation rate for 15+ years was 72.8 percent for women and 82.3 percent for men in 2019. Similarly, the literacy rate is 65 percent in favour of men compared to just 55.2 percent of females. The GoM is making notable improvements to empower women and advance gender equality in the legal and policy realms. For instance, ane amendment to the Constitution in 2017 fixed the minimum age of marriage at 18 years, bringing it into line with the Marriage, Divorce and Family Relations Act of 2015.

### 7.b. Promotion of equal access for men and women to productive and economic resources

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Despite equality in rights been guaranteed by the Constitution and legislation, women are still marginalized in Malawi. Only 10 % of women compared to 18 % of men are in wage employment.  There are also significant disparities in wage. The median daily wage for women is MK 78 compared to MK 124 for men. In addition, only 10% of women own their own enterprises compared to 16 % for men; men enjoy better access to finance and land.  The National Land Policy of 2002 highlighted the need to increase women's access to land.  The policy allows for the name of the head of family to be registered as the proprietor of family land.

According to report of the Social Index and Gender Institutions of the OECD, women in Malawi encounter discrimination in relation to access to property other than land because of discriminatory practices. However, in customary law, these rights are closely linked to gender stereo types. Women tend to own less valuable property. In 2010, the Government reported a gender gap in access to credit.  Going forward the enactment of proposed amendments to the Affliction Act, Marriage Act and Wills and Inheritance will promote equal access to resources. The new Land Law of 2013, includes provisions promoting ownership of land by women.

Malawi has shown its willingness to advance gender equality by adopting a number of supportive policy frameworks. MIP-1 and MW2063 recognize gender as a cross-cutting issue which has potential multiplier effects across all sectors of the economy. The National Gender Policy (2016-2021) which is aimed at strengthening gender mainstreaming and the empowerment of women in all sectors – including the achievement of SDG goal number 5 – is currently under review. Other policies include the Strategic Plan for MoGCDSW 2021-2025. There is also the support of an enabling environment which is anchored in the progressive Constitution and relevant legislation. Gender-responsive budgeting has also been integrated into the national budget, although in practice this is not being effectively implemented. In fact, the Ministry of Gender is still one of the ministries with the lowest budget allocation, receiving only MK5,854.96 million in FY 2021/22, down from MK7,074.00 million in FY 2020/21. A strong supportive framework is required to enable better implementation efforts which are at present highly fragmented. Although the gender technical working groups in the country liaise with the private sector under the Malawi Confederation of Chambers of Commerce and Industry, the current gender coordination mechanism with the private sector lacks visible presence. More technical support could also be extended to women entrepreneurs to enhance private sector development.

As indicated in the description in 18a above and in this subsection, Malawi still has a long way to ensure equality of access to to productive and economic resources.

**7.c. Men and women equal status and protection under the law**

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Although Malawi has ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW).  The Government is compiling its seventh report on the domestication of the Convention.  In 2013, the Gender Equality Act was approved by Parliament. The national Gender Policy has been reviewed and is awaiting approval.  At the SADC level, Malawi committed to take urgent actions to prevent and deal with increasing violence against women. To this effect, Government has prepared the Domestic Violence Act to curb the growing incidence of gender related violence. Gender Based Violence is recognized as a serious impediment to poverty reduction. Several initiatives have been taken to reduce cases of GBV. These include establishment of Community Eviction Support Unit and sensitization.

**Gender inequalities persist and have been exacerbated with the COVID-19 pandemic.** Malawi has registered significant progress in the political representation of women at the cabinet level to 39% in 2020 up from 20% in 2019; however, disparities persists at Parliamentary level where only 23% of the members of Parliament are women.

**Regarding the Global Gender Gap,** Malawi ranks 116 out of 153 countries on the Global Gender Gap Report 2020, a decline of six position places from the 2018 score.

**Malawi is unlikely to meet SDG 5,** with regard to promoting gender equality. Of the five targets, the country is unlikely to meet the targets for girl-boy ratio in secondary school, share of women in wage employment in the non agriculture sectors, the proportion of women in Parliament.  Malawi's latest President Lazarus Chakwera appointed 39% of women in Cabinet - 12 out of 31 cabinet positions are now occupied by women (4 women Ministers, 7 deputy Ministers) of 31. Similarly, Women representation in Parliament has increased from 22% in 2009 to 23 % in 2020 Cabinet.

While gender issues have been mainstreamed in policies, challenges persist with regard to enforcement, monitoring and cultural biases. Malawi has developed and launched the SDG Acceleration Framework to accelerate progress towards the gender SDG. The Framework focuses on achieving equity in education and economic empowerment of women.

## 08. Equity of Public Resource Use

**Criteria Score: 3.833**

### 8.a. Poverty Measurement

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

The Fifth Integrated Household Survey (IHS5) was conducted from April 2019 to March 2020. The results of the survey indicated that 52% of the population are female and 48% male. The population for urban areas was at 15.6% while that of rural areas was at 84.%.

According to available statistics from the Malawi Poverty Report (2020) slightly over 50% of the population live in poverty. The poverty rates are higher than the Sub-Saharan Africa regional average of 41%.  A staggering 56.6% of the rural population were poor[1] compared to 19.2% in urban areas in 2019/20. Urban rates increased by 1.5% from 17.7% in 2016/17. An assessment of the causes of poverty and inequality in the country reveal a district divide in poverty rates. Districts in the Central Region had deeply entrenched poverty rates of up to 55.9%. Data from the Fifth Integrated Household Survey (IHS5) (NSO, 2020b) indicate poverty rates in the Southern Region at 51.0% compared to the Northern Region at 32.9% in 2019/2020.

Comprehensive regional data generated from the IHS5 show that the Northern and Southern Regions were able to reduce the rates of poverty during the same period. The proportion of poor people in the Northern Region declined by 16.6% to 49.5% between FY 2016/17 and FY 2019/20. Poverty rates in the Central Region increased by 8.3% and in the Southern Region decreased by 5% from 56.0% to 51.0%. A plausible explanation for the regional poverty divide could be the differences in economic activity from low agricultural activity and access to inputs at 41.5% in the Central Region compared to 58.4% of households in the Northern Region.

Through MIP-1, Malawi has moved from specifically focusing on poverty reduction to wealth creation. This shift is consistent with the recommendations the World Bank (2020) which points to the importance of prioritizing polices for growth and social support that have the largest impact on the poor. As a result, the key focus is on the creation of economic opportunities that would allow for sustainable development. The Malawi Poverty Assessment report Poverty Persistence in Malawi: Climate Shocks, Low Agricultural Productivity, shows slow structural transformation of poverty reduction. In the last decade, while some people escaped poverty, others fell into poverty, in part due to recurring climate shocks. In Malawi, the proportion of people living on less than $1.90 a day is 73%, the second highest rate among the poorest countries of Sub-Saharan Africa in 2020. Around 94% of poor Malawians live in rural areas. This proportion of people living in poverty has not changed in over a decade such that in 2019, Malawi's poverty rate was 50.7%. With an average annual population growth of 2.8%, the absolute number of poor increased by 2 million over ten years. During this period, GDP growth per capita has been low, averaging 1.5% per year and has done very little to reduce poverty. Malawi's reliance on agriculture for economic growth has not helped to lift many out of poverty either because between 2010 and 2019, the contribution of agriculture as the main source of income of a household declined from 70% to below 50%.  In 2010, 56% of people received income only from agriculture while in 2019, this proportion fell to 29%.

[1] Households with consumption lower than the poverty line.The Fifth Integrated Household Survey (IHS5) was conducted from April 2019 to March 2020. The results of the survey indicated that 52% of the population are female and 48% male. The population for urban areas was at 15.6% while that of rural areas was at 84.%.

According to available statistics from the Malawi Poverty Report (2020) slightly over 50% of the population live in poverty. The poverty rates are higher than the Sub-Saharan Africa regional average of 41%.  A staggering 56.6% of the rural population were poor[1] compared to 19.2% in urban areas in 2019/20. Urban rates increased by 1.5% from 17.7% in 2016/17. An assessment of the causes of poverty and inequality in the country reveal a district divide in poverty rates. Districts in the Central Region had deeply entrenched poverty rates of up to 55.9%. Data from the Fifth Integrated Household Survey (IHS5) (NSO, 2020b) indicate poverty rates in the Southern Region at 51.0% compared to the Northern Region at 32.9% in 2019/2020.

Comprehensive regional data generated from the IHS5 show that the Northern and Southern Regions were able to reduce the rates of poverty during the same period. The proportion of poor people in the Northern Region declined by 16.6% to 49.5% between FY 2016/17 and FY 2019/20. Poverty rates in the Central Region increased by 8.3% and in the Southern Region decreased by 5% from 56.0% to 51.0%. A plausible explanation for the regional poverty divide could be the differences in economic activity from low agricultural activity and access to inputs at 41.5% in the Central Region compared to 58.4% of households in the Northern Region.

Through MIP-1, Malawi has moved from specifically focusing on poverty reduction to wealth creation. This shift is consistent with the recommendations the World Bank (2020) which points to the importance of prioritizing polices for growth and social support that have the largest impact on the poor. As a result, the key focus is on the creation of economic opportunities that would allow for sustainable development. The Malawi Poverty Assessment report Poverty Persistence in Malawi: Climate Shocks, Low Agricultural Productivity, shows slow structural transformation of poverty reduction. In the last decade, while some people escaped poverty, others fell into poverty, in part due to recurring climate shocks. In Malawi, the proportion of people living on less than $1.90 a day is 73%, the second highest rate among the poorest countries of Sub-Saharan Africa in 2020. Around 94% of poor Malawians live in rural areas. This proportion of people living in poverty has not changed in over a decade such that in 2019, Malawi's poverty rate was 50.7%. With an average annual population growth of 2.8%, the absolute number of poor increased by 2 million over ten years. During this period, GDP growth per capita has been low, averaging 1.5% per year and has done very little to reduce poverty. Malawi's reliance on agriculture for economic growth has not helped to lift many out of poverty either because between 2010 and 2019, the contribution of agriculture as the main source of income of a household declined from 70% to below 50%.  In 2010, 56% of people received income only from agriculture while in 2019, this proportion fell to 29%.

4.0

### 8.b. Public Expenditures: Priorities and strategies

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Priorities in budget allocations are aligned to MIP-1 and Vision 2063. Government budgeted MK3.87 trillion (24.9% of GDP) against MK2.55 trillion (16.8% of GDP) in revenues and grants, translating to MK1.23 trillion (8.1% of GDP) of fiscal deficit for the 2023/24 fiscal year. The combined allocation to key social sectors (education, health and social protection) has gradually reduced as a share of the total government expenditure from 35% in 2019/20 to hit a five-year low of 29% in 2023/24.

Based on the enablers of MIP-1, the agriculture productivity and commercialization enabler has the highest allocation, representing 10.2% of the budget followed by urbanization and industrialization at 2.3% and 1.6%, respectively. The Effective governance systems and institutions enabler has the highest allocation, representing 35.6%. The Human capital development enabler has the second highest allocation at 31.8% of the budget followed by economic infrastructure, environmental sustainability, and enhanced public sector performance with allocations of 7.0%, 5.8%, and 5.5% of the total budget, respectively. However, the least allocation amongst the enablers is for private sector dynamism and mindset change with an allocation representing only 0.1 percent of the budget for each enabler.

**Since 69% of Malawians are engaged in Agriculture, and given the**Government continues to sustain its international commitment under Comprehensive Africa Agriculture Development Programme (CAADP) and Maputo Declaration whereby close to 10 percent of its budget is allocated to the agriculture sector, this will go along way in ensuring inclusion.

A key observation, however, is that has not made efforts to stick to its regional and international obligations. For example, education and skills development: In line with the Enabler 5 in MW2063, received 16.3% of the total budget but is lower than the Government's commitment to education for all according to the Dakar declaration, which requires Governments to allocate 20% of their total national budget to education.  Agriculture, Water Development, and Climate Change: got 15.8% Maputo declaration of 10 percent of total national budget. Health sector was  allocated 10% of the budget and is lower than the commitment towards Abuja Declaration, which mandates Governments to allocate 15% to the health sector.

#### 8.c. Regressive Tax

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

The Government has increased revenue collection consistently in the last three fiscal years.  The main sources of tax revenue are VAT and Income & Company Tax. Income tax is progressive with higher tax rate for the high-income category. Some VAT exemptions on basic goods will help reduce its regressive nature although this could be subject to abuse.

These tax incentives are in addition to the Industrial rebate scheme that the government has been implementing since 2018.  Under this arrangement, any manufacture in any industry considered for rebate could be given tariff concessions if they applied for it. Furthermore, the 2023/2024 budget has introduced new tax incentives mostly to support the private sector investments for enhancing value addition. These, among others include removal of VAT on tap water and cooking oil, removal of import duty and excise on tax on solar lamps and reviewing industrial rebate system. In addition, the Government has shown its preference to boost electricity generation from installed capacity of 364MW to 591MW with target of 1000MW soon. The tax measures will cushion the private sector and incentivize productive investment when they are considered together with a boost in power generation and improving the enabling policy and business environment for private sector growth and development. This has the potential to improve the ease of doing business index for the country and may attract FDI.

## 09. Building Human Resources

**Criteria Score: 3.833**

#### 9.a. Health and nutrition services

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |

| | |
|---|---|
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Malawi has made progressive efforts in its health policy and legal framework, following the launch of the Third Health Sector Strategic Plan (HSSP III) and Health Financing Strategy (HFS) covering the period 2023 to 2030. The Government allocated Malawian Kwacha (MK) 328 billion to the health sector in 2023/24 (Figure 1). This represents a nominal increase of 35% compared to the 2022/23 allocation. Malawi has consistently missed the Abuja Declaration target for African States to allocate 15% of their total budgets to the health sector. As a share of GDP, the current allocation of 2.2% fall below the target of 5% committed by Southern African Development Community (SADC) Countries to allocate to the health sector. According to the WHO it is difficult to ensure financial protection and achieve UHC for low-income countries (LICs) without allocating at least 5% of GDP to funding the health sector. Compared to other sectors, the health sector remains the third largest in terms of budget allocations, after education (16.5%) and agriculture 11.8%. The 2023/24 health budget is inadequate to support Malawi's efforts to accelerate progress in achieving UHC targets by 2030. For instance, the 2023/24 health budget translates to about US$14 per person/year and reaches US$40 when off-budget donor spending and private contributions are added.

