CHAPTER 1

THE WORLD ECONOMIC OUTLOOK

1.1 Global Economic Outlook in 2012

1.1.1 Global Output

Sequel to major economic setbacks in the fourth quarter of 2011, the global economy continued to grow at very sluggish pace especially in the first half of 2012. Spillovers from the Euro area crisis affected the rest of Europe as they resulted in financial volatility in most economies. Growth in other advanced economies was also adversely affected by the euro crisis spillovers, especially through trade and financial channels, which exacerbated the effects of existing home grown difficulties. These factors in turn lowered commodity prices and weighed on activity in many commodity exporters. The April 2013 IMF World Economic Outlook (WEO) indicates that the global real economic activity expanded by 3.2 per cent in 2012 compared to 4.0 per cent recorded in 2011.Weak recovery continued in the advanced economies with output expanding by an annual average of 1.3 per cent in 2012 down from 1.6 per cent in the previous year. Emerging and developing economies, including Sub-Saharan Africa continued to stoke the engine of the world economy, growing on average by 5.1 per cent in 2012 despite this been a substantial slowdown from the pace of 7.5 per cent achieved in 2010, when output growth among the larger emerging economies such as Brazil, China and India, had been particularly robust. This was largely on account of the continued deceleration in demand from key advanced economies and heightened volatility in capital flows and commodity prices following the mild recession in the Europe and other advanced economies. Furthermore, a slackening of investment booms in some of the major emerging markets, as well as weakening of internal demand, also accounted for the sluggish growth in emerging and developing economies, especially during the first half of 2012.

Economic activities accelerated in the second half of 2012 with growth in global output hovering around 3 per cent in the third and fourth quarter; consequently improving the global growth annual average to 3.2 per cent (see table 1.1). The WEO indicates this was largely on account of increased capital flows in emerging market economies resulting in an overall increase in economic activities and hence growth. Increased inventory accumulation and stronger domestic demand dynamics in the U.S and Japan significantly contributed to an improvement of overall global output. However, global growth pace remained substantially below the pace of 5.3 per cent achieved in 2010 and the 3.9 per cent achieved in 2011.

TABLE 1.1: WORLD OUTPUT (ANNUAL PER CENTAGE CHANGE)

				Estimate	Projections
	2010	2011	2012	2013	2014
World Output	*5.3*	*3.9*	*3.2*	*3.5*	*4.0*
Advanced Economies	*3.2*	*1.6*	*1.2*	*1.4*	*2.2*
United States of America	*3.0*	*1.8*	*2.2*	*2.0*	*3.0*
Euro Area	*1.9*	*1.4*	*-0.6*	*-0.8*	*1.1*
United Kingdom	*2.1*	*0.9*	*0.2*	*0.7*	*1.5*
Japan	*4.4*	*-0.6*	*2.0*	*1.6*	*1.4*
Canada	*3.2*	*2.6*	*1.8*	*2.5*	*3.4*
Germany	*3.1*	*3.1*	*0.9*	*0.6*	*1.5*
Emerging Market and Developing Economies	*7.5*	*6.4*	*5.1*	*5.5*	*5.7*
Sub-Saharan Africa	*5.3*	*5.3*	*4.8*	*5.6*	*6.1*
Developing Asia	*9.7*	*8.1*	*6.6*	*7.1*	*7.3*
Middle East and North Africa	*4.9*	*4.0*	*4.8*	*5.6*	*6.1*

Source: IMF World Economic Outlook

1.1.2 Prices

According to the IMF's WEO index, there was an overall decline in commodity prices by about 9 per cent during 2012, with significant bouts of volatility experienced during the year. After peaking in the first quarter of the year, most commodity prices declined slightly during the second quarter in response to a downgrading in world growth forecasts, following the European Central Bank's (ECB) long-term refinancing. However, commodity prices picked up by about 12 per cent during the second half of the year owing to increase in global demand. Adverse weather conditions in most countries accounted for an increase in food prices during the year by about 10 per cent.

Total demand for oil grew by about one per cent over the year owing to increased energy needs in developing economies, which coupled with the geopolitical instability in North Africa and Western Asia, resulted in a small increase in oil prices. On aggregate, oil prices remained around US$ 105/bbl.

1.2 Global Economic Outlook for 2013 and Prospects for 2014

1.2.1 Real Growth

The IMF forecasts a continued gradual strengthening of global activity with output projected to reach 3.5 per cent in 2013 indicating a moderate upturn from the 3.2 per cent growth of 2012 and further reaching 4 per cent in 2014. Output is expected to remain sluggish in most advanced economies growing at an average of about 1.4 per cent in 2013. Fiscal consolidation, high unemployment and very weak consumer and business confidence will continue to weigh on activity in advanced economies in 2013. Growth is however expected to begin firming up in the course of the year and accordingly expand by about 2.2 per cent in 2014.

1.2.2 Prices

The general price is forecasted to decline across all main commodity groups, including oil, in 2013. The IMF WEO indicates that inflation pressure will remain generally under control in both the major advanced and emerging and developing economies mainly through food and fuel supplies that will contain upward pressure on prices of major commodities although employment rates are typically low, current account balances are falling, credit is buoyant and asset prices are high. Global inflation is projected to stay around 3.2 per cent during 2013 through 2014. Overall, commodity prices are projected to go down by 2 per cent with improving supply prospects for all main commodity sectors. Oil is expected to average US$102/bbl which is 3 per cent lower than the 2012, food prices are set to decline by more than 2 per cent on the assumption of good weather and an improved harvest. Fertilizer prices are also projected to go down by about 2.9 per cent and beverages by 12 per cent in response to abundant supply. In contrast, metal prices are expected to grow by about 3 per cent on account of high global demand.

1.3 International Trade Developments

Growth in world trade decelerated to about 3.8 per cent in 2012 from 6.1 per cent in 2011 along with weaker global output. This was essentially on account of the weakening of global demand, resulting mainly from stalling economic activity in Europe and feeble aggregate demand in the U.S and Japan. In the Euro area, imports marginally declined by less than 1 per cent after having increased by 4.8 per cent in 2011. Growth in exports on the other hand also decelerated to 2.8 per cent from 6.9 per cent in 2011. Similarly, growth in imports in North America declined to 3.1 per cent from 5.2 per cent in 2011. A weak rebound of about 0.8 per cent was attained on Japan's exports as the country was recovering from the 2011 natural disasters.