The disease burden is high as evidenced by high child and adulthood mortality rates and high prevalence of diseases such as tuberculosis, malaria, HIV/AIDS. About 8.8% of the population aged 15-49 years is living with HIV/AIDS – 10.8% among women and 6.4% among men. About 34,000 new HIV infections occur every year. Whereas the incidence of Tuberculosis has declined over the past decade; the prevalence rate however remains high at 363 per 100,000 in the general population (all ages). Malaria accounts for over 30% of outpatient visits, with an incidence of 323 per 1000 population in 2017, equivalent to a 33% reduction from 484 per 1000 in 2010, while malaria prevalence stands at 24%. Non-communicable diseases (NCDs) are on the increase. It is estimated that 33% of adults aged 25-64 have hypertension and 5.6% are diabetic. About 5,000 new cases of cancer are registered annually. Malawi's maternal and neonatal mortality rates remain alarmingly high, indicating inadequate maternal and newborn services. Latest data from the World Health Organization (WHO, 2023) reveals that maternal mortality, at 381 deaths per 100,000 live births, is among the highest in the world. Neonatal mortality, at 26 deaths per 1,000 live births, is also high and accounts for about half of the deaths among under five (U5) children. The U5 mortality rate is 56 deaths per 1,000 live births, with significant disparities along geographical and wealth lines. For instance, U5 mortality rate is 62 deaths per 1,000 live children for children from the poorest quintile compared to only 39 deaths for those from the wealthiest quintile. Approximately 41,000 children are not immunized against polio and other vaccine-preventable diseases, and 52,000 children aged 0–14 live with HIV. Poor quality healthcare services, worsened by the COVID-19 pandemic, contribute to the problem.

**These gains have resulted from such initiatives as the National Reproductive Health Strategy, Integrated Management of Child Illness (IMCI), the Essential Health Package, distribution of mosquito nets and the Health SWAP.** The GoM adopted the Health Sector Strategic Plan 2017-2022 (HSSPII) which has been endorsed by development partners. The HSSP II aims at improving provision of basic health package (BHP) and health systems strengthening for efficient delivery of the BHP.. While the key element of HSSP I , the Emergency Human Resource Programme (EHRP)EHRP contributed to a 53

% increase in health worker numbers between 2004 and 2009, shortage and unbalanced skills gap of health workers is still affecting the delivery of health services. Overall, there was a decrease in the shortage of health workers in Malawi health system from 52% to 45% according to Human Resources for Health (HRH) 2016 report. This has been exacerbated by budgetary constraints and the inability to train sufficient health workers. Malawi health. The Health sector budget is 5.8 % of the national budget which falls short of the 15% recommended by the Abuja Declaration of 2001.  The budgetary allocation is mainly for the implementation of the essential Health Services Package. Although Malawi has increased its efforts in achieving Millennium Development Goals (MDGs) targets, only 4 out of 8 were achieved by 2015. The four MDG targets that were not achieved were the eradication of extreme poverty, universal primary education, promotion of gender equity, and reduction of maternal deaths.

**9.b. Education, ECD, training and literacy programs**

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Malawi is one of the 10 least developed countries in the World, classified as a Low Human Development country, with an HDI of 0.477 in 2017, and a rank of 171 position out of 189 countries. The lack of financial capacity, high academic entry requirements, lack of teacher training, and limited funding from the Government are some of the challenges confronting the institutions. Government expenditure towards tertiary education as percentage of GDP declined to 1 percent in 2019 (World Bank, 2020c). The TEVET sector is currently going through some reforms, including of the 1999 TEVET Act which is aimed at harmonizing the skills qualification model to enhance skills development, entrepreneurship, and career progression and productivity. However, there is need to invest more in infrastructure, equipment, and innovative teaching arrangements including digital learning and investment in TEVET teacher education. The GoM recently de-linked the University of Malawi's colleges into four universities with the objective of improving intake, management, and the quality of education.

The Education Act (2013) provides procedures for the establishment, organization, governance, control, regulation and financing of schools and colleges, the establishment of the Teachers Council of Malawi and the Malawi Institute of Education. Various other laws, policies and guidelines have been developed to cover higher education, university education and vocational training. The National Education Sector Investment Plan (2020-2030) is the guiding document for the planning and implementation of all education development programs, projects and activities. The plan puts emphasis on all levels of education sector, that is, Early Childhood Education (ECD), Primary Education, Out of School Youth, Adult Literacy, Secondary Education, Higher Education, Technical and Vocational Training and Teacher Education.

ECD in Malawi is guided by the National Early Childhood Development Policy (2017). Various stakeholders, including government ministries, non-governmental organizations (NGOs), development partners and communities use the Policy to implement their actions. The Ministry of Education, Science and Technology has the responsibility of developing ECD curricula and learning materials, facilitating ECD training programs for educators and bringing ECD into the mainstream. ECD receives limited funding in Malawi, so it is not surprising that government departments have difficulty fulfilling their responsibilities. As such, non-government actors play a key role in the sector. NGOs and development partners create ECD materials, conduct capacity building for educators and communities, provide resources to establish ECD centres and support networking opportunities for implementers. Given the multiple actors in ECD, their activities are not properly coordinated.

Significant progress has been made in the primary education system in recent years. Latest data from the Education Management Information System (EMIS) show notable improvements in some education outcomes in Malawi. For example, the net enrollment (88%) and completion rate (56%) in primary education were recorded in 2022 while the transition rate to secondary education increased from 36.5% in 2021 to 46.5% in 2022 following several years of stagnation.

Education spending remains a top priority for the Government, with allocations averaging 16% of the total budget and 4% of GDP since 2019/20 – in line with the Incheon Declaration on Inclusive Education recommending Governments to allocate between 4-6 per cent of their GDPs to education to achieve SDG 4 targets. Government has increased the budget allocation for the procurement of teaching and learning materials (TLMs) under the Ministry of Education (MoE), from MK2.5 billion in 2022/23 to MK4 billion in 2023/24, for secondary schools from MK1.1 billion to MK1.9 billion while that for primary schools has remained unchanged at MK2.7 billion.

The net enrolment rate (NER), which measures enrolment of pupils aged 6-13 years, was 90 percent in 2020 (92 percent for girls and 87 percent for boys) and is among the highest in the Eastern and Southern Africa region. The net intake rate (NIR) that measures the proportion of 6-year-olds entering school, decreased slightly in 2020 from 76 percent to 75 percent due to the pandemic. The NIR for girls is 78 percent and for boys is 73 percent. This signals a strong foundation for early grade learners although more needs to be done to enrol the number of learners with special education needs which was 186,422 representing 3.4 percent of all learners. This proportion is higher than the 3.3 percent reported in 2019. While the sector was making some progress in increasing enrolment of special needs learners, the provision of quality education for these was still facing challenges such as inadequate teaching and learning materials, and an inadequate number of teachers trained in special needs education to ensure equal literacy rates. In the long term, the increase in population will likely overstretch the capacity of the educational system particularly for early childhood education. This is due to the inadequate school infrastructure, shortage of learning materials, and high pupil-to-teacher ratios, all of which continue to affect student performance. The Pupil permanent Classroom Ratio (PpCR) improved from 119.5 in 2019 to 115 in 2020. Despite the moderate decline, the pupil-to-teacher ratio remains one of the highest in the world. Neighbouring countries have substantially lower ratios, Mozambique at 55 and Zambia at 42. The PpCR measures progress in classroom construction towards achieving a target PpCR of 60:1. The high pupil-to-teacher ratio is not only due to the infrastructure deficits but also to several other key factors including the limitation in creating teaching posts due to Government budget constraints and a shortage of trained teachers. In line with the National Education Sector Investment Plan (NESIP) 2020-2030 objective of improving the quality of education, the Government has constructed three teacher training colleges (TTCs) in Chikwawa, Rumphi, and Mchinji but still, that is not sufficient to close the gap in teacher training needs in the country.A more pressing problem for progressive education in the country is exemplified by the low rates of student retention in both primary and secondary education. Additionally, repetition rates remain high, putting pressure on the sector's limited resources. Overall, progression rates increased from 18.7 percent in 2019 to 22.2 percent in 2020 depicting a 3.5 percentage point increase. For girls, the rate increased from 18.3 percent in 2019 to 21.6 percent in 2020; for boys, the rate increased from 19.1 percent to 22.8 percent during the same period. Drop-out proportion rates in the primary schools slightly increased from 3.4 percent in 2019 to 4.0 percent in 2020. The situation was exacerbated by the school closures resulting from the COVID-19 pandemic. In response the Ministry has rolled out a total of 138 Complementary Basic Education (CBE) learning centres in communities with high drop-out rates, intended to enable youths to acquire basic numeracy and literacy skills.

The education sector faces significant challenges and these include high pupil trained teacher ratio (PTR) of 76:1 with large clasroom sizes of about 100 children per class; high repetition rates and drop out rates. Overall the sector faces challenges with regard to service delivery and inequities in access. In the education sector, the country has developed the National Education Sector Plan (2008-2017. A detailed Country Sector Review was completed (2010) leading to the preparation and adoption of a comprehensive Education Act of 2012 followed by the ratification of National Education Policy by Cabinet in 2014. The Education Sector Implementation Plan (ESIP) II - 2013/18 is an action plan adopted by Government and development partners in October 2014 in the education sector and presents the medium-term priorities in the sector. ESIP II present a major policy shift at primary and secondary school levels by addressing high levels of wastage through high pupil drop out, shifting the focus from inputs to processes while also tackling accountability and value for money. The Government has prioritized education in the national budget. The Malawi's education spending as a share of GDP is around 5%. However, given the stated challenges, Malawi is unlikely to meet the MDG Goal of achieving universal primary education (MDG 2).

### 9.c. Prevention and treatment of HIV/AIDS, tuberculosis, and malaria

| Score Type | Value |
| --- | --- |
| Draft Score | 4.5 |
| Reviewed Score | 4.5 |
| Second Draft Score | 4.5 |
| Final Score | 4.5 |

**Country Notes:**

The disease burden is high as evidenced by high child and adulthood mortality rates and high prevalence of diseases such as tuberculosis, malaria, HIV/AIDS. About 8.8% of the population aged 15-49 years is living with HIV/AIDS – 10.8% among women and 6.4% among men. About 34,000 new HIV infections occur every year. Whereas the incidence of Tuberculosis has declined over the past decade; the prevalence rate however remains high at 363 per 100,000 in the general population (all ages). Malaria accounts for over 30% of outpatient visits, with an incidence of 323 per 1000 population in 2017, equivalent to a 33% reduction from 484 per 1000 in 2010, while malaria prevalence stands at 24%. Non-communicable diseases (NCDs) are on the increase. It is estimated that 33% of adults aged 25-64 have hypertension and 5.6% are diabetic. About 5,000 new cases of cancer are registered annually. Malawi's maternal and neonatal mortality rates remain alarmingly high, indicating inadequate maternal and newborn services. Latest data from the World Health Organization (WHO, 2023) reveals that maternal mortality, at 381 deaths per 100,000 live births, is among the highest in the world. Neonatal mortality, at 26 deaths per 1,000 live births, is also high and accounts for about half of the deaths among under five (U5) children. The U5 mortality rate is 56 deaths per 1,000 live births, with significant disparities along geographical and wealth lines. For instance, U5 mortality rate is 62 deaths per 1,000 live children for children from the poorest quintile compared to only 39 deaths for those from the wealthiest quintile. Approximately 41,000 children are not immunized against polio and other vaccine-preventable diseases, and 52,000 children aged 0–14 live with HIV. Poor quality healthcare services, worsened by the COVID-19 pandemic, contribute to the problem.

Malawi's National Strategic Plan on Aids (2011-2016) provides a Framework for Government and Partners/Stakeholders in the fight against. HIV Aid remains a serious threat to Malawi.  UNAIDS reports estimates 1.1 million people are living with HIV AIDS in Malawi. The Government rolled out free ART programme in 2004 and it is estimated that half of the infected people are on ART. According to the 2010 DHSR prevalence was estimated at 10.6%. Malawi has a hugely successful universal ART programme.

Recent epidemiological surveys indicate a further These positive achievements are attributed to increase in HIV awareness, improved reproductive health and child health programmes, and universal access to treatement. HIV prevalence is higher in women who account for 58% of people living with HIV/AIDS. In 2011, Malawi developed guidelines for prevention of mother to child HIV transmission and over 85% of HIV pregnant women are on ART. The high cost and shortage of drugs pose a  a challenge  to the health delivery system.

Regarding malaria, some progress has been made. Since the year 2000, four strategic plans have been implemented. The most recent one started in 2017 and ended in 2022, with an aim to reduce the incidence of malaria from 386 per 1000 population in 2015 to 193 per 1000 by 2022 and to reduce malaria deaths from 23 per 100,000 population in 2015 to 12 per 100,000 by 2022.

Over the last two decades, malaria control efforts in Malawi have been scaled up substantially through multiple control measures that include the use of insecticide treated bed nets, Artemisinin Combination Therapies, Intermittent Preventive Treatment in pregnancy, and malaria rapid diagnostic Tests, indoor residual spraying and more recently the malaria vaccine. Based on Malaria Indicator Survey reports, substantial reductions in malaria transmission have been reported. For example, the national malaria prevalence in 2010 was 44% and subsequently reduced to 10.5% in 2021, representing a 52.2% reduction over 11 years. Similarly, malaria incidence and mortality have reduced from 407 per 1,000 to 361 per 1,000 population in 2016 and 65.2% decrease in mortality from 23 per 100,000 to 8 per 100000 population in 2021 respectively.