Smaller trade surpluses were attained in most of the East Asian economies as the deceleration in export growth was mostly less than that of imports. Overall, growth in exports in Asia declined to 3.4 per cent from 6.9 per cent in 2011 and growth in imports declined to 3.8 per cent from 18.3 per cent in 2011. In Sub-Saharan Africa, export volumes were expanding at average of 4.5 per cent during the first half of 2012 but were later subdued to 2.5 per cent in the third quarter in response to the weakness in global demand. According to the World Bank 2013 Global Economic Prospects, exports in Middle East and North Africa contracted at a huge pace of 36.4 per cent in the third quarter owing to the region's political developments.

As global economy is projected to remain weak in 2013 before picking up mildly in 2014, trade is also forecasted to continue drifting below the global trade historical average growth of 6.8 per cent in both developed and developing countries. Annual growth of 4.3 per cent is expected in 2013 and about 4.9 per cent in 2014.

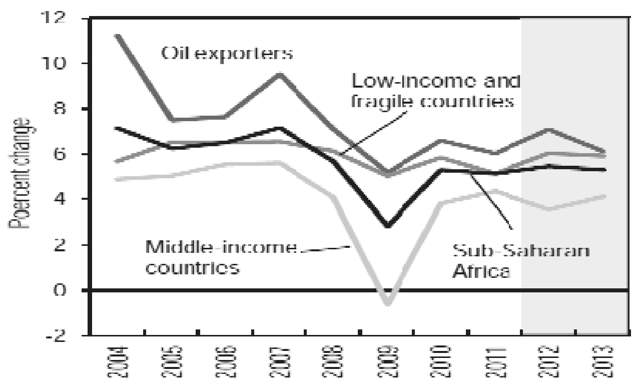
1.4 Regional economic outlook

1.4.1 Sub-Saharan Africa

Real output in the Sub-Saharan Africa (SSA) is estimated to have grown by 4.8 per cent in 2012, from 5.3 per cent in 2011. This slow down was largely attributed to middle-income economies whose real GDP growth slowed down due to their strong linkages to developed economies, particularly European countries. For instance in South Africa, growth in real output weakened to 2.5 per cent in 2012, from 3.5 per cent in 2011 due to weak global demand for its commodity exports, in addition to wage strikes in the mining sector. Strong growth of 7.1 per cent in 2012 was however, registered in oil-exporting countries, from 6.0 per cent in 2011. New production in Angola and high output levels in Chad explained the robust growth in SSA's oil-exporting countries in 2012. In the low-income economies of the SSA, real GDP growth remained relatively strong at 5.9 per cent in 2012 compared to 5.8 per cent in 2011.

Sub-Saharan Africa is expected to continue growing strongly at an annual average of 5.6 per cent in 2013 and 6.1 per cent in 2014 (Figure 1.1). Key drivers of this continued growth trajectory will include strong performance of oil-exporting countries, continued fiscal spending on infrastructure projects, and expanding economic ties with Asian economies. Growth in the Middle East and North Africa is projected to increase to 5.6 per cent 2013 owing to political transition in the Arab Spring aftermath. Overall growth is projected at 6.1 per cent in 2014.

FIGURE 1.1: SUB-SAHARAN REAL GDP GROWTH BY COUNTRY GROUP



Source: IMF, World Economic Outlook database

1.4.2 Advanced Economies

While supportive financial market environment and the turnaround of the housing market are expected to underpin firmer growth in the U.S, fiscal consolidation is projected to dampen its overall growth to around 2 per cent in 2013. The Euro area is expected to contract by -0.8 per cent in 2013 as it continues to face tail risks of the crisis. Japan, is expected to experience a deceleration in its growth from 2 per cent in 2012 to about 1.6 per cent in 2013 and further to 1.4 per cent in 2014. This will mainly be on account of increased tax measures on consumption and reduced government expenditure as post-earthquake reconstruction winds down.

1.4.3 Emerging and Developing Countries

Growth in emerging and developing economies is estimated to have grown by 5.1 per cent in 2012 down from 6.4 per cent recorded in 2011. Policy tightening in response to capacity constraints and concerns about the potential for deteriorating bank loan portfolios, weaker demand from advanced economies, and country-specific factors slowed GDP growth in emerging and developing economies.

Overall, growth is projected to remain relatively solid in emerging and developing economies who are set to expand at an average of 5.5 per cent in 2013 and 5.7 per cent in 2014. According to the 2013 IMF world Economic Outlook, improved macroeconomic conditions and demand from the advanced economies are projected to be the key drivers raising growth in most of these economies. Growth in Developing Asian economies is projected to pick up steadily to 7.1 per cent in 2013, led by an increase in infrastructure investments in China, as well as stronger growth of India's economy, whose real GDP is projected to grow to about 6 per cent in 2013.

1.4.4 Developing Asia and, Middle East and North African Economies

The IMF estimated real economic growth for developing Asia at 6.6 per cent in 2012 from 8.0 per cent recorded in 2011, as activity in China slowed down sharply owing to a tightening in credit conditions (in response to threats of real estate bubble), a return to a more sustainable pace of public investment, and weaker external demand. India's activity suffered from waning business confidence amid slow approvals for new projects, sluggish structural reforms, policy rate hikes designed to rein in inflation, and flagging external demand.

In the Middle East and North African (MENA) economies, real GDP is estimated to have increased to 5.2 per cent in 2012, from 3.5 per cent in 2011. The source of this growth was mainly oil-exporting countries, largely attributed to the recovery in the Libyan economy. This notwithstanding, activity in the oil importing economies of the MENA was held back by continued uncertainty associated with political and economic transitions in the aftermath of the Arab Spring and weak terms of trade.

Chapter 2

MACROECONOMIC PERFOMANCE IN 2012 AND PROSPECTS FOR 2013 AND 2014

2.1 Overall Economic Performance and Forecast

The 2012/13 financial year marked the second year of implementing the Malawi Growth and Development Strategy II (MGDS II), as an overarching operational medium term national development strategy for the period 2011-2016 formulated to attain the country's long term development aspirations.

During the period under review, the economy continued to experience challenges and policy bottlenecks arising from the 2011/12 financial year which had not yet tapered off as anticipated. Subsequently, to avert these challenges and bottlenecks, the Government developed and launched the Economic Recovery Plan (ERP), whose objective is to ensure rapid economic growth for poverty reduction. The 2012/13 financial year thus witnessed the first year of the implementation of the plan. The ERP identified areas for immediate, short and medium term intervention that should bring the economy back on its high growth trajectory aimed at reducing poverty. It also isolates sector projects that are expected to have an impact on foreign exchange generation, employment generation, reduced power outages, improved transport and Information Communication Technology (ICT).

Economic performance in 2012 slowed down, and real Gross Domestic Product (GDP) grew by 1.8 per cent compared to 3.8 per cent in 2011 (see Table 2.3 and Figure 2.1). The low level of GDP growth registered in 2012 was mainly on account of contractions in the Agriculture, Forestry and Fishing sector as well as the Manufacturing sector. The Agriculture, Forestry and Fishing sector contracted on account of a 67 per cent decline in tobacco output and a 7 per cent decline in maize output. The Manufacturing sector suffered from high input prices owing to the devaluation and general inflation as well fuel and foreign exchange shortages at the start of the year. Agro and tobacco processing also contracted in line with the lower agricultural output.

In 2013, the economy is forecasted to expand by 5.0 percent. Activity is expected to accelerate in the Agricultural, Forestry and Fishing and the Manufacturing sectors. In addition, other key sectors will continue to build on their growth stance attained in 2012, with Construction showing a robust increase in its growth rate up to 7.1 per cent in 2013 from 2.6 per cent in 2012.

Agricultural expansion is expected to mainly be driven by a rebound in tobacco and maize output as well as continued strong growth in the output of other crops. In other sectors, business prospects generally look good on account of an expected increase in disposable incomes of the households emanating from a better tobacco marketing season, improved efficiency in the utilities sector and resumption of major construction projects. The business prospects in 2013 are also higher given the improvement in the availability of foreign exchange and fuel.

GDP is projected to grow by 6.1 percent in 2014 given the reforms implemented in 2012 through the ERP and expectation that the macroeconomic environment will have stabilised. After the resumption of a stable environment, it is anticipated Malawi will return to its long-run growth trajectory and begin to reach the higher levels of growth experienced before 2010.

Table 2.1: GDP BY ACTIVITY AT CONSTANT PRICES (IN MK' MILLION)[1]

	Constant 2009 Prices (in K'million)					
Sector	2009	2010	2011	2012	2013*	2014*
Agriculture, forestry and fishing	265,825	276.204	294,634	287,912	304,393	324,216
Mining and quarrying	7,156	44,705	43,742	50,149	54,436	59,361
Manufacturing	90,477	92,176	94,151	92,893	98,646	103,952
Electricity, gas and water supply	11,738	12,288	12,810	13,110	13,615	14,265
Construction	24,385	28,091	27,512	28,226	30,226	32,052
Wholesale and retail trade	140,822	150,086	154,358	157,344	163,977	172,971
Transportationand storage	17,268	18,164	18,570	19,444	20,471	21,728
Accommodationand food services	15,939	17,170	17,184	17,644	18,452	19,730
Information and communication	30,969	33,313	34,747	37,126	40,041	43,848
Financial and insurance services	36,038	39,765	43,530	46,284	49,131	52,143
Real estate activities	64,689	71,766	73,076	75,745	77,777	81,721
Public administration and defense	28,573	30,452	29,860	31,516	33,110	35,002
GDP at constant market prices	**868,304**	**950,918**	**986,832**	**1,004,184**	**1,054,571**	**1,119,080**
GDP at current prices	**868,304**	**1,021,319**	**1,140,843**	**1,408,237**	**1,849,932**	**2,719,424**

Source: National Statistical Office (NSO) and Ministry of Economic Planning and Development (MEPD)

*Projections

Table 2.2: SECTORAL CONTRIBUTION TO GDP (IN PERCENTAGES)

	Sectoral Contribution to GDP					
Sector	2009	2010	2011	2012	2013	2014
Agriculture, forestry and fishing	30.6	29.0	29.9	28.7	28.9	29.0
Mining and quarrying	0.8	4.7	4.4	5.0	5.2	5.3
Manufacturing	10.4	9.7	9.5	9.3	9.4	9.3
Electricity, gas and water supply	1.4	1.3	1.3	1.3	1.3	1.3
Construction	2.8	3.0	2.8	2.8	2.9	2.9
Wholesale and retail trade	16.2	15.8	15.6	15.7	15.5	15.5
Transportation and storage	2.0	1.9	1.9	1.9	1.9	1.9
Accommodation and food services	1.8	1.8	1.7	1.8	1.7	1.8
Information and communication	3.6	3.5	3.5	3.7	3.8	3.9
Financial and insurance activities	4.2	4.2	4.4	4.6	4.7	4.7
Real estate activities	7.5	7.5	7.4	7.5	7.4	7.3
Public administration and defense	3.3	3.2	3.0	3.1	3.1	3.1

Source: NSO and MEPD

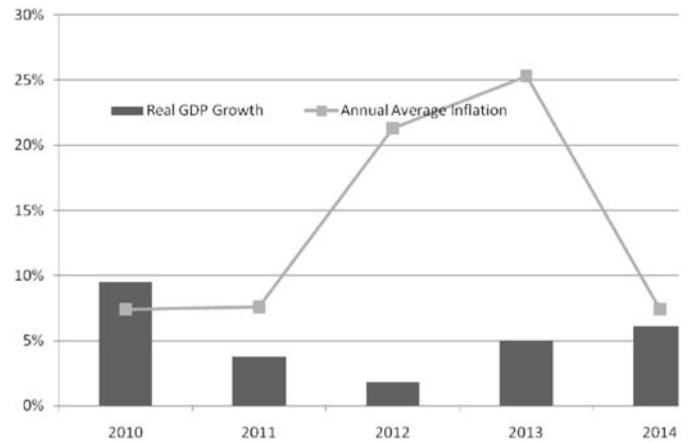
[1] Please note that the GDP numbers were rebased to use 2009 prices and thus past years figures are different from previous economic reports, which used 2007 base prices.