## 10. Social Protection and Labor

**Criteria Score: 3.6**

#### 10.a. Social safety net programs

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

The Malawi Growth & Development Strategy (MGDS III) provides the overarching framework for poverty reduction. According to the 2012 Integrated Household Survey (IHS), Malawi's poverty level is estimated at 50.7 % a marginal reduction from an estimated 52.4 % in 2005.

**Significant policy reforms in ensuring the poor and vulnerable cope with internal and external shocks have been undertaken**. The Government adopted policies aimed at promoting the productivity of the poor and vulnerable. In line with the Malawi Social Protection Policy and National Social Protection Policy of 2013.

*Regard Social Safety net programs implemented at the onset of 2020 COVID-19 pandemic, there were various programs including: the provision of cash -transfer of USD 44/household to peri-urban market city dwellers from April 2020-December 2020, targeting one third of the population. Secondly, the Agriculture Inputs Program, the subsidy that replaced the Farm Input Subsidy Programme from 2020, ensured food security during COVID-19. The AIP fertiliser subsidy has continued during FY 2020/21 – FY 2021-2022. Lastly, food distribution to students from poor households, who in the past received food under the WFP food package were also provided with the same food ratio.*

Furthermore, the government has committed to contribute about 10% to NSSP and increase the contribution progressively with time. The NSSP prioritizes five sub-programes: namely social cash transfers, Micro- Finance and Village Savings. The main challenge with these programmes is that the resources for a scaling up are not sufficient. Poor households also benefit from subsidized fertilizer under the Farm Input Subsidy Programme. The sustainability of the subsidies is however in question. The Government has recently introduced subsidies for iron sheets to enable the poor segments of the population improve their housing conditions. In the 2015/16 budget an amount was allocated for these subsidies.

#### 10.b. Protection of basic labour standards

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |

| | |
|---|---|
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

According to the Global Competitiveness Report 2019, Malawi's rank improved in cooperation in labour-employer relations on the scale of 1-7 (best) which is largely seen as an indicator for improving labour standards. In this regard, the country's position for this indicator improved to 102 position out of 141 countries, and scored 52.1% out of 100 with a value of 4.1, whereby 4 is considered competitive. Furthermore, Malawi is considered to have active labour market poliicies  ranking 121 out of 141 countries in the 2019 report.

Malawi does fairly well in providing the regulatory framework for labour standards. Firstly, Malawis constitution provides the overall framework for addressing labour issues. The country has ratified 29 ILO conventions including the 8 core conventions. According to the Malawi Decent Work Program (2011-16) adopted by the country in 2011;  there has, since 1994, been a paradigm shift in the labour law and the web of control over the labour market has loosened and governmental interventions have been scaled down significantly.  Political developments especially the ushering in of  pluralism and subsequent economic developments like privatization and restructuring have necessitated amendments to labour laws.   Although labour laws provide for collective bargaining and freedom to establish trade unions, membership in trade unions is low, less than 5% of workers. This requires more sensitization of workers about the benefits of membership  and collective bargaining.

The Government of Malawi released in July 2014 the results of the first ever National Labour Force Survey. This is the first national LFS survey conducted in Malawi and whose results have been officially released by Government. This is a major milestone for Malawi as the demand for labour statistics has increased overtime but could not be fully met.. The LFS A total of 5.5 million people were employed, representing an employment rate of 80 percent. Males have a higher employment rate than females at 86 percent and 74 percent respectively.

### 10.c. Labour market regulations

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

The mandates of the Ministry of Labour are stipulated in the Laws of Malawi and have been informed by ILO Conventions and Recommendations and provide regulatory direction on labour issues. The labour legislative framework comprises of the Malawi Constitution as well as the Labour Relations Act, Occupational Safety, Health & Welfare , Employment Act and Workers Compensation Act. The Labour relations Act draws heavily from ILO Convention No. 87 on Freedom of Association and Protection of the Right to organize and Collectie Bargaining. It promotes sound labour relations through the protection and promotion of freedom of association, the encouragement of effective collective bargaining and the promotion of orderly and expeditious dispute settlement. The Decent Work Programme was launched in August 2011. The Government and social partners reached consensus on the DWCP goal and priorities. Currently, the programme is under implementation.

**According to the Global Competitiveness Report 2019, Malawi's overall position was 128th out of 141 countries in 2019, a one point improvement from 129 out of 140 countries in 2018 – implying that Malawi remains the 11th least competitive country in the world.** On the Global Competitive Index 2019, Malawi scored 3.37 in internal labour mobility, 5.1 in flexibility of wage termination, and 3.37 in hiring and firing practices on the scale of 1-7. Where 1 is lowest and 7 is best. The World Bank Report (2018) further strengthens this submission by stating that there are no fixed-term contracts prohibited for permanent tasks, dismissal due to redundancy is allowed by law, local and foreign employees are hired, and that there is no minimum wage applicable to the worker that is strictly adhering This shows that that while the labour market is flexible, it is not adequately unionized. Moreover, employee's salary bargaining process is mostly decentralized at a company level; hence creating a possibility of a risk generating wide salary disparities across the same salary bands across the country due to different bargaining powers of workers and companies.

Labour issues continue to be handled through a tripartite arrangement comprised of the Employers Consultative Association of Malawi, the Malawi Congress of Trade Union and the Ministry of Labour. Malawi's labour laws conform to the conventions of the International Labour Organization and are administered under the Ministry of Labour.

### 10.d. Community driven initiatives

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

The government has taken steps to support grassroots development such as the Local Government Fund. But bottom-up initiatives awaiting government support are not well underscored by the report. Also, the high similarity rate of the last two reports shows a slow evolution in this area.

Malawi's population is rural based, thus improving community participation is key to improving living standards of rural communities and fostering national development. The MGDS II identifies integrated Rural Development as a key priority  area ith the goal of improving rural livelihoods. Currently, the Local Government Fund (LDF) formerly Malawi Social Action Fund (MASAF), which is donor funded, is the main programme for community involvement for employment creation.  In the MDGS II, policies and plans have been articulated to  assist the poorest through social protection programmes community level development programmes particularly the FISP and public works programmes for cash transfer safety net activities. Development projects include the construction of school buildings; teachers houses, clinics, water supply schemes; and subsidy programmes.   Government implements these programmes in collaboration with various partners, including NGOs. Local programmes are aligned with the overall sectoral and National Development Plans.  Challenges in implementing these programmes limited availability of finacial  resources,  technical capacity and lack of coordination and weak financial management systems. The Government has developed a Rural Development which seeks to address the constraints and enhance local and grass root participation in the development process and decision making process.  The strategy is awaiting Cabinet approval.

### 10.e. Pension and old age savings programs

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

**The public pension scheme has been under-going reforms since 2020, under the leadership of the Vice President, who doubles as the Ministry of Economic Planning & Development and Public Sector Reforms. The reforms around Public Financial Management Reforms 2017-2022 incorporates an interface between the IFMIS 2020, and the Human Resources Management Information System (HRMIS) for Payroll and Pensions, which is key in the control of arrears accumulation.**

The private pension scheme is very lean, having been implemented in under a decade. Until 2011, Malawi had a voluntary pension scheme by the few large institutional employers. A new Pensions Act was enacted in 2011. The Pension Act of 2011 provides for mandatory pension by every employer to his/her employees except for those below a specified salary threshold. The coverage of formal pension schemes is limited as the majority of workers are in the informal sector.

The Pension Act 2011 contains provisions on pension rights, however the information within is very limited. The retirement age ranges between 50 (minimum) to 70 (maximum) years although there is no mention whether this limit is either for men or women or both. For qualifying to old age pension, at least 20 years of service/contribution are required. Every employer is required to ensure that their employees are part of the National Pension Scheme as introduced by the Act. The minimum contribution rate for the National Pension Fund is 10% for the employers and 5% for the employees.

The Government has enacted legislation to enhance the financial sustainability of existing the pension funds and strengthen regulatory framework.   The Government has developed various social protection schemes to benefit vulnerable groups, such as the elderly unable to benefit from formal pensions schemes. The existing schemes include the Social Cash Transfer and Public Works Schemes. Government is implementing measures to improve the targeting of these schemes.

## 11. Environmental Policies and Regulations

**Criteria Score: 4**

**11. Environmental Policies and Regulations**

| Score Type | Value |
| --- | --- |
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Malawi is endowed with a base that can provide the basis for sustainable economic development of Malawi.  However, because about 85% of Malawians depend on these resources for their livelihood, the natural resource base of the country is subject to increasing pressure.  The country is unlikely to meet the SDG targets relating to environmental sustainability. The key challenges faced are continued degradation of resources by loss of forest cover and the high proportion of the population using solid fuels as a form of energy (almost 100 % of the rural population and 85 % of urban population. This has led to about 27 % of Malawi's 9.4 million hectares of forest land disappearing at the rate of 2.6 % per annum.  The main environmental issue is land degradation resulting from significant loss of soil fertility, soil erosion, serious deforestation, water depletion, population, and loss of biodiversity. According to the 2018 Malawi Country Climate Risk Assessment Report published by the Irish government, Malawi was one of high-risk countries with high susceptible to hazard, high vulnerability scores and low coping capacity to predicted changes in the climate.  These challenges are exacerbated by population growth, inadequate alternative livelihoods lack of affordable reliable energy sources.

The Government recognizes that the country's vulnerability would limit its potential to achieve sustainable development and has put in place initiatives to address the challenges. Malawi is a signatory to Multilateral Environment Agreements, Malawi and developed a framework to ensure sound environmental management. This is governed by the Environmental Management Act and National Environmental Policy. The Environmental Management Act was enactment by Parliament and ratified in April 2017. In addition, the country's National Adaptation Programme of Action (NAPA) was officially launched in 2006 which has been revised (2015) to increase coverage, improve M & E and guarantee financial commitments. Climate change is one of the nine key priority areas of the MGDS III. The Government has developed a National Climate Change Policy 2016 and has also developed the National Climate Change Investment Plan. Government is also addressing issues of biodiversity. It has developed a National Biodiversity Strategy and Action Plan. While Malawi has strong policies and regulations, implementation is challenged by weak capacity. More sensitization of environmental issues is also needed.

Malawi has also developed a National Climate Change Response Framework to guide the nation in responding to climate change effects and enhance coordination and resilience building and the Nationally Appropriate Mitigation Actions (NAMAs) targeting agriculture, forestry and land use (AFOLU), energy, waste management and industrial programme.

Frequency, intensity and magnitude of extreme weather events in Malawi have increased. Since 2010, Malawi has experienced 16 major floods, two rainfall-related landslides, five storm-related disasters and two severe droughts.

o The 2015 floods resulted in 278 deaths, 638,000 people affected, and physical damages and economic losses of $335 million ($422 million when adjusted to 2023 dollars)

o The 2019 floods resulted in 60 deaths, 975,000 people affected, and damages and losses of $220 million ($257 million in 2023 dollars)

o Tropical Storm Ana and Tropical Cyclone Gombe (2022) resulted in 64 fatalities and 945,934 people affected

o Tropical Cyclone Freddy affectedover two million Malawians, with more than 2,000 people injured and 1000 people left dead.

The weather-related shocks have destroyed thousands of farms, road infrastructure and water supply infrastructure. In 2019 Malawi experienced the Cyclone Idai & Kenneth floods. Previously in 2015 and 2016, Malawi experienced serious and unprecedented floods and droughts on account of climate change with consequent effects on key socio-economic sectors and consequently on the economy. The 2015-2016 dry spellsThis led to a significant reduction in agricultural production, which resulted into one of the worst food crises in over 3 decades and with close to 730,000 households requiring food assistance in the 2016/17 season, (MVAC Report, 2017). According to the recent Malawi Post Disaster Needs Assessment (PDNA, 2015) it was estimated that the number of deaths, due to disaster per 100,000 people was 2 deaths/100,000 and 3 missing persons per 100,000, while the total number of affected persons by disaster was 1,101,364 in 2015, and total loss with recovery at cost estimated at K365 billion (USD 494 million), while 1million people were affected in 2019.

According to TT T Government is taking action to combat the challenges of climate change and its impact. In response, Malawi has adopted and is implementing a national disaster risk reduction strategy. The National disaster risk reduction strategy (DRM, 2016) in line with the Sendai Framework for Disaster Risk Reduction 2015–2030 endorsed by the General Assembly in June 2015. Since 2016, Malawi has been producing annual reports to this effect. In addition, crop diversification has been promoted to assist households to become resilient to weather related shocks.

In addition, there have been some honest conversations around the impact that charcoal industry has on deforestation and develop appropriate redress mechanisms. The forestry sector can also benefits from Climate Financing. According to the Development Financing Assessment Report, (MoFEPD 2017), Climate financing presents good prospects for innovative external finance that Malawi can tap into to finance some of its priority projects in the agriculture, environment and water management, energy, and ecotourism. Lastly, the Government's creation of the Forestry Management Fund was a good start but needs to be financially sustained.

A study by the African Development Bank (2023) has recommended that GoM Implement spatial development, which is part of the Malawi Vision 2063, especially as it relates to the development of ecotourism; Increase investment and improve efficiency to enhance rents on cropland and pastureland, taking account of mitigating climate change impacts; Promote and enforce stricter policies and regulations protecting forests and preventing illegal logging. Sustainable forestry practices such as selective logging practices and reforestation should also be promoted through instruments such as performance bonds for forest lessees; and Exploit the potential in renewable energy through the development of capital markets as part of the energy transition.