Table 2.3: ANNUAL PERCENTAGE GROWTH RATES (IN PERCENTAGES)

	Annual percentage growth rates				
Sector	2010	2011	2012	2013	2014
Agriculture, forestry and fishing	3.9	6.7	(2.3)	5.7	6.5
Mining and quarrying	524.8	(2.2)	14.6	8.5	9.0
Manufacturing	1.9	2.1	(1.3)	6.2	5.4
Electricity, gas and water supply	4.7	4.2	2.3	3.9	4.8
Construction	15.2	(2.1)	2.6	7.1	6.0
Wholesale and retail trade	6.6	2.8	1.9	4.2	5.5
Transportation and storage	5.2	2.2	4.7	5.3	6.1
Accommodation and food services	7.7	0.1	2.7	4.6	6.9
Information and communication	7.6	4.3	6.8	7.9	9.5
Financial and insurance activities	10.3	9.5	6.3	6.1	6.1
Real estate activities	10.9	1.8	3.7	2.7	5.1
Public administration and defense	6.6	(1.9)	5.5	5.1	5.7
GDP at constant 2009 prices	**9.5**	**3.8**	**1.8**	**5.0**	**6.1**
GDP at current prices	**17.6**	**11.7**	**23.4**	**31.5**	**17.6**

Source: NSO and MEPD

Figure 2.1 Real GDP Growth and Annual Average Inflation (2010-2014)



Source: MEPD

2.2 Real Sector Performance in 2012 and Prospects for 2013 and Beyond

2.2.1 Agriculture

The Agriculture sector, which also includes forestry and fisheries, registered a decline in 2012 with output falling by 2.3 percent, compared to a growth of 6.7 percent in 2011. The decline is mainly on account of a 67 per cent decline in tobacco production from 237.2 million kilograms in 2011 to 79.8 million kilograms in 2012. The low production resulted from a negative reaction by farmers to low prices offered at the auction floor market in 2011 which also resulted in producers switching to production of other crops such as cotton. The decrease is also a result of declines in maize production in 2011/12 from 3.9 million kilograms to 3.6 million kilograms in 2012/13; tea from 47.0 million kilograms in 2011 to 43.0 million kilograms in 2012 and in rice and sugarcane production. The forestry and logging sector grew by 5.3 per cent in 2012 and the fisheries sector grew by 5.1 per cent.

The performance of the Agriculture sector is expected to rebound in 2013 with output expanding by 5.7 per cent. This is mainly attributable to an estimated increase in the outputs of key crops such as tobacco, maize, sugarcane, tea, rice, and pulses. According to the 2012/13 second round of national crop estimates, maize production for 2013 is estimated at 3,680.26 metric tons, which represents a 1.6 per cent rise on the 3,623.92 metric tons in 2012.

Other cash crops are estimated to grow strongly in 2013. The estimations include: sugarcane by 1.8 per cent; tea by 5.9 per cent; rice by 19.3 per cent; and pulses by 14.5 per cent. Cotton production, however, is estimated to contract by 26.4 per cent as a result of a significant decline in global prices in the preceding season. The growth in the forestry subsector in 2013 is expected to continue albeit at a decelerating rate from 5.3 per cent in 2012 to 2.7 in 2013.

The forecast for tobacco production in 2013 is estimated at 156.1 million kilograms, which is a 95.6 per cent increase on the 2012 tobacco production of 79.8 million kilograms. It is expected that production will increase and foreign exchange earnings will be boosted, mainly due to the better prices that farmers were offered last season, in part owing to the devaluation of the Malawi Kwacha. Production is also being boosted by a series of reforms that were made in the tobacco sector. These include introduction of an Integrated Production System (IPS), whereby 80 percent of the crop will be sold on contract with the remaining 20 percent sold on auction has been introduced. There has also been a reversal of surrender requirements for tobacco dollars, which will now allow tobacco proceeds to go to commercial banks.

In 2014, the Agriculture sector is projected to grow further by 6.5 per cent. Tobacco output is expected to remain buoyant given the high tobacco prices currently being witnessed at the auction floors in 2013 and depreciation of the Kwacha should further encourage production in 2014. The production and marketing up-scaling programme for crops such as cotton, rice, groundnuts, pulses and legumes by the Government is expected to bear positive fruits in 2014.

2.2.2 Mining and Quarrying

The Mining & Quarrying sector recovered in 2012 with output growing by 14.6 percent in 2012 compared to a contraction of 2.2 per cent in 2011. The recovery was the result of the easing of challenges such as shortage of foreign exchange and fuel scarcity, and also in response to a recovery of construction activities such as road construction. There were increases in production estimate for coal (14 per cent), lime (34 per cent) and uranium (25 per cent).

The sector is expected to continue growing at 8.5 per cent in 2013 following the recovery in 2012. This is a result of the continued easing of challenges and growth in uranium output, estimated at 21 per cent.

In 2014, the prospects for growth are expected to continue with the sector expanding by 9.0 per cent. This is dependent on a stable macroeconomic environment with a steady exchange rate, low interest rates and a declining inflation rate.

2.2.3 Manufacturing

The Manufacturing sector continued to face challenges in 2012 and output in the sector contracted by 1.3 per cent compared to a marginal growth of 2.1 per cent in 2011. The decline is a reflection of challenges, mainly experienced in the first half of the year, including scarcity of foreign exchange, fuel shortages, high interest rates and power interruptions as well as reduced uptake of finished products due to depressed disposable incomes and increased prices arising from the devaluation in 2012.

In the second half of the year the sector continued to experience difficulties to import raw materials. This is due to some continued foreign exchange rationing, backlogs and lack of supplier credit guarantees. In addition, production lines continued to be negatively affected by intermittent power supply and increasing prices of diesel for power generators. Net importing manufacturers were also affected by increased cost of production due to the lack of foreign exchange and devaluation. Examples include the grain milling, bakery, beer, fertilizer and plastics subsectors, which were affected by a steep decline in imports of their raw materials.

The Manufacturing sector is estimated to recover with growth of 6.2 per cent in 2013 from a 1.3 per cent contraction in 2012. This is attributable to increased production estimates in several sub sectors such as the processing of tobacco, tea and sugar (aligned to the increased production of these crops in the agriculture sector); soaps and detergents; beer production; dairy products; flour products; and wood products, amongst others.

In 2014, the sector is forecast to grow by 5.4 per cent. This is mainly on assumption of an improved and stable macroeconomic environment which should result in increased growth levels for most sub sectors.

2.2.4 Electricity, Gas and Water

The Utilities sector grew by 2.3 per cent in 2012 compared to 4.2 per cent in 2011. This mainly emanated from increases in sales of gas and water.