The Malawi Country Focus Report (2023) states Achieving sustainable economic growth and food security is inextricably linked to climate change. Malawi faces continued challenges of deforestation, constrained water resources, declining fisheries, limited institutional capacity to manage natural resources, and farming practices that lead to soil erosion and reduced fertility, among others. A scarcity of land resources, extreme poverty, and a rapidly growing population largely dependent on natural resources for subsistence compound these challenges. Heavier but less predictable rains, hot spells, and extended dry periods all contribute to making farmers' decisions regarding planting and harvesting more difficult.The government offers incentives in several sectors as part of efforts to address climate resilience and adaptation. The Environmental Management Act provides details on adherence to environmental requirements for MDAs and general business investors, including foreigners. Climate related issues are integrated throughout public service and national development plans, adherence and enforcement suffer from a lack of funding and capacity. The government submitted its first nationally determined contribution (NDC) to the UN Framework Convention on Climate Change (UNFCCC) in 2015, which provides strategic goals and objectives for Malawi through 2040 and updated the document in 2021. The update includes an unconditional target of six percent carbon emission reductions and a combined conditional and unconditional reduction of 51 percent carbon emission reductions by 2040—contingent upon additional external support and full NDC implementation. The Department of Environmental Affairs in the Ministry of Natural Resources and Climate Change is the secretariat of all climate change related issues in the country.Striving to achieve the goals articulated in Malawi 2063 will not only spur economic growth and alleviate poverty, but also bolster the nation's resilience against the impacts of climate change. However, to also harness possible synergies, it is crucial to weave climate targets into Malawi's development strategies and policies and to guarantee that all investments are climate-resilient. This may necessitate altering current practices, as well as adoptingnew and different approaches.Given that the investment needs far exceed what the government can handle as it endeav-ours to bring debt back to manageable levels, Malawi must actively explore sources of financing that avoid further public debt increases, specifically for climate-related activities. There is an immediate need for grant and highly concessional financing from public sources to cater to the substantial investment requirements anticipated in the coming years to ensure better results in both the medium- and long- term. Present and future development aid should seek to attract climate finance from public sources and should stimulate private sector investment for viable opportunities.

## (D) Public Sector Management and Institutions

**Cluster Score: 3.717**

### 12. Property Rights and Rule-based Governance

**Criteria Score: 4**

**12.a. Legal basis for secure property and contract rights**

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

**Land tenure in Malawi falls under four categories: (i)** Freehold tenure accords the right to own, control, manage, use and dispose of property. While ownership of land under this type of tenure is considered to in perpetuity, such rights may be sequestered through State intervention when land is targeted for expropriation in the case of eminent public interest**;** (ii) Nationalized Land Tenure where full ownership land rights are in the hands of the State. Access to and use of land is vested in the State, while individuals enjoy usufruct rights only; (iii) Leasehold Land Tenure accords ownership of land based on the notion of rentals on a contractual agreement. Such agreements could for long or short period but 99-year leases are considered to be as secure as a freehold land tenure system; (iv) Customary Land Tenure where land is owned by indigenous communities and administered in accordance with their customs, with ownership vested in the tribe, group, community or family. Customary land rights are location-specific and often flexible, overlapping, and include individual as well as group rights to use local land resources. They typically include dispute resolution mechanisms, e.g., they are handled by local chiefs, and access to land is typically restricted by kinship or ethnicity. Changes to the Registered Land Act that came into effect in March 2023 capped access to agricultural land at 1,000 hectares and introduced ceilings on ownership or leasing of urban residential and commercial land. The new legislation prohibits ‘nonindigenous’ Malawians from owning land and limits them to 50-year leases on customary land.

Malawi’s economic freedom score is 52.8, making its economy the 133rd freest in the 2023 Index. Its score decreased by 0.2 point from 2022. Malawi is ranked 27th out of 47 countries in the Sub-Saharan Africa region, and its overall score is below the world and regional averages. Regarding property rights, Malawi 48.4, which is below the world average.

Malawi recognizes the importance of intellectual property protection and enforcement but lacks the capacity to do so. The Registrar General administers the Patent and Trademarks Act of 1948, which protects industrial intellectual property rights in Malawi. Under the 2023 Intellectual Property Rights Index Malawi’s score increased by 0.253 to 4.588 placing it 8th in the Africa region and 79th in the world. Malawi’s Physical Property Rights Subindex increased by 0.016 to 4.273 with scores of 5.385 in perception of Property Rights Protection and 4.51 in Registering Process. However, regarding Intellectual Property Rights the score decreased 0.006 to 4.318 with scores of 4.162 in perception of Intellectual Property Protection, 4.067 in Patent Protection, and 4.725 in Trademark Protection.

### 12.b. Predictability, transparency, and impartiality of laws affecting economic activity

| Score Type | Value |
| --- | --- |
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

The government of Malawi demonstrates a commitment to policy reforms that support business and investment, with laws and regulatory frameworks that are transparent and largely in line with international norms. Although there is a public consultation process for proposed laws and regulations, there are concerns about its effectiveness due to late notices. There's a structured process for developing and implementing regulations, with oversight from the Ministry of Justice. The judiciary operates on the English Common Law system and, despite the introduction of specialised divisions, it remains slow and burdened by heavy caseloads. The laws and regulations are generally available to the public, and there are mechanisms for dispute resolution. However, there are areas where transparency could be improved, particularly with regard to public finances and some sector-specific rule-making processes. Overall, while there's an effort towards transparency, predictability, and impartiality in laws affecting economic activity, certain challenges persist.

The Malawi Constitution has a bill of rights and the Government ensures that every Malawian enjoys his or her human rights. Where these have been abused or not been observed citizens have access to institutions such as the Ombudsman, the Malawi Human Rights Commission and courts of law where they can seek redress. The courts of law are independent of the Executive and Legislature and operate as such. They are accessible to all citizens and the Government has put in place a Legal Aid department to assist those who are poor and marginalized to be able to access justice without having to pay a lot of money or anything at all.

**Independence of the judiciary has significantly improved since 2015 to 2020, while independence and transparency of the judicial process and access to justice are both up.** The 2022 Ibrahim Index of African Governance ranks Malawi ranked Malawi at 18th position out of 54 countries, 5 ranks above the 2019 position when Malawi ranked 23rd out of 54 countries. With respect to Security,Malawi scored 89.8 out of 100, in 2022 a reduction of 0.2 points over the previous year, while under the Rule of Law Malawi gained 2.1 points with a score of 62.3 compared to 60.1 in 2021. For Accountability & Transparency the score improved by 3.9 points from 56.3 to 59.8/100.

The independence of the judiciary is enshrined in the constitution and is perceived to be generally respected. There exists legal protection for all, and impartiality is exercised in the application of laws affecting economic activity. Laws and regulations are available and accessible to the public, and mechanisms are in place for resolving conflicts including alternative dispute resolution mechanisms. While mechanisms exist for resolving conflicts exist, the process is fraught with delays. The Government has started to computerizing court administration to improve efficiency and transparency in the administration of the law. There is, however, a high frequency of changes to regulations, which poses challenges of predictability. Appeal systems exist to provide redress. Generally, the public and businesses entities lack awareness of laws.

Source: 2023 Investment Climate Statements: Malawi

**12.c. Difficulty in obtaining business licenses**

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Malawi's ranking for operational licenses issuance have improved, however they remain moderately cumbersome in certain sectors. Malawi's ranking for operational licenses issuance have improved, however they remain moderately cumbersome in certain sectors. According to the 2020 Ease of Doing Business report, the Starting a business ranked 153rd out of 190 Countries. The new Business Licensing Act of 2012 (section 37) under the mandate of the Minister of Trade made the Business Licensing Regulations, 2014 (‘‘new Regulations’’) effective and came into operation in November 2014. Applying for business license takes 7 days and cost where the premises are in a city or municipal council such as Blantyre at a cost of MWK 30,000. Under the Business Licensing Act, wholesalers must apply for a wholesaler’s license; and retailers, for a retailer’s license. For industrial activities, relevant fees, procedures, and licensing requirements depend on the manufactured goods. Licenses are thus administered by the corresponding ministry.

Similarly, for industrial activities, the relevant fees, procedures, and licensing requirements depend on the manufactured goods. Licenses are thus administered by the corresponding ministry. By law, a business is to be deemed as fully licensed if the authority does not respond within 7 days of the day of the application. The Department of Planning checks whether the premises location and business use is consistent with the city code. It takes on average 7days to apply for a license from city assembly and cost Malawi Kwacha 1,000.

In addition, the Malawi Investment and Trade Center (MITC)'s One Stop Center, enables businesses to businesses can  en register online at Registrar General, although the process may take longer and the website is sometimes inaccessible. Overall,In general, there are adequate legal instruments to protect investors, and foreign investors generally receive national treatment in Malawi. All investors have access to Malawi's legal system, which functions well and in an unbiased manner but is notoriously slow. There is an established mediation process to work with parties to overcome disputes and preempt court proceedings. MITC offers facilitation services through the One Stop Centre, streamlining the process for both domestic and foreign investors by housing multiple essential services under one roof. The availability of essential business-related information on MITC's websites also indicates transparency and ease of access. However, there are noted inefficiencies, particularly with the online registration process through the Registrar General, which is described as cumbersome due to technical constraints. The in-person registration is preferred and faster. While the steps and details for business registration are available, there are requirements for additional processes such as periodic health inspections. While the process is bureaucratic and has its challenges, it doesn't indicate a high dependence on unofficial payments or extreme difficulty.

**12.d. Crime and violence as an impediment to economic activity**

| Score Type | Value |
|---|---|
| Draft Score | 4.5 |
| Reviewed Score | 4.5 |
| Second Draft Score | 4.5 |
| Final Score | 4.5 |

**Country Notes:**

**In terms of SECURITY & SAFETY, the Ibrahim Index of African Governance (IIAG 2022 report) Malawi scored 89.8 out of 100, a 0.2 point decrease over the 2020 score. Similarly, Regarding absence of crime the country recorded no change** at 84/100. Under the Rule of Law Malawi gained 2.1 points with a score of 62.3 compared to 60.1 in 2021. In terms of Law enforcement, Malawi performs poorly, scoring 35.8 out of 100.

**According to the Gl**obal Organized Crime Index, human trafficking is a growing problem in Malawi, with an increasing number of people being exploited for forced labour and sex trafficking. Although there is limited data on the scale of this crime, reports suggest that the country is a significant route for human trafficking in the South African region. Most victims are exploited within the country, with forced labour in agriculture, brickmaking and animal herding being the most common forms of exploitation. Human smuggling has also become increasingly prevalent in Malawi, with this driven by corrupt public officials, a weak legal system, poverty, conflict and unemployment. The country is a transit point for smuggled individuals heading to South Africa and other countries along the southern route. As such Malawi scores 4.48/10 and is ranked 125th out of 195 countries, a drop by 27 places compared to the previous year.

Counterfeit goods trade is prevalent in Malawi, encompassing a wide range of counterfeit products such as pharmaceuticals and textile goods. This illicit trade flourishes in the country, driven by significant local demand, largely stemming from low-income conditions.  Malawi’s porous borders, high volumes of human and refugee smuggling, and lax enforcement make it an attractive route for drug traffickers. The country serves as a transit point for the heroin trade, moving from East Africa to southern and western Africa. Financial crimes are rampant in Malawi, where financial fraud and tax evasion are prominent offences. Mobile fraud is on the rise, causing the country to lose millions of Malawian kwachas each month. Corruption in public procurement and bribery are also significant concerns, with recent high-profile arrests of former ministers and a former governor of the Reserve Bank on suspicion of fraud and abuse of power.

The following are key elements when considering crime and violence in Malawi:

Relative Stability and Protection: Malawi is closer to having a well-functioning and accountable system of protection than not. They are able to maintain peace, and incidents of crime and violence are likely limited and managed.Minor Challenges: While the structures are in place for effective governance and protection, there might be sporadic challenges or areas of concern, such as the aforementioned political divisions and occasional labor unrests. These don't significantly threaten the overall stability but are important to consider.Responsive Governance: The ability to host peaceful elections and transitions suggests that the public authorities are responsive and adapt to the will of the people, further hinting at a level of accountability.

## 13. Quality of Budgetary and Financial Management

**Criteria Score: 4**

### 13.a. Comprehensive and credible budget

| Score Type | Value |
|---|---|
| Draft Score | 4.5 |
| Reviewed Score | 4.5 |
| Second Draft Score | 4.5 |

| | |
|---|---|
| Final Score | 4.5 |

**Country Notes:**

**According to the**Public Finance Management Act, the Minister of Finance presents to parliament a statement of the estimated tax revenues, grants and all other revenues as well as details of Government's proposal on how the available resources will be utilized over a period of 12 months (April – March). Budgeting is governed by Chapter 18 of the Constitution and the Public Finance Management Act 2022. The budgeting of Public Corporations and EBUs are governed by their respective establishing Acts or in some instances by the Companies Act. For central government, the Budget Division of the Ministry of Finance plays the pivotal role in budget development, coordination, and preparation. The process culminates in legislative approval of the annual appropriations.

The preparation of the annual budget continues to be guided by a Medium-Term Fiscal Framework (MTEF) which is a forward-looking budgetary tool which is rolling, and annually updated. Albeit this, the MTEF is yet to become an effective/robust tool for strategic resource allocation owing to the unpredictability in external financing and tax collection shortfalls which hampers budget planning and budget execution.

**Malawi's national budgets for**the FY 2021/22 and 2022/23 were aligned with the first **Malawi Implementation Plan** (MIP-1). MIP-1 has 7 enablers, which areMindset Change; Effective Governance Systems and Institutions; Enhanced Public Sector Performance; Private Sector Dynamism; Human Capital Development; Economic Infrastructure; and Environmental Sustainability. To realize the objectives of MIP-1, the budget process maps resource allocations by function and program. A budget framework paper guides the bids from Ministries, Departments and Agencies (MDAs) and these form the basis of the allocations in the budget. Revenue estimates based on projected economic growth and new revenue measures are made to determine the financing gap.