The sector is expected to grow by 3.9 per cent in 2013 compared to 2.3 per cent in 2012, partly due to increases in sales of electricity and water. It is expected that there will be a considerable growth in both household and industry supply of electricity in 2013. This is as a result of the completion of the Kapichila II installation project with the procurement, installation and commissioning of two turbines having a combined capacity of 64 MW. Gas production is also expected to increase.

Growth of the sector is anticipated to continue accelerating to 4.8 per cent in 2014. This is on account of rehabilitation of infrastructure, increased interconnections, commission of new projects and improvements in efficiencies.

2.2.5 Construction

The Construction sector continued to face difficulties in 2012, although output grew by 2.6 per cent compared to a contraction of 2.1 per cent in 2011. Despite registering growth, the sector continued to face several challenges which included depreciation of the Kwacha, rising inflation, and increasing labour costs.

The sector is forecast to expand by 7.1 per cent 2013. This is due to the easing of challenges such as lack of foreign exchange and unstable fuel supply which greatly disrupted construction activities in first half of 2012. In particular, the construction of the Nacala railway corridor in Malawi represents a major boost to the industry.

In 2014, the sector is expected to continue growing robustly, by 6.0 per cent. Major projects in the pipeline include the prospects for construction projects in the road, hotels, mining and energy sectors, as outlined in the Economic Recovery Plan.

2.2.6 Wholesale and Retail

The Wholesale & Retail Trade sector grew by 1.9 per cent in 2012 compared to a growth of 2.8 per cent in 2011. The sector had not been able to recover quickly from the challenges of foreign exchange and fuel scarcity faced in the first half of 2012. This has been exacerbated by a reduction in purchases by buyers in the country due to depressed disposable incomes.

The sector is expected to continue growing by 4.2 per cent in 2013. Major retail outlets are expected to increase their turnover as challenges related to foreign exchange, the depreciation of the Kwacha and fuel shortages are easing across the country. This is expected to be bolstered by an increase in purchasing power by buyers following a good harvesting season. The volumes on fuel products are also expected to rise with an anticipated steady supply in 2013 relative to 2012.

In 2014, the sector is expected to grow by a 5.5 per cent in expectation of an improvement and stability of the macroeconomic situation.

2.2.7 Transportation and Storage Services

The Transportation & Storage sector grew by 4.7 per cent in 2012, compared to 2.2 per cent in 2011. This is due to the easing of fuel disruptions and foreign exchange scarcity for procurement of spare parts in the second half of 2012, compared to the situation in 2011. This has significantly increased the amount of freight and number of passengers on rail and road transport.

The sector is estimated to grow by 5.3 per cent in 2013. Growth is largely being driven by increased rail transport, following Central East African Railways (CEAR's) rehabilitation of the Nkaya-Nayuchi-Cuamba railway line.

In 2014, the sector is expected to grow 6.1 per cent. This is due to expected growth in all the subsectors as the macroeconomic environment improves and stabilises. Other factors include increased freight and passengers on the Nkaya-Nayuchi-Cuamba railway line and the expected increased activity by Air Malawi and other airlines.

2.2.8 Accommodation and Food Services

The Accommodation and Food Services sector grew by 2.7 per cent in 2012, compared to a minimal growth of 0.1 per cent in 2011. This is on account of increased hotel room occupancy, resulting from economic recovery and increased availability of fuel, especially in the latter part of 2012.

The sector is predicted to grow by 4.6 per cent in 2013. This is on account of: increased hotel room occupancy with conference trade picking up due to the upcoming general elections; easing of fuel problems; and an anticipated increase in airline activities, which should increase international tourists and business travellers.

In 2014 the sector is expected to continue growing by 6.9 per cent with reasons similar to those cited above.

2.2.9 Information and Communication

The Information and Communication sector performed well in 2012 with a growth of 11.8 per cent. This is an increase from 6.5 per cent growth registered in 2011. This growth emanates from an increase in subscribers and coverage of services by a number of mobile phone and internet service providers. In addition, there was an expansion of promotion activities by mobile phone operators.

The sector is projected to perform well in 2013 with a growth of 7.9 per cent. This is an increase from 6.8 per cent growth registered in 2012. This growth emanates from an increase in subscribers and coverage of services by a number of mobile phone and internet service providers. More so, it is expected that the upcoming general elections will boost the sector even further.

In 2014, the sector is expected to continue growing at a pace of 9.5 per cent.

2.2.10 Financial and Insurance Services

The Financial & Insurance Services sector grew by 6.3 per cent in 2012, from 9.5 per cent in 2011. Domestic credit increased as a result of new products on the market (including mobile banking). The insurance sector also grew significantly due to the expansion of insurance products on offer.

The sector is estimated to grow by 6.1 per cent in 2013, from 6.3 per cent in 2012. On the one hand, private domestic credit is estimated to decline as a result of high borrowing costs and tightening of liquidity in the banking system. On the other hand, the financial sector should benefit from a rebound in disposable incomes following the harvest as well as the inflow of foreign currency from tobacco proceeds to the commercial banks. The insurance sector is estimated to grow with increased premiums.

Growth is expected to continue in 2014, with an expected growth rate of 6.1 per cent.

2.2.11 Real Estate

The Real Estate sector increased by 3.7 per cent in 2012 compared to 1.8 per cent in 2011. This is due to a rebound in the economy in the latter half of 2012 following the low output in 2011 and the first half of the year. It was also noted that several real estate projects were resumed and completed by end 2012.

The sector is expected to grow by 2.7 per cent in 2013 compared to 3.7 per cent in 2012.

In 2014, the prospects for the real estate sector are positive with an expected growth of 5.1 per cent. This is largely dependent on interest rates falling and the exchange rate stabilising.

2.2.12 Public Administration and Defence

Public Administration and Defence grew by 5.5 per cent in 2012 compared to a decline of 1.9 per cent in 2011. This was due to an increase in Government employment levels.

The sector is expected to continue to growing at a similar pace in 2013 and 2014. In 2013, it is forecast that the sector will grow by 5.1 per cent. It is expected that the sector will grow by 5.7 per cent in 2014.