***Comprehensiveness***

Of importance to note however, is the fact that the budget classification is still based on administrative, economic and program classification, with no functional classifications. Reporting on budget execution however does include functional classification, necessitating the use of 'bridge tables' to match the original budget/ accounting data to functional based expenditure outturn reports. Also, in the absence of functional classification, the distinction between capital investment and other development expenditure is not always clear. Other development expenditure can include expenditure elements of a recurrent nature under various projects.

It is also important to note that a significant proportion of the funding of government operations takes place outside the consolidated central government budget, through extra-budgetary units (EBUs) and off-budget funding by development partners (DPs).

**Credibility**

In terms of performance, both revenue and expenditure estimates, at the aggregate level, are generally in line with actuals. Variations do occur however due to reclassifications and general poor forecasting ability, below the aggregate level. A wide range of budget execution reports are produced. Monthly and quarterly reports are prepared for internal use with data classification allowing comparison to the original budget, based on the payment stage. Separate quarterly commitment reports are produced. Narrative description of budget execution is provided in quarterly, mid-year and annual reports.

It is also important to note that a significant proportion of the funding of government operations takes place outside the consolidated central government budget, through extra-budgetary units (EBUs) and off-budget funding by development partners (DPs).

In the 2022/23 budget, the outturn in revenues was greater than the projected, at K2,035,651 million and K1,955,848 million, respectively. Better than projected performance in tax and international grants largely accounted for this result as non-tax revenue at K87,958 million was below the estimate of K100,739 million. On the expenditure side, total expenses came in at K3,042,557 million compared to the initial budgeted amount of K2,839,892 million. Overall, a deficit of about 9% of GDP was realized compared to 7.4% realized in 2021/2022. While grant financing at 1.8% of GDP is significant, it is far much smaller than that realized from domestic revenue, which stood at 12.5% of GDP. Initial revenue and expenditure figures are revised at mid-year to reflect budget performance and make the adjustments needed given the changes in the context of the economy.

Budget allocations are made at different categories including compensation of employees, debt repayments, use of goods and services, grants, social benefits, and other expenses. In addition, expenses at the MDA levels are also allocated in the budget. Overall, statutory expenditures account for about 80% of total expenditure while discretionary expenses came in at 22%. The high level of statutory expenses signifies a highly constrained fiscal space.

Between 2020 and 2022, total investment wasere below 10% of GDP, with public investment in negtive territory due to the limited fiscal space. As a result economic growth was depressed to levels below the population growth. This points to increasing poverty overall.

**13.b. Effective financial management systems**

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

The government is implementing public financial management systems to ensure that incurred expenditures are consistent with the approved budget, that budgeted revenues are achieved, and that aggregate fiscal control is maintained. To this effect, a new IFMIS (Integrated Financial management Information system) was rolled out to MDA on 1st July 2021 and completed by 2022. The IFMIS implementation focused on core modules to enable payments, banking, accounting, and reporting. With the New IFMIS, Government has also implemented an interim Electronic Funds Transfer method of payment.

Malawi's PFM systems have come under public scrutiny due to the weak accountability environment and the evidence of the misappropriation of public funds. There have been improvements in the PFM legal and regulatory framework to ensure alignment with the constitutional provisions. In the face of the completion of the second phase PFM Action Plan (2017-2022), the Government at the end of 2022 unveiled the Public Finance Management Strategy (PFMS) covering the period 2023 – 2028. The Strategy reflects the results of the 2018 PEFA and presents an overall framework in terms of programmatic approach to the public finance management reforms in the country. The Strategy and its accompanying Rolling Plan sets the ground for improving alignment of public finances to national development goals through seven PFM reform priorities namely enhancing efficient resource mobilization, maintaining aggregate fiscal discipline compatible with macro-economic stability and inclusive growth, allocating resources consistent with the priorities in the MIP-1 ten-year Implementation Plan, promoting the efficient use of public resources and delivery of services through better budget execution, promoting accountability through external scrutiny and budget transparency, enhancing the enabling environment for improved PFM outcomes, and instituting effective governance systems and institutions. During the COVID era, specific accountability mechanisms were built in including the requirement for a Procurement Audit for COVID-19.

In terms of budget execution, recurrent expenditures have been higher than budgeted while the development budget has underperformed. The most recent data suggests that the shortages of foreign currency have negatively impacted the performance of the development budget.

**13.c. Timely and accurate fiscal reporting**

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

In line with the PFM Act (2022), the Ministry of Finance is required is supposed to present the budget estimates that appropriated at Vote level by Parliament. The budget estimates are supposed to provide a direct link between the strategic objectives (results) and the budgets (resources).

In line with the Public Audit Act 2003, Cap 37.01 the National Audit Office (NAO) is mandated to prepare Audited Accounts annually for each financial year ended June, for tabling to the National Assembly. To ensure the timely accurate fiscal report, Ministries and Departments and Agencies (MDAs) are mandated to prepare their own financial reports and submit for Audit purposes before 31st October of each year. The MDAs prepare their financial statements using the International Public Sector Accounting Standards (IPSAS).

The fiscal reporting space includes the budget performance reports, annual economic reports and the annual debt report is also prepared on a timely basis – the latest being the 2022-23 annual public debt report. The quality of the PFM is assessed on a five-year basis through an evaluation of the Public Expenditure and Financial Accountability (PEFA) Assessment, the last one having been undertaken in 2018.

The Government of Malawi has continued to ensure fiscal transparency by ensuring that fiscal plans and performance are easily accessible to the public via an online portal on a quarterly basis and also provides the half-year budget report. In this regard, the government provides on regular basis and in a timely manner, information relating to the five basic elements such as the Annual budget proposal, enacted budget, budget execution reports and the Audited Annual Financial reports which are availed within 12 months of the fiscal year's end to the public. Despite this progress, the preliminary findings from the most recent PEFA 2018 Report in draft, rates public access to fiscal information as a D. Furthermore, financial data integrity has a rating dimension of C, in year budget reports at C+, while internal audit Annual financial reports both have a rating of D+.

### 13.d. Clear and balanced assignment of expenditures and revenues to each level of government

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Malawi operates a fiscal decentralization system in that the delivery of basic services including primary health and education are assigned largely to District Councils in line with the 2010 decentralization policy. In this regard, resources are allocated and transferred from central to sub-national governments. Malawi's score slightly dropped to a score of C (2018 PEFA), from B+ on this indicator in 2011. Fiscal transfers to districts are managed by the National Local Government Finance Committee (NLGFC).

The budget classification system is comprehensive and covers all Government MDAs, particularly it follows the cash basis International Public Sector Accounting Standards (IPSAS) and is compliant to GFS. The budget also follows the output Progamme Based Budgeting (PBB) which ensures alignment with MIP-

1 priorities.

The clear level of a balanced assignment of expenditure and revenues at each level of government is intended to improve compliance with International Public Sector Accounting Standards (IPSAS), as required under the Public Audit Act (Cap37.01) for ease of traceability, as well as with the other laws governing public resources management including the 2003 Public Finance Management Act, 2022 Public Procurement and Disposal of Public Assets, and other related Acts on public financial management, Treasury Instructions Finance and Stores and other various Regulations on public financial management.

## 14. Efficiency of Revenue Mobilization

**Criteria Score: 3.75**

### 14.a. Tax policy

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

In a bid to enhance tax revenue mobilization, the Government of Malawi is implementing some tax reforms as part of the overall PFM reform agenda. The reforms have balanced issues on fair taxation and the need to mobilize sufficient resources to deliver public services and development but also seek to provide a conducive environment for the private sector to thrive. The process is guided by the Malawi Domestic Revenue Mobilization Strategy (DRMS), which covers the period 2021 to 2026. The DRMS aims to achieve at least a 5% annual increase in domestic revenues.

Key among the measures implemented in the 2022/23 budget are:

a. Removed import duty and excise tax on solar lamps and solar fridges to support the use of alternative sources of energy, especially by the off-grid rural population.

b. Removal of import duty, excise and VAT on spare parts for use in energy generation and distribution.

c. removed duty and excise tax on sanitary pads.

d. Removal of import duty and excise tax on interchangeable tyre retreads.

e. reduced local content threshold to a minimum of 5% to support and promote local manufacturers to enter the Industrial Rebate Scheme where import duty and excise tax, and in some instances VAT, is not paid on raw materials.

f. Introduction of a 10% import duty on bulk glycerin imports.

g. Introduction of a 15% import duty and 16.5% VAT on molds to widen the tax base.

h. Introduced the requirement for a Tax Clearance Certificate for companies wishing to do business with government.

i. Adjustments to the monthly PAYE schedule with the minimum threshold of MK100,000 not taxed while any amount above MK6 million is taxed at 40%. This is meant to ensure the tax system is progressive.

j. To simplify the collection of presumptive taxes applicable to businesses whose turnover is less than MK12.5 million, such entities are required to submit a tax return that would be used to determine the amount under presumptive tax.

Fiscal policy also ensured that product such as cooking oil and tap water are exempt from VAT as such taxes affect the poor more and therefore are retrogressive.

Tax reforms have had a positive impact on overall revenue generation, especially as revenues on income and goods and services have continued to grow. For example, tax revenue in 2021/22 were about 12.9% of GDP but this is now estimated at 13.5% of GDP in 2022/2023. Moreover, trade taxes only form about 10% of overall tax revenue and continue to decline as a share of total tax revenue. With income and goods taxes more or less evenly splitc, the tax structure has a strong element of progressiveness.

### 14.b. Tax administration

| Score Type | Value |
| --- | --- |
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

Country Notes:

**Efforts to tighten the tax administration processes,the Malawi Revenue Authority is improving its revenue collection systems. This builds on previous reforms implemented to ensure effectiveness,**

**efficiency, and transparency of tax administration. The 2022/23 budget, measures to** strengthen MDAs revenue collection and curb the rampant revenue leakages were put in place mainly through continued automation of processes, notably introduction of Electronic Fiscal Devices and cargo scanners at border posts, and modernization of customs administration. MRA upgraded the automated customs administration system (ASYCUDA++) to ASYCUDA World that is interfaced with e-Tax. The Tax Administration Act was amended to by reducing the VAT withholding period from 12 months to 6 months. The removal of the requirement for a claimable withholding tax on tobacco sales and the reduction of the rate from 3% to a non-claimable 1% of all sales has the effect of reducing the cost of tax administration.

Section 51A of the Corrupt Practices Act provides for imprisonment and fines for those who punish or victimize whistleblowers who report a corrupt practice to the Anti-Corruption Bureau or the police; the Act also sets out guidelines to protect said whistleblowers' identities in court, except in limited circumstances. Automation of tax systems and the existence of the Tip-Offs Anonymous program that allows individuals to anonymously report instances of fraud, bribery, corruption, and smuggling that is administered by Deloitte, which also administers the program in other African countries and elsewhere helps in reducing leakages.

Tto mitigate corruption within the tax administration, the government is progressively implementing digital tax collection measures which are reducing leakages. With regards to anti-corruption, the arrest and conviction of high-level officers in government at all levels, including permanent secretaries has send a chilling message to to would be offenders. For example, in 2022, former mnisters, magistrates, and the Vice President of Malawi were arrested over corruption. According to the Anti-Corruption Bureau's annual report (ACB), 2020/2021 recorded a 90% increase U4 Anti-Corruption Helpdesk Overview of corruption and anti-corruption efforts in Malawi 5 in corruption complaints from the previous year (Malawi 24, 2022a). This brought the level of cases close to the "Cashgate" period when the ACB recorded 1,565 complaints (Malawi 24, 2022a).

## 15. Quality of Public Administration

**Criteria Score: 3.333**

### 15.a. Policy coordination and responsiveness

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

The Office of the President and Cabinet (OPC) is responsible for policy coordination and monitoring. In order to have a well-focused public service, most Ministries, Departments and Agencies (MDAs) with support from OPC have strategic plans to guide their operations. Policy coordination across the public service is, however, weak due to inadequate capacity, weak compliance, and oversight mechanisms. This has sometimes resulted in duplication of institutional mandates and conflicting policies and regulations. Although decision making structures in the public service are well established, policy making tends to be slow. Bureaucratic inertia affects responsiveness, policy implementation and efficiency in public services delivery. There is need to strengthen policy coordination and oversight. This would require capacity development, strengthening organization structures and strong leadership. Government is implementing a Public Service Reform Programme which is being championed by the Vice President. The reform has already made several recommendations for enhancing service delivery in the civil service and state-owned enterprises. The number of ministries has since been rationalized by merging some of the ministries. The State-Owned Enterprise policy was approved recently. Through the reform policy and a regulatory framework, Government hopes to improve on the governance structure of SOEs with a view to enhance service delivery, accountability, and financial performance. Government aims to reduce bailouts and levels of sub-ventions to commercial and, to some extent, regulatory SOEs in the short-to-medium term.

However, the institutionalization of corruption in the public sector means accepting corruption as a norm in various areas within institutions in the public sector. Moreover, the institutionalization of corruption also mean acceptance of corruption as a norm in internal systems of the public sector institutions, a belief that corruption has gotten worse and that access to public services can only be possible with the aid of corruption. To this extent, the delivery of public services is affected. For example, budget implementation remains a challenge as each year, issues of failure to implement budget activities arise, raising questions of whether this is done deliberately to divert the resources to other unbudgeted activities. For example, in May 2022, the country's four city councils collectively received a paltry MK4.4 billion out of the total MK24.9 billion budgeted and approved in the 2021/22 National Budget to finance the rehabilitation or construction of roads (Mchulu, 2022). This is a clear manifestation of poor financial management. Schaeffer (2002) points out that poor, inefficient, or inadequate public financial management may result from several factors, including civil service incompetence, lack of efficient institutions, and pervasive institutional corruption.

### 15.b. Service delivery and operational efficiency

| Score Type | Value |
| --- | --- |
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

The Ibrahim Index of African Governance (2022) provides very low scores for Malawi regarding service delivery. Malawi has not recorded and improvement in service delivery, with scores of 17.2% for *Access* to Public Services by Income Level; 42% for Access to Public Services by Social Group and 15.7% for Access to Public Services by Urban-Rural Location. The overall performance on service delivery remained at 25% for 2021 and 2022.