2.3 Prices

Table 2.2 : INFLATION RATES, 2010 - 2014

YEAR	2010	2011	2012	2013*	2014*
Inflation rate (end of period), percent	7.2	9.8	34.6	14.2	7.0
Inflation rate (annual average), percent	7.4	7.6	21.3	25.3	7.4

Source: NSO and MEPD

* Projections

The annual average inflation rate for 2012 was 21.3 percent compared to 7.6 percent in 2011. Inflation rose sharply in 2012 largely on account of the devaluation of the Kwacha and the subsequent depreciation. The year 2012 closed with the Kwacha trading at a rate of K326.7=US$1 on 31st December 2012, compared with the fixed rate of K165=US$1 prevailing at the start of the year.

This significantly increased the price of imported commodities as well as inputs to domestically produced final goods. Moreover, the reintroduction of the Automatic Fuel Price Adjustment Mechanism increased the pump-price of petroleum, which increased the cost of transport and distribution of goods across the country. Water and electricity tariffs were also liberalised, further pushing up the cost of living and food prices rose on account of the poor maize harvest realised in 2012.

Inflation rates are forecast to come down significantly over the course of 2013, finishing the year at a year-on-year rate of 14.2 per cent, from 34.6 per cent recorded in December 2012. The main driving forces behind this stabilisation of inflation are expected to be: strong agricultural growth of 5.4 per cent, which will restrain increases in food prices. The Kwacha is set to stabilise on account of increased inflows of foreign exchange from tobacco proceeds as well as increased grants and aid flows. This should restrain the growth in the price of imported commodities as well as the price of fuel. Finally, Commodity Market Review forecasts show that the price of key international commodities including agricultural materials, manufactures, fuel and fertilisers are all set to be relatively stable or will fall slightly, thus helping restrain inflation. Annual average inflation however, will remain high at 25.3 per cent on account of high year-on-year inflation rates experienced at the start of the year, mainly attributable to the rise in the price level that occurred in 2012 due to the above factors.

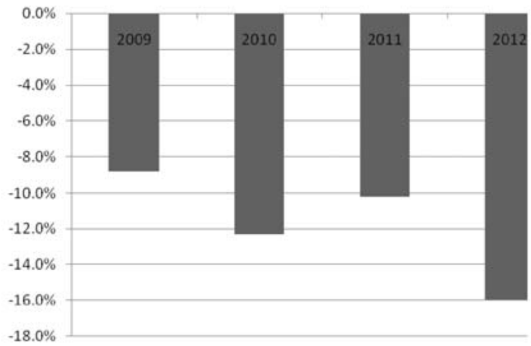
By 2014, inflation is expected to continue to fall, inflation returning once again to single digits. Annual average inflation is forecast to be 7.4 percent with end-of-period inflation slightly lower at 7.0 percent. The main driving forces behind this will again be strong agricultural growth of 6.3 per cent, which will keep food prices down. Moreover a stable Kwacha and stable (or falling) prices of key international commodities, will restrain the growth in the price of imports and fuel.

2.4 Balance of Payments

Malawi experienced a trade deficit in 2012, in line with the level of deficit experienced in 2011. Malawi exported goods worth US$1.47 billion in 2012, but imports were registered at US$2.59 billion, thus leading to a trade deficit of US$1.1 billion. Exports of goods were marginally down on 2011 levels in Dollar falling from US$1.54 billion in 2011 to US$1.47 billion. This was mainly attributable to lower international commodity prices received, as can be seen in Table 2.6. This was offset however by an increase in service exports from US$98.4 million to US$114.5 million.

The Current Account Balance worsened in Dollar terms in 2012, moving from a deficit of US$742.8 million to a deficit of US$902.5 million. This was mainly on account of a fall in Current Transfer Receipts from US$625.8 million to US$462.7 million. As can be seen in Figure 2.2 below, this means that the Current Account Balance as a percentage of GDP worsened from negative 10.2 per cent in 2011 to negative 16.0 percent in 2012.

Figure 2.2: Current Account Balance as a Percentage of GDP



Source: MEPD

The surplus achieved on both the Capital Account and the Financial Account was lower in 2012 than that registered in 2011. In 2012, the Capital Account surplus was US$319.9 million compared with US611.7 million in 2011. This was attributable to lower Capital Account receipts.

The Financial Account registered a surplus of US$196.7 million in 2012 compared with US$454.9 million the previous year. This is mainly attributable to lower levels of Other Investment into the country.

TABLE 2.4: BALANCE OF PAYMENTS (US$ million)

	2009	2010	2011	2012
Current Account Balance (Net)	**(543.6)**	**(833.5)**	**(742.8)**	**(902.5)**
Trade Balance (Net)	**(740.0)**	**(1,148.6)**	**(1,110.9)**	**(1,122.3)**
Exports of Goods, fob	1268.4	1,139.2	1,539.2	1,467.4
Imports of Goods, fob	2,008.3	2,287.8	2,650.1	2,589.7
Services (Net)	**(150.1)**	**(135.5)**	**(137.0)**	**(117.4)**
Exports of Services	79.1	82.7	98.4	114.5
Imports of Services	(229.2)	(218.2)	(235.4)	(231.9)
Income (Net)	**(122.2)**	**(190.5)**	**(106.7)**	**(111.3)**
Income Receipts	0.4	1.8	2.4	2.9
Income Payments	(122.5)	(192.3)	(109.1)	(114.2)
Current Transfers (Net)	**468.6**	**641.1**	**611.7**	**448.5**
Current Transfers Receipts	476.8	651.7	625.8	462.7
Current Transfers Payments	243.7	251.5	266.0	267.4
Capital Account (Net)	**408.7**	**710.2**	**630.9**	**319.9**
Current Account Receipts	408.8	710.2	631.0	320.1
Current Account Payments	(0.1)	(0.1)	(0.1)	(0.2)
Financial Account (Net)	**194.1**	**17.0**	**454.9**	**196.7**
Foreign Direct Investment Abroad	(1.3)	(42.3)	(49.6)	(49.8)
Foreign Direct Investment in Malawi	49.1	97.0	128.8	129.5
Portfolio Investment Assets	0.1	(0.1)	(0.1)	(0.1)
Portfolio Investment Liabilities	(0.3)	1.0	1.1	1.1