Malawi has a three-tier system of government (executive, judiciary and legislature). The executive through Office of President and Cabinet (OPC) formulates policies for improving service delivery and operational efficiency of the public service. The performance of public enterprises is monitored through the Public Enterprise Reform Management Unit (PERMU) under the Ministry of Finance. The Department of Human Resources Management and Development (DHRMD), also under OPC, is responsible for capacity development and performance management. The Public Enterprise Management Reform Unit (PEMRU) in the Ministry of Finance oversees Government's equity investments in State Owned Enterprises.

InSince 2013, the Project and Programmes Monitoring Department was established to monitor performance of government programmes and enforce accountability for results. Ministry of Local Government and Rural Development is mandated to champion and implement the decentralization programme as stipulated in the Local Government Act of 1998 and Decentralization Policy. There are clear mandates amongst the Departments since most of them fall under OPC. However, OPC has limited human and technical capacity to design effective policies and monitor their implementation. While Malawi has decentralized its structure, absence of councilors up to May 2014 and lack of capacity (human and financial) in District Assemblies has made it difficult for the country to fully realize the benefits of decentralized governance structure. Conflicts between councilors and Members of Parliament on their roles as well as political partisanship also affect pace development work and service delivery.

. Limited resources by Councils since they do note generate enough resources for ensuring smooth operations also compromise service delivery. Citizen empowerment through rolled out the public service charter and Institutional Integrity Committees to strengthen accountability for performance, as well as social accountability and advocacy programmes such as Kalondolondo are helping citizens demand their rights.

To this extent, the delivery of public services is affected. For example, budget implementation remains a challenge as each year, issues of failure to implement budget activities arise, raising questions of whether this is done deliberately to divert the resources to other unbudgeted activities. For example, in May 2022, the country's four city councils collectively received a paltry MK4.4 billion out of the total MK24.9 billion budgeted and approved in the 2021/22 National Budget to finance the rehabilitation or construction of roads (Mchulu, 2022). This is a clear manifestation of poor financial management. Schaeffer (2002) points out that poor, inefficient, or inadequate public financial management may result from several factors, including civil service incompetence, lack of efficient institutions, and pervasive institutional corruption.

#### 15.c. Merit and ethics

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |

| | |
|---|---|
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

The Government of Malawi developed and implementedprioritising reforms in public services. To this end, the Public Service Management Policy 2018-2022 which and prioritized Public Service reforms. The reforms are helping to reposition the Public Service for the achievement of the MGDS III Outcomes. It also addressed Public Service Performance Challenges, including the issue of Merit and Ethics of Public Officials - prioritising zero policy towards corruption. To this end, the government created a a Ministry responsible for Public Service Reforms was created in 2020 headed by the Vice President. Similarly, a Malawi Public Sector Reforms Management Unit was created exists to catalyse, drive and facilitate public sector reforms in Malawi. The scope of the reforms covers 9 priority areas, 17 Ministries, 35 Local governments and 54 Parastatals. The weblink: http://www.reforms.gov.mw/psrmu/ Some of the and areports link is accessed can be accessed throughat: http://www.reforms.gov.mw/psrmu/resource-center/publications-and-reports?page=1.WAccording tohereaAlTA

The new government that took over leadershippower in July 2020 headed by Dr Lazarus Chakwera is implementing the National Anti-Corruption Strategy 2019-2024 which can be access at: https://acbmw.org/wp-content/uploads/2020/03/NACS-II-1.pdf prioritising   The government is prioritising the fight against corruption in the country. The National Anti-Corruption Strategy II (NACS II) is a result of Government’s continued commitment to zero tolerance stance on corruption. The NACS II has been designed to promote good governance and improved service delivery in Malawi through a coherent and effective approach to fighting corruption. The National Anti-Corruption Strategy II (NACS II) is a blueprint for Malawi’s aspirations for a corruption-free society and is a successor to NAC 1 of 2008-2018.

Recruitment processes in the civil service in Malawi may are not always be transparent and based on objective criteria of professionalism, andbut couldmay be influenced by such factors as ethnicity, regionalism and loyalty or disloyalty to those in power. During 2021, the government stepped up transparency inthorugh the Public Service reform, an initiative which has seen various Public Officials being investigatedarrested, fired from offices and even imprisonedinvestiaged. Several high-level corruption cases have been reported and some of them charged but finalization of the cases through courts is slow. This is an indication among the many cases that there is endemic corruption at all levels of the civil service, includingwhich means bribery which has been allegedly commonly used inmay also influencing hiring and promotions.

According to the The DHRMD is responsible for the overall policy on management of human resource and derives its mandate from the Public Services Act of 1994. The Public Service Commission (PSC) comprising the Civil Service Commission, Police Service Commission, Health Service Commission, etc. is responsible for recruitment, promotion and disciplinary issues and standards. The PSC works closely with the Appointment and Discplinary Commitees in each Ministry.   The recruitment and promotion of staff is done through transparent and open systems and guided by the Malawi Public Service Regulations. However, meritocracy is occasionally compromised because of the patronage system. It is also felt that the State President has too many powers appointing powers for senior officers working in the civil service (ranging from Directors to Principal Secretaries) and this compromises the independence and effectiveness of the civil service.  Internal administrative circulars govern disciplinary matters.

In 2013, Government developed a Code of Conduct and Ethics for the Public Service and a Public Service Charter to complement the existing provisions in the Public Service and financial Regulations. All employees are required to adhere to Financial Regulations set out in the Treasury Instructions. An Internal Audit Charter also exists. However, the monitoring of the charter and enforcement of regulations is weak. The Cashgate scandal underlined the erosion of ethical standards in the public service. There is also weakness in performance management; as such, performance of civil servants is rarely assessed.

The Public Service, and the Public Finance and Economic Management Reforms have been designed to address these challenges. For example, the Public Service Act, the Public Finance Management Act, the Public Audit Act, the National Local Government Finance Committee Bill and the Public Procurement Act are in the processes of being amended or enacted. As part of public service reforms, the appointments and promotion of Senior Government officials up to a certain level will be done by a Committee of Principal Secretaries. This reform is intended to depoliticize the civil service and promote meritocracy.

#### 15.d. Pay adequacy and management of the wage bill

*No score data available for this subcriteria.*

## 16. Transparency, Accountability, and Corruption in the Public Sector

**Criteria Score: 3.5**

#### 16.a. Accountability of the executive to oversight institutions

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

Corruption is one of the major challenges affecting Malawi. This takes place at both local and national level. Local authorities in Malawi receive funding from the national budget and public revenue collection streams, but budgeting and public procurement processes in these local authorities remain opaque. This leaves room for corruption. In 2018, the government launched public sector reforms to combat high level corruption and public finance mismanagement. However, oversight mechanisms and institutions such as the parliament, media and the judiciary remain weak. CSOs and media also lack the capacity to use data and ICT to make authorities accountable and to advocate for more transparent and accountable public spending.

Parliament and its various committees is an important part for ensuring accountability of the executive. Malawi Parliament has 20 committees comprising of Members of Parliament (MPs) from different political parties, appointed to handle issues assigned to it by the House. The capacity f the committees to carry out their role is limited hence the need to prioritise a special orientation for chairpersons soon after being elected, thus aligning their goals with that of the committees. Other examples of what works include emulating the legacy report system of the South Africa Parliament, which is used for handing over committee work-plans, and a structural analysis which provides achievements of previous Parliaments and outstanding issues to new members.

Additional mMechanism for promoting transparency, accountability, anti-corruption, and anti-money laundering in Malawi exist. Recently, the Office for the Declaration of Public officers' Assets and Business Interests was established as required by law. The Assets, Business Interests and Personal Liability Act was enacted in 2013. The Office is directly accountable to Parliament.  The effectiveness of accountability institutions is hampered by limited capacity (human and financial). This is evident in key institutions such as the National Audit Office (NAO), the Central Internal Audit Unit (CIAU), Office of the Director of Public Procurement (ODPP), the Anti-Corruption Bureau (ACB), Financial Intelligence Unit (FIU), the Asset Declaration Office, and Office of the Ombudsman. While Government is taking steps to address capacity weaknesses with the support of Donors, more needs to be done considering the current fiscal challenges facing the country.

ACB has recorded progress in implementing its Anti-Corruption Strategy (ACS, 2012-2017) and the 2008 National Anti-Corruption Strategy (NACS) which is under review. A multi stakeholder National Integrity Committee was appointed in 2013 to oversee implementation of the NACS which, among others, aims to establish a National Integrity System. The Corrupt Practices Act (CPA) of 1995 (as amended in 2003) has been reviewed again with a view to strengthening it further. Among others, the law proposes to incorporate whistleblowing mechanism and strengthen independence of the Bureau. There is growing perception that corruption in Malawi is increasing. The massive fiscal scandal, known as Cash gate of 2013/14, undermined the fight against corruption. Malawi's score on the International Transparency (TI) Index in 2022 moved down to 34 points out of 100 compared to 35 points in 2021 and was ranked 110/180 countries. Government managed to restore fiscal discipline following the Cash gate scandal as part of the wider PFM strengthening reforms in the fight against corruption.  So far, the conviction rate on the cases has been 100% with key suspects from the  business community convicted.    One major challenge is ensuring sufficient funding and autonomy of ACB and other governance institutions such as the National Audit Office. The ACB has experienced high turnover of Directors.     The civil society including the media is actively involved in promoting integrity. The Africa Institute of Corporate Citizenship (AICC) and the Malawi Economic Justice Network (MEJN) are currently in the process of establishing a Transparency International National Chapter in Malawi

#### 16.b. Access of civil society to information on public affairs

| Score Type | Value |
|---|---|
| Draft Score | 4.0 |
| Reviewed Score | 4.0 |

| | |
|---|---|
| Second Draft Score | 4.0 |
| Final Score | 4.0 |

**Country Notes:**

Malawi has registered improvements  emphasising further that there has been some improvement on transparency, accountability, and access to information in Malawi. The Access to Information Act - enacted in 2017 - was made operational in September 2020, and the President provides regular updates on his government in weekly radio addresses throughout the year. The President appears before Parliament to answer questions from legislators, setting new precedent in the country as(this is required by law. The current administration further instituted weekly press conferences, where reporters ask questions about government affairs. All Press conferences are placed in the public domain and Social Media platforms which makes the public and Civil Society to easily access information. The media is independent and free to report any abuses and corrupt practices. CSOs can access some budget documents on government websites and use other sources of information. However, more efforts is needed to further expand access to information for civil society and build capacity on the demand side of governance.  The 2015 Freedom House rating for Malawi is 3.5 out of 7 and the country is found to be partly free.  Political rights are rated 3 while civil rights at 4. the status reflects on-going governance reforms, including repeal of Section 46 of the penal code deemed restrictive on media freedoms.  A few TV broadcasting licenses have been approved and issued. An Access to Information Policy was approved in 2013 which paves way for the finalization of the Access to Information Bill. The Bill that was tabled in Parliament before end 2015, came into effect in 2020.  **Human rights and basic freedoms have improved. On the 2023 5 Press Freedom Index, Malawi is ranked 82/180 compared to 80 in 2022.**

**Access to public information (ATI) laws are believed to increase transparency and thus combat corruption. The Malawi ATI Act (2016) to determine its effect on control of public sector corruption in the country. Section 37 of the Malawi Constitution guarantees the right of access to public information. It stipulates that “every person shall have the right of access to all information held by the State or any of its organs at any level of Government in so far as such information is required for the exercise of his or her rights” (The Constitution of the Republic of Malawi, 1994). The ATI Act designated the Malawi Human Rights Commission (“the Commission”), established under Section XI of the Constitution, to oversee the implementation of the Act in Malawi. The biggest challenge to effectively benefit from the provisions of the ATI law in Malawi range from ignorance about the law and its provisions, the rights of the citizens and remedies when infringements occur. Moreover, the piecemeal implementation of the law has limited its impact.**

### 16.c. State captured by narrow vested interests

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

The issues of conflict of interest are addressed through the Constitution, Corrupt Practices Act, the Public Procurement Act, and Code of Conduct and Ethics. Whereas Malawi is one of the countries in which the situation has deteriorated in recent years, as reported by Transparency International. The ACBAnti-Corruption Bureau (ACB) has arrested a number of people for failure to disclose their interest in the course of discharging their duties. During 2020/2021, the Malawi government arrested and top government officials including Ministers of Energy and Minister of Labour over corruption tendencies. In 2022, the Vice President was stripped of his powers and arrested over corruption and the ACB Director was also arrested putting the system to address corruption at risk.

Public officers were required to declared their assets, business liabilities and liabilities in 2015-2020 before the COVID-19 pandemic.  Enforcement of the Act is however a challenge. Due to limited resources, the Asset Director is unable to fully discharge his duties and monitor compliance and verify accuracy of the reports.  Access to the information and disclosure remain key to promotion of transparency and hence may hinder realization of the Act objectives. The Cash gate has intensified pressure for Government through both Public Service and Public Finance Management reforms to to address transparency and accountability issues including nepotism, unaccounted wealth, political financing and corruption.

Moreover, a regular practice by tobacco companies is through their corporate social responsibility (CSR) activities, including the construction of schools and donations for disaster relief and orphanages to gain the support of politicians and the executive. As such, arguments about the importance of tobacco growing to Malawi's economy are used by Malawian politicians to justify continued interaction and cooperation with the tobacco industry.

## (E) Infrastructure and Regional Integration

**Cluster Score: 3.167**

### 17. Infrastructure Development

**Criteria Score: 3.333**

#### 17.a. Sector strategy/policy

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |
| Second Draft Score | 3.5 |

| | |
|---|---|
| Final Score | 3.5 |

**Country Notes:**

*Malawi continues to face a huge infrastructure deficit, across energy, transport, ICT (Information and Communication Technology & Internet), water and human capital infrastructure. In this regard, the country is implementing various sector policies and strategies aimed at narrowing the infrastructure development gap.* Specifically, Malawi's infrastructure deficit is estimated at a high of about US$ 0.6 billion annually. This translated to 20% of GDP over the 2011-2016 period. Given resource constraints, Government is leveraging private capital, in part for financing energy projects and projects related to ICT through the PPP arrangements.