Other Investment Assets	**39.4**	**35.5**	**28.8**	**14.2**
Banks	28.1	18.7	17.4	(9.3)
Other Sectors	11.4	16.8	11.4	23.5
Other Investment Liabilities	91.6	132.1	294.5	155.4
Monetary Authorities	87.3	19.3	(0.8)	45.3
General Government	85.8	64.5	181.8	89.8
Banks	(42.6)	(34.7)	(15.3)	(1.8)
Other Sectors	(38.9)	83.0	128.8	22.1
Net Errors and Omissions	**(59.2)**	**106.4**	**(342.9)**	**385.9**
Reserves and Related Items	**91.8**	**(135.4)**	**108.7**	**(25.3)**

Source: NSO

TABLE 2.5: BALANCE OF PAYMENTS (K' MILLION)

	2009	2010	2011	2012
Current Account Balance (Net)	**(76,743.8)**	**(125,432.0)**	**(116,275.5)**	**(224,827.7)**
Trade Balance (Net)	**(104,460.7)**	**(172,845.3)**	**(173,884.2)**	**(279,573.4)**
Exports of Goods, fob	179,052.3	171,441.0	240,931.4	365,537.5
Imports of Goods, fob	283,513.0	344,286.3	414,815.6	645,110.9
Services (Net)	**(21,186.3)**	**(20,394.7)**	**(21,442.1)**	**(29,253.4)**
Exports of Services	11,165.2	12,440.0	15,406.1	28,518.2
Imports of Services	32,351.4	32,834.7	36,848.2	57,771.6
Income (Net)	**(17,246.8)**	**(28,666.2)**	**(16,703.4)**	**(27,715.7)**
Income Receipts	50.5	268.2	376.3	725.5
Income Payments	17,297.4	17,934.3	17,079.6	28,441.2
Current Transfers (Net)	**66,150.0**	**96,474.2**	**95,754.2**	**111,714.8**
Current Transfers Receipts	67,309.4	98,067.8	97,951.8	115,256.6
Current Transfers Payments	1,159.4	1,593.6	2,197.5	3,541.8
Capital Account (Net)	**57,691.6**	**106,852.7**	**98,746.8**	**79,694.6**
Current Account Receipts	57,708.6	106,870.7	98,770.2	79,732.2
Current Account Payments	16.9	18.0	23.5	37.5
Financial Account (Net)	**14,443.4**	**22,941.2**	**54,183.8**	**55,315.7**
Foreign Direct Investment Abroad	(187.8)	6,365.6	7,756.2	12,409.9
Foreign Direct Investment in Malawi	6,935.7	14,598.7	20,160.9	32,257.4
Portfolio Investment Assets	14.1	(15.0)	(17.8)	(28.5)
Portfolio Investment Liabilities	(38.1)	149.0	167.6	268.2
Other Investment Assets	5,565.1	5,335.5	4,511.4	3,545.2
Banks	3,958.6	2,814.8	2,723.2	(2,304.3)
Other Sectors	1,606.5	2,520.7	1,788.2	5,849.4
Other Investment Liabilities	12,937.3	19,879.5	46,105.1	38,716.6
Monetary Authorities	12,324.1	2,900.9	(121.5)	11,239.1
General Government	12,107.7	9,706.6	28,463.5	22,375.6
Banks	(6,018.5)	(5,222.9)	(2,392.8)	(441.2)
Other Sectors	(5,476.0)	12,494.9	20,155.9	5,489.1
Net Errors and Omissions	**(8,354.7)**	**16,018.5**	**(53,672.9)**	**96,122.3**
Reserves and Related Items	**12,963.6**	**(20,380.4)**	**17,017.8**	**(6,304.9)_**

Source: NSO

In Dollar terms, international commodity prices fell in 2012, which hurt the price received for Malawian exports. For example, the price of tobacco fell from

US$3.55 to US$3.51 per kg, the price of tea fell from US$1.88 to US$1.68 and the price of coffee fell from US$4.25 per kg to US$3.63 per KG. Cotton prices were worst hit falling from US2.75 per kg to just US$1.30, mainly on account of oversupply of the product from Chinese markets as well as lower demand for imported garments given the subdued state of Western economies. Uranium prices were relatively stable at US$90.98 per kg, only slightly down on the year before. In Kwacha terms however, agricultural products received higher prices in 2012 on account of the devaluation.

Table 2.6: Export Prices of Traditional Commodities (In US$)

	2009	2010	2011	2012
Tobacco	4.12	3.96	3.55	3.51
Tea	1.48	1.49	1.88	1.68
Sugar	0.62	0.57	0.78	0.44
Cotton	0.69	1.22	2.75	1.30
Rice	0.32	0.30	0.76	0.52
Coffee	2.00	3.30	4.25	3.63
Pulses	0.57	0.45	0.48	0.51
Uranium	122.13	120.32	92.63	90.98

Source: NSO and MEPD

Table 2.7: Export Prices of Traditional Commodities (In Kwacha)

	2009	2010	2011	2012
Tobacco	580.50	595.93	556.19	860.52
Tea	209.04	224.41	294.92	381.09
Sugar	87.16	85.20	122.14	109.98
Cotton	97.66	183.88	430.40	365.24
Rice	45.40	45.15	118.38	133.12
Coffee	282.00	496.89	665.48	1,002.59
Pulses	81.03	67.74	75.48	135.91
Uranium	17,219.99	18,106.38	14,499.50	21,670.82

Source: NSO and MEPD

2.5 Fiscal Performance

Beginning in the 2012/13 financial year, fiscal policy was deliberately aimed at complementing monetary policy in order to restore macroeconomic balance. This followed the economic reforms undertaken since May 2012, aimed at eliminating the severe external disequilibrium experienced in 2011/12 as evidenced by foreign exchange scarcity, which in turn affected the importation of critical commodities including fuel, pharmaceuticals, and raw materials for the manufacturing industry.

Despite these challenges, fiscal performance of the Central Government Budget Operations for the 2012/13 financial year was on track compared to the previous year, owing to a number of factors including: resuscitation and increased production in the manufacturing industries following the availability of foreign exchange and fuel; increased budget support from the international community following the restoration of donor confidence; and a general pickup in economic activities particularly towards the end of the year. Consequently, there was a significant reduction in the overall fiscal deficit to 1.5 percent of GDP in 2012/13 from 8.3 percent in the previous year. Further, a domestic repayment equivalent to 1.5 percent of GDP was made within the year. This also resulted in most of the fiscal targets under the Extended Credit Facility (ECF) with the International Monetary Fund (IMF) being on track.