In response, Malawi has prioritized infrastructure development as a key component in the Vision 2063. However, the perceived quality of infrastructure remains low and until recently, procuring entities failed to meet legal requirements for disclosing information to the public. Malawi has made notable progress with regard to infrastructure data over the past 10 years. Through its membership of CoST, it has introduced an online information portal, a Multi-Stakeholder Group, and several other innovations, which all help to ensure that data relating to the lifecycle of infrastructure is widely available and scrutinized.

Recently, government partnered with local financial institutions in large scale infrastructure development projects. The MK34.5 billion Kenyatta-Mzimba Road Development Project with financing from local players such as Standard Bank Malawi, Old Mutual group and CDH Investment Bank Limited. In 2021, NBS bank also partnered the Roads Fund Administration through financing of a bid bond worth around MK14 billion to construct the landmark Area 18 Interchange in Lilongwe. The widening of financing sources came as a result of inadequate financing from the traditional development partners, including multilateral and regional development banks.

The Government has developed an institutional and regulatory framework to support private participation investment, particularly in infrastructure. To enhance the institutional capacity in the transport sector, the Government of Malawi established the Road Fund Administration with a legal mandate to mobilize resources and collect levies for road infrastructure development. These Road Levies are collected at the moment by the Malawi Energy Regulatory Authority and remitted to the Road Fund for maintenance.

Within the transport sector generally, interventions have been guided by the National Transport Policy of 2004, however, the government in 2015 revised the National Transport Policy to reinforce its alignment to the national development strategies. Government continues to execute newer policy reforms aimed at promoting competitiveness for Private Sector Investments. The key policy objective is to provide a competitive transport environment through removing all forms of protectionism except where operators resort to anti-competitive activities such as cartels and other predatory forms of competition.

*Currently implementing the Malawi National Transport Master Plan (MNTSP) 2017-2030, a framework for delivering sustainable transport interventions to enhance the transport sector across the country for the period between 2017 and 2030. It proposes infrastructure projects across road, rail, water and air transport. The masterplan is intended to reduce transport costs and travel time, and improve safety across all modes of transport in Malawi.*

With regards to the Railway network, Government in 1999, awarded Central East African Railways (CEAR) a 20-year concession to operate and manage the country's rail network. Effective 2014, Vale, the Brazilian giant mining conglomerate, which operates the Moatize coal mine in Mozambique became the majority shareholder in CEAR. In 2013/14, a concession was issued by Government for all the ports on lake Malawi to Mota Engil under the trade name, Malawi Lakes Ports Company. Similarly, concessions for all shipping services was issued to Malawi Shipping Company. Malawian Airlines Limited, with its hub at Lilongwe International Airport, is the flag carrier for Malawi. It was established in 2012 following the liquidation of Air Malawi, the former national airline. Ethiopian Airlines operates it under a management contract and owns 49% of the airline

Recognizing the importance for developing transport infrastructure, in 2023, the Millennium Challenge Corporation (MCC) and the Government of Malawi together identified the high price of road freight transport service and access to land for investment as key constraints to economic development. The MCC, therefore included the Accelerated Growth Corridors (AGC) Project as part of the efforts to improving road conditions, encouraging a more transparent and competitive business environment for transporters, and also addressing transportation challenges for smallholder farmers. The project will support policy and institutional reforms to enable better road planning and maintenance of AGCs and associated infrastructure, as well as safer conditions for women to move and conduct economic activity along the corridors.

In the energy sector, the following projects are within the development stages:

1. 350MW Mpatamanga Hydro by Malawi Government, EGENCO, Consortium of EDF and SCATEC and IFC

2. 20 MW Salima Solar with Batteries by the EGENCO.

3. Mozambique Malawi Interconnector- 120MW

4. The rest of the projects (such as 300 Kammwamba coal fired Power Plant, 210 MW Kholombidzo hydro, 261 MW Hydro, 4.5 MW Wovwe Hydro 75 MW Aza Gas Power plant and other IPP projects are at their very early stages of development such as feasibility studies, PPA negotiations etc.

For ICT, an ICT and Digitalization Policy and Roadmap 2022-2026 was developed. It aims provide a comprehensive framework to guide Malawi's transformation agenda by investing in ICT infrastructure, addressing skills shortages, and developing a governance structure.

**17.b. Legal and regulatory frameworks for infrastructure**

| Score Type | Value |
|---|---|
| Draft Score | 3.5 |
| Reviewed Score | 3.5 |

| | |
|---|---|
| Second Draft Score | 3.5 |
| Final Score | 3.5 |

**Country Notes:**

lawi Transport Policy has a

nvestment between competing alternative infrastructure investments within sectors lies on socio-economic criteria and environmental evaluation. For ICT, Malawi developed the Malawi Digital Government Strategy (2020) that is administered through the Malawi Communications Regulatory Authority. Its objective is to promote the digital transformation of Malawi’s economy, society, and Government. The strategy identified three core enablers of digital transformation. Those are the “Digital Ecosystem “that focuses on strengthening the legal, regulatory, and institutional framework; the “Connectivity” that focuses on the development of internet infrastructure intending to provide affordable and high-quality internet access to all citizen; and lastly the “Digital platforms and Services” that focuses on the development of technical capacity and IT infrastructure to deliver services to the citizen. To implement Malawi's Digital Strategy, the Government has embarked on the development of internet connectivity infrastructure and online services. In this initiative, the Government implemented different digital services such as Ascyuda and Msonkho Online for TAX and Customs, IFMIS, Birth and Death electronic registration, Business electronic registration, eVISA, Personal Property Security Registry, HR Management System, etc.

For Transport, a National Transport Policy (2015) has a goal to ensure the provision of a coordinated transport environment that fosters a safe and competitive operation of commercially viable, financially sustainable, and environmentally friendly transport services and enterprises. The Policy covers all modes of transport namely, road, rail, air and marine and is made up of six (6) priority areas which are: Transport infrastructure, Transport Services, International Transport Corridors, Private Sector Participation, Strengthening of Institutional Framework and Cross-cutting Issues. Implementation of the Policy is overseen by the Ministry of Transport and Public Works. An important component of the Policy is that it seeks that the choice of designs and methods of construction consider the increasing severity of climate change and the need minimize such risks and mitigate impacts through incorporation of climate resilience in infrastructure development.

For Water, the 2005 National Water Policy and the National Water Resources Master Plan provide the institutional framework and regulations. The Water Policy covers areas of water resource management and development, water quality and pollution control, water utilization, disaster management and institutional roles and linkages. Various plans for water development have been developed, including the Integrated Water Resources Management and Water Efficiency (IWRM/WE) Plan (2008-2012) and subsequent plans have been developed with the goal of ensuring the coordinated development and management of water, land and related resources by maximizing economic and social welfare without compromising the sustainability of environmental systems. The Ministry of Water is the custodian of the Policy and Development Plans.

Malawi has established a PPP scope with some laws as:-The Public-Private Partnership Bill, 2010 that came into force in 2013.- The Public-Private Partnership Policy Framework,2011.- The Applicable Sectoral Law - The Public Enterprises Act, 1996.The PPP Agency, PPPC, have a role to facilitate access to affordable and efficient public services through transparent procurement of innovative and dynamic private sector partners in viable infrastructure development for the benefit of the people of Malawi. As part of the PFM reforms, during 2020 the government rolled out a new the Integrated Financial Management Information System (IFMIS), which includes with a component on E-procurement largely intended to curb arrears, and ease procurement of infrastructure projects. Malawi is a member of the Construction Sector Transparency Initiative (CoST). Similarly, Malawi has successfully implemented the Extractive Industry Transparency Initiative (EITI). Both initiatives report on disclosure from company payments for contracts in construction and extractive industries, government receipts and payments, information on tax, royalties, licenses, contracts, among others. A recent CoST Assurance Report found that while Procuring Entities have improved in disclosing Project Material Information, delayed funding by Government for infrastructure projects has great impact on the cost of projects. The funding delays oftentimes lead to cost overruns. The main challenge to infrastructure development in Malawi is lack of capacity in the domestic construction industry, mainly due to poor participation of local construction companies and non-availability of micro-financing schemes particularly for Small and medium scale contractors to procure equipment. Other challenges outlined above relates to procurement compliance.

Malawi's infrastructure poverty include lack of electricity, inadequate roads, bridges, sanitation, and communications networks. Various laws and regulations to guide infrastructure development have been developed at a sectoral level, For example, ICT, transport, energy water sector frameworks are in place. The choice of infrastructure investment between competing alternative infrastructure investments within sectors lies on socio-economic criteria and environmental evaluation. For ICT, Malawi developed the Malawi Digital Government Strategy (2020) that is administered through the Malawi Communications Regulatory Authority. Its objective is to promote the digital transformation of Malawi’s economy, society, and Government. The strategy identified three core enablers of digital transformation. Those are the “Digital Ecosystem “that focuses on strengthening the legal, regulatory, and institutional framework; the “Connectivity” that focuses on the development of internet infrastructure intending to provide affordable and high-quality internet access to all citizen; and lastly the “Digital platforms and Services” that focuses on the development of technical capacity and IT infrastructure to deliver services to the citizen. To implement Malawi's Digital Strategy, the Government has embarked on the development of internet connectivity infrastructure and online services. In this initiative, the Government implemented different digital services such as Ascyuda and Msonkho Online for TAX and Customs, IFMIS, Birth and Death electronic registration, Business electronic registration, eVISA, Personal Property Security Registry, HR Management System, etc. All projects are mandated to undertake Environmental Impact Assessments for all infrastructure project in consultation with the People affected by the infrastructure projects are consulted during the design phase. The Government adheres to social safeguards in implementation of infrastructure projects, including compensation for resettlement. Other than financing, other key challenges related to infrastructure development relates to procurement flaws. In Malawi, procurement follows either national procurement procedures or procedures of the funder. National procedures have been assessed as adequate and in line with international standards/best practices. Procurement of infrastructure services and works is governed by the Public Procurement Act (2003), and amended. The Act is based on equity, fairness and economy principles. The National Construction Industry Council Act regulates the construction industry. The Act empowers the Council to promote standards in the industry and discipline those contravening the law.The public procurement system in Malawi is regulated by the Public Procurement and Disposal of Assets Act (2017) and other secondary legislation. Prior to 2003, Malawi had a centralized procurement system characterized by the presence of the Central Tender Board (CTB) that was responsible for all procurement above a prescribed threshold for Government Ministries and Departments. The Central Government Stores (CGS) used to procure for Government Ministries and did its own procurement without much control from the Government.This was one of the gaps that led to the enactment of the Public Procurement Act (PPA) of 2003, which decentralized procurement responsibility to procuring entities and established the Office of the Director of Public Procurement (ODPP) as a public office with the responsibility of regulation, monitoring and oversight of public procurement in Malawi.However, lack of limited enforcement mechanisms led to the enactment of the Public Procurement and Disposal of Assets Act (2017) which established the Public Procurement and Disposal of Assets Authority (PPDA) as an impartial and independent institution responsible for the regulation, monitoring, oversight and enforcement of public procurement and disposal of assets in Malawi.For transport, Malawi has established a PPP scope with some laws as:-The Public-Private Partnership Bill, 2010 that came into force in 2013.- The Public-Private Partnership Policy Framework,2011.- The Applicable Sectoral Law - The Public Enterprises Act, 1996.The PPP Agency, PPPC, have a role to facilitate access to affordable and efficient public services through transparent procurement of innovative and dynamic private sector partners in viable infrastructure development for the benefit of the people of Malawi.As part of the PFM reforms, during 2020 the government rolled out a newthe Integrated Financial Management Information System (IFMIS), which includes with a component on E-procurement largely intended to curb arrears, and ease procurement of infrastructure projects.  Malawi is a member of the Construction Sector Transparency Initiative (CoST). Similarly, Malawi has successfully implemented the Extractive Industry Transparency Initiative (EITI). Both initiatives report on disclosure from company payments for contracts in construction and extractive industries, government receipts and payments, information on tax, royalties, licenses, contracts, among others. A recent CoST Assurance Report  found that while Procuring Entities have improved in disclosing Project Material Information, delayed funding by Government for infrastructure projects has great impact on the cost of projects. The funding delays oftentimes lead to cost overruns.The main challenge to infrastructure development in Malawi is lack of capacity in the domestic construction industry, mainly due to poor participation of local construction companies and non-availability of micro-financing schemes particularly for Small and medium scale contractors to procure equipment.  Other challenges outlined above relates to procurement compliance.

**17.c. Public resource management and accountability in the infrastructure sector**

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

Infrastructure development has been prioritized in MIP-1, as well as Vision 2063.  The issue of public resource management and accountability in the infrastructure is at the forefront of infrastructure sector.

**According to the World Bank, Malawi faces procurement challenges in infrastructure projects and for this reason, there is need to address these inadequacies in the infrastructure project implementation; to ensure non-compliance in procurement rules and the overall mismanagement of the project life cycle is strengthened.** *The report shows Malawi faces procurement challenges since only 25 percent of tenders go through an open and competitive process.*

Increasing transparency of the procurement process, including publishing information on procurement activities, publishing PPDA's reports on compliance of the MDAs' in procurement rules, will go a long way in ensuring the independence of procurement complaint reviews, and publishing their results. The Public Procurement and Disposal of Assets Authority (PPDA) also reports that the overall compliance with the legal framework across entities has been varying and has fallen over time from 65 to 15 percent (IMF 2018). Addressing these issues will require a Procurement of large and complex infrastructure projects requires stronger controls hence needs to be sequenced in phases of the project life cycle within the limits of the existing legal and regulatory framework to avoid delays, cost over-runs, and loss of credibility and trust.

All projects are mandated to undertake Environmental Impact Assessments for all infrastructure project in consultation with the People affected by the infrastructure projects are consulted during the design phase. The Government adheres to social safeguards in implementation of infrastructure projects, including compensation for resettlement. Other than financing, other key challenges related to infrastructure development relates to procurement flaws. In Malawi, procurement follows either national procurement procedures or procedures of the funder. National procedures have been assessed as adequate and in line with international standards/best practices. Procurement of infrastructure services and works is governed by the Public Procurement Act (2003), and amended. The Act is based on equity, fairness and economy principles. The National Construction Industry Council Act regulates the construction industry. The Act empowers the Council to promote standards in the industry and discipline those contravening the law.The public procurement system in Malawi is regulated by the Public Procurement and Disposal of Assets Act (2017) and other secondary legislation. Prior to 2003, Malawi had a centralized procurement system characterized by the presence of the Central Tender Board (CTB) that was responsible for all procurement above a prescribed threshold for Government Ministries and Departments. The Central Government Stores (CGS) used to procure for Government Ministries and did its own procurement without much control from the Government.This was one of the gaps that led to the enactment of the Public Procurement Act (PPA) of 2003, which decentralized procurement responsibility to procuring entities and established the Office of the Director of Public Procurement (ODPP) as a public office with the responsibility of regulation, monitoring and oversight of public procurement in Malawi.However, lack of limited enforcement mechanisms led to the enactment of the Public Procurement and Disposal of Assets Act (2017) which established the Public Procurement and Disposal of Assets Authority (PPDA) as an impartial and independent institution responsible for the regulation, monitoring, oversight and enforcement of public procurement and disposal of assets in Malawi.

**Following the cash gate financial misappropriation of 2016, Malawi is implementing a number of Public Financial Management (PFM) reforms to ensure transparency and accountability in public expenditure especially the infrastructure sector. The World Bank report of June 2020 entitled 'Malawi: Mobilizing Long-Term Finance for Infrastructure' there is need to institute measures to revamp the framework for selecting, procuring, implementing and monitoring public investment projects in infrastructure since the current**selection of public investment projects assumes that all projects will be financed by the government. Cost-benefit analysis of projects proposed by MDAs, including consideration of private sector financing as an option is not done. It is recommended that the Public Investment Management (PIM) framework be revamped to implement the public investment programs in an accountable manner, ensuring the much-needed return on investment are prioritized to increase the fiscal space to maximize the volume of investment and finance into infrastructure.

The same report also recommends the need to establish a well-structured project preparation facility (PPF) to avail financial and technical resources for undertaking cost-benefit analysis, carrying out detailed feasibility studies, and supporting transaction structuring and monitoring during implementation, among others. Furthermore, a detailed financial analysis of State-Owned Enterprises (SOEs) should be based on audited financial statements of financial year 2017/18-2018/19.

This issue of project selection is based on Cost-Benefit Analysis key criterion has been highlighted in the previous CPIAs such as 2016 and 2018. There is also need to ensure that Infrastructure development programmed in the Medium Term Expenditure Framework (MTEF) which links medium term investment plans, linked to the Medium Term Fiscal Framework and the budget should be adhered to for consistency. Procurement of infrastructure services and works is governed by the Public Procurement Act (2003). The Act is based on equity, fairness and economy principles. The National Construction Industry Council Act regulates the construction industry. The Act empowers the Council to promote standards in the industry and discipline those contravening the law.

Malawi is a member of the Construction Sector Transparency Initiative (CoST). Similarly, Malawi has successfully implemented the Extractive Industry Transparency Initiative (EITI). Both initiatives report on disclosure from company payments for contracts in construction and extractive industries, government receipts and payments, information on tax, royalties, licenses, contracts, among others. A recent CoST Assurance Report found that while Procuring Entities have improved in disclosing Project Material Information, delayed funding by Government for infrastructure projects has great impact on the cost of projects. The funding delays oftentimes lead to cost overruns.

The main challenge to infrastructure development in Malawi is lack of capacity in the domestic construction industry, mainly due to poor participation of local construction companies and non-availability of micro-financing schemes particularly for Small and medium scale contractors to procure equipment. Other challenges outlined above relates to procurement compliance.

Furthermore, the findings of the Mmalawi National Enterprise Survey 2019 that collected information on access and use of ICT services and products such as telephones, facsimiles, computers, postal services, digital financial services,cyber security and electrical and electronic waste management found the following:

During 2011-2018, the Millennium Challenge Corporation (MCC) supported Malawi to develop policy for the procurement of energy. In the 2023 agreed MCC, management of infrastructure policies will be further supported.

The role of the PPP Commission in this project is to recruit a private partner who will operate, manage and maintain the entire project infrastructure. The procurement process for the private operator is underway to be concluded by end 2022. Request for Proposals will be sent to the shortlisted operators before year end. Phase one of the Shire Valley project consists of development of irrigation infrastructure with the works divided into several contracts. The first contract is to develop anthe intake facility and the first 6km of the main canal. It was reported during the visit that Construction of these structures is at 55% with the financing from AfDB and World Bank. The project is aimedintended tolooking at improving Land governance in irrigation schemes for smallholder farmers, and improving institutional reforms around water and irrigation infrastructure.

The $257.4 million Infrastructure Development Project supported economic development by rehabilitating, upgrading, and modernizing critical elements of Malawi’s power system across the whole country, from the northern-most border of the country in Karonga, to the south in Thyolo in the South of the country.

[World Bank report: **June 2020]**

## 18. Regional Integration

**Criteria Score: 3**

**18.a. Movement of persons and labor and right of establishment**

| Score Type | Value |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

An external company registration requires the following:

Power of Attorney by an agent to represent the company for registration A duly authenticated (notarized) copy of the Memorandum and Articles of Association A notarized Certificate of Incorporation issued by the registration Authority in the country of origin/incorporation. Notarized shareholder resolution authorizing the opening of a branch or subsidiary in Malawi Authenticated copies of passport copies of shareholders List of directors resident in Malawi.

*The two dimensions in which Malawi has performed lowest are ‘Free movement of people’ in which it scored 0.18 in 2021 (in part due to border closures during COVID-19); and Macroeconomic Integration scored the lowest at 0.17 far below its SADC peers of 0.37, meaning,* **Malawi does not allow nationals from all other SADC countries to enter visa-free** (refer to https://www.integrate-africa.org/rankings/country-profiles/country/malawi/#undefined). **The African regional integration index**

**(ARII)**measures the extent to which African countries are meeting their commitments under the various pan-African integration frameworks, such as Agenda 2063 and the Abuja Treaty, confirms that Malawi ranks *moderately to poorly* overall within both the SADC and COMESA. ARII covers five dimensions of regional integration: trade integration, productive integration, macroeconomic integration, infrastructural integration, and the free movement of people. The

While the country has established both bilateral level and multilateral level trade agreements to enhance regional and economic integration. Malawi is a member of the 15 member countries of Southern African Development Countries (SADC) that are working closely to expedite issues of regional trade, finance, and investments integration; and while Malawi is also a member of the Common Market for Eastern and Southern Africa (COMESA); the country has not yet ratified the relevant SADC and COMESA instruments concerning free movement of persons, rights of establishment and free movement of workers. Nonetheless, more than 80 percent of other SADC member states may enter Malawi visa-free, and the remaining 7 per cent may enter with a visa on arrival, while 55 percent of COMESA member countries required visa and 40 percent of other member states may enter Malawi visa free. Malawi issues a temporary work permit to persons before they enter Malawi for the purpose of taking up specified employment in Malawi. Such people would have been offered employment by an organization in Malawi, which has the responsibility to apply for the permit on behalf of the applicant.

In line with the Southern African Development Community Regional Indicative Strategic Plan (SADC RISDP) which is articulated around the four pillars of industrial development and market integration; regional infrastructure; peace and security cooperation; and special regional programmes. Malawi continues to implement infrastructure connectivity and trade improvement initiatives intended to expand market size and economic integration under the COMESA and SADC frameworks. The country is an active participant in the COMESA-SADC-East African Community Tripartite Free Trade Area; and has signed up to the Africa Continental Free Trade Area (AcFTA). Other on-going negotiations relates to the Economic Partnership Agreement (EPA), which Malawi is negotiating alongside other Eastern and Southern African countries to enhance trade relations with the European Union (EU).

Although a regional member country of SADC, Malawi is yet to ratify the protocol related to free movement of persons for both SADC as well as the COMESA. The SADC Protocol provides for a progressive elimination of obstacles to the free movement of persons, including the visa free entry among SADC countries. The protocol provides for the right of establishment and free movement of workers. Despite the non- ratification of the protocol, the country has registered significant progress in improving its immigration services to facilitate movement of natural persons through automation. **The department has simplified and streamlined its border immigration procedures and border management processes are being automated**. A website has been launched where visa application forms can be downloaded and for tracking applications. Regarding work permit, these are issued to labour from the Region, however the process remains slow. Obtaining /renewing residence cards or work permits is not costly in comparison with other countries in the region. A common means of identification within SADC is not yet in existence.

### 18.b. Regional financial integration

| Score Type | Value |
|---|---|

| | |
|---|---|
| Draft Score | 3.0 |
| Reviewed Score | 3.0 |
| Second Draft Score | 3.0 |
| Final Score | 3.0 |

**Country Notes:**

**The African regional integration index (ARII) which**extent to which measures the extent to which African countries are meeting their commitments under the various pan-African integration frameworks, such as Agenda 2063 and the Abuja Treaty, confirms that Malawi ranks *moderately to poorly* overall within both the SADC and COMESA, attaining eleventh place (refer to https://www.integrate-africa.org/rankings/countries/malawi/). Malawi ranks 11th out of 16 countries in SADC (with a score of 0.3) and ranks 17th out of 21 countries in COMESA (Score 0.26, below the average COMESA average of Score 0.37).

ARII covers five dimensions of regional integration: trade integration, productive integration, macroeconomic integration, infrastructural integration, and the free movement of people. Malawi scored: 0.53 in Trade integration dimension in 2021, a decline from a score of 0.57 in 2020,  (also average score of other peer Regional economic community countries of 0.45). In terms of Regional infrastructure, Malawi scored a low of 0.20 (below 0.32 average peer scores. Other dimensions like productive integration (score of 0.25, below peer average of 0.33). *The two dimensions that performed lowest are 'Free movement of people' which scored 0.18; and Macroeconomic Integration scored the lowest at 0.17 far below its SADC peers of 0.37.*

Malawi's financial sector reforms have been implemented and significantly progressed independently of the FIP; key among is the progress registered with respect to interconnecting the national payment system to the regional payment system. Malawi's National Payment System is already linked to the COMESA National Regional Payment & Settlement System. This integration is expected to enhance cross border trade.  Similarly, the country is also undertaking preparation for the implementation of phase II of the SADC Integrated Regional Electronic Settlement System.

The financial sector in Malawi is still in the developmental stage, and the range of institutions is comparatively narrow. It comprises financial institutions (banks and non-banks), capital and money markets, the financial infrastructure (payments, clearing, and settlements systems) and the commodity market (World Bank, 2021). As the formal financial sector continues to be small, access to financial services remains a problem. However, Malawi has experienced digital transformation and increased access to finance due to the Financial Sector Technical Assistance Project (FSTAP) which focused on increasing access to finance for the unbanked adult population. The percentage of adults using financial institutions including mobile money, for example, rose from 19 percent at the start of the project in 2011 to 40 percent in June 2018 (World Bank, 2021). The Government is working on building this legacy. In 2020, the World Bank approved the Financial Inclusion and Entrepreneurship Scaling (FInES) Project as a successor to the FSTAP. The project seeks to further improve access to financial services for micro, small and medium enterprises. However, only 10 percent of Malawi's population has access to formal banking financial services, reflecting the high incidence of poverty, high degree of informality, and a high proportion of the population in rural areas (Bertelsmann Stiftung, 2022).

Malawi's banking sector comprises both local and foreign banks. There is generally fair treatment of foreign banks in Malawi although the banking sector is still young. Malawi is part of COMESA and SADC and its national payment system is linked with the COMESA Regional Payment System. Financial inclusion remains a problem as only 10% of the population has access to financial services.Malawi scored 0o.30 in the 2023 Africa Regional Integration Index, placing it as an average performer in SADC. It scored very low in macroeconomic and trade integration dimensions of the index.

Malawi has an active stock exchange, which ranks amongst the best performing in the region. However, the legal and regulatory framework for dual and cross listing in other national or regional stock market is still lacking. Malawi continue to progress significantly in strengthening and modernizing its national payment system infrastructure from project based initiatives such as the World Bank assisted Financial Sector Assistance Project, Malawi is implementing an Automated Transfer System (ATS), Central Securities Depositories and the National Switch.

A new National Payment System was launched in 2022. The payment system Act, 2016 provides for the operation, regulation and supervision of payment, clearing and settlement systems in Malawi. Malawi's financial sector is liberalized and banking sector is open to foreign banks. Currently, three foreign banks are in operation in Malawi. One major challenge in regional financial integration for Malawi is the slow progress towards macro convergence. For example, inflation is far above the regional threshold of 5 % at 28.6% in August 2023. Malawi is making significant preparations in terms of meeting the convergence criteria, which is a good ground for regional financial integration.

**In conjunction with the Reserve Bank of Malawi, the AfDB is implementing a Digitization, Financial Inclusion and Competitiveness Project to regional Financial Integration against the COVID-19 backdrop.** The expected outputs are: i) Increased Access to Digital Financial Services improved by Fostering an Environment Conducive to Mass Payment; ii) Full interoperability with all players in the ecosystem attained; iii) Competitiveness and Trade Facilitation Enhanced through digitalization; iv) Business environment and regulatory Frameworks improved for greater market access; v) Participation in AfCFTA increased.