Total revenues and grants increased to 38.3 percent of GDP in 2012/13 from 26.4 percent in the previous year, largely on account of exchange rate adjustment as well as resumption of budget support. Domestic revenue collection was, therefore, higher for 2012/13 at 23.5 percent of GDP from 22.0 percent in 2011/12. Going forward, total revenues and grants are expected to increase further to 42.0 percent of the GDP as macroeconomic fundamentals become relatively stable.

Total expenditure increased by 5.1 percentage points from 34.7 percent of GDP in the previous financial year on account of devaluation of the Kwacha, which necessitated a subsequent upsurge in the cost of farm inputs, interest rate payments and up-scaling of social support programmes. Expenditure is expected to increase further in 2013/14 to 44.4 percent of GDP, mainly due to the elections and cost of the Farm Input Subsidy Programme.

Going forward, tightening of the fiscal policy will continue with the aim of consolidating the gains from the economic reforms that the Government embarked on in 2012. The fiscal anchor, therefore, will continue to be No Net Domestic Financing (NNDF) with a repayment of 0.5 percent of GDP to demonstrate further commitment to fiscal prudence. This will ensure that the Government's operations do not contribute to inflation and crowding out of the private sector.

2.6 Monetary Policy Developments

In 2012/13 fiscal year, the monetary policy stance was to restore macroeconomic and financial system stability in order to preserve investors' confidence. As a result, in a bid to restrain inflationary pressures, the main thrust of the monetary policy was consistently tight in the period under review. The Reserve Bank of Malawi (RBM) raised the base bank rate to 21 percent in July 2012 (representing a 500 basis point raise) which was later adjusted upwards to 25 percent in December 2012 (representing a 400 basis point raise) as inflationary pressures rose up during the year. As a result, money supply growth declined from an average year-on-year growth of 35.7 per cent in 2011 to 22.9 per cent in 2012. This level was within the nominal GDP growth of 23.4 per cent for 2012. Subsequently, the year on year headline inflation, although still high, eased to 36.4 per cent and 35.8 per cent in March and April 2013, respectively. Following the flotation of the exchange rate, the local currency continued to depreciate against major trading currencies. As of the end-of-April the Kwacha had depreciated by 45.5 per cent against the US Dollar with a mid-rate of K397. In May 2013, however, the Kwacha began to appreciate against the US Dollar and other major trading currencies, in part owing to the inflow of foreign exchange from tobacco proceeds.

TABLE 2.8: SELECTED MONETARY POLICY INDICATORS

	2009	2010	2011	2012	2013*
MONEY AND CREDIT					
(percentage change)					
Money and Quasi Money	23.9	17.8	35.7	22.9	25.9
Net Foreign Assets	(15.5)	13.0	(7.9)	9.2	n/a
Net Domestic Assets	39.5	4.9	43.6	13.8	n/a
Credit to the Government	19.4	(11.8)	19.7	0.0	n/a
Credit to the rest of the world	19.3	15.4	12.8	14.1	n/a

Source: Reserve Bank of Malawi

*Projection

Chapter 3

AGRICULTURE AND NATURAL RESOURCES

3.1 Overview

This chapter reviews performance of the Agriculture and Natural Resources sector for the 2012/13 fiscal year. The chapter is divided into three sections namely, Agriculture sector, Fisheries sector and Forestry sector.

3.2 Agriculture Sector

This section evaluates performance of the Agriculture sector for the 2012/13 fiscal year, including the following: the 2012/2013 Weather; Crop and Livestock production; National Food Security; Fertiliser Subsidy Programme; Agriculture Sector Wide Approach (ASWAp) and the initiatives that are being undertaken in the sector under the country's Economic Recovery Plan (ERP).

3.2.1 2012/2013 Weather

The Department of Climate Change and Meteorological Services issued the 2012/13 Seasonal Weather Forecast on 31st August 2012. At that time Malawi was expected to experience normal to above normal rainfall amounts from October 2012 to March 2013. The commencement of the season, however, generally delayed in most parts of the country as compared to same time in the previous year. Apart from the delays, the rainfall was not evenly distributed in some areas and only became evenly distributed in mid December 2012.

On the one hand, high intensity rainfall amounts were experienced from January to March 2013 such that floods were experienced in flood prone areas of Nsanje, Chikhwawa, Phalombe, Zomba, Mangochi, Nkhata Bay, Salima and most recently Karonga. On the other hand, localised dry spells were experienced between mid February and mid March 2013. The dry spells affected some parts of Rumphi, Mzimba, Kasungu, Salima and Dedza.

Cumulative rainfall shows that Northern and Central Regions received less rainfall this season as compared to same period last season. The Southern region, in contrast, generally received more rain this season compared to the same period last season.

3.2.2 Crop Production

According to the second round national crop estimates, maize production for 2013 is estimated at 3,680,263 metric tons from 3,623,924 metric tons representing a 1.6 per cent increase over the final round in 2012. The marginal increase is attributed to late onset of rainfall and the dry spells experienced in some parts of the country. The forecast for tobacco production indicates an increase from 79,822 metric tons in 2012 to 156,107 metric tons in 2013. Table 3.1, below gives a summary of production figures in metric tons for major crops.

TABLE 3.1: SIX YEAR NATIONAL PRODUCTION IN METRIC TONS

CROPS	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013[1]
Maize	2,777,438	3,767,408	3,419,409	3,895,181	3,623,924	3,680,263
Rice	114,885	137,130	110,106	117,733	160,405	131,719
Groundnuts	243,215	293,948	297,487	325,215	368,801	401,335
Tobacco[2]	160,238	208,154	172,972	237,171	79,822	156,107
Cotton	76,761	72,664	29,165	52,546	221,198	162,791
Wheat	2,386	2,811	2,341	1,850	1,901	1,795
Sorghum	61,999	60,025	53,932	73,330	67,709	72,741
Millet	31,869	26,866	24,495	32,911	33,198	41,890
Pulses	387,347	501,376	470,489	531,967	581,393	665,876
Cassava	3,491,183	3,874,705	4,000,986	4,316,373	4,645,218	4,831,281
S/Potato	2,320,696	2,730,965	2,897,888	928,941	3,572,337	3,949,446

Source: Ministry of Agriculture and Food Security

3.2.3 National Food Security

During the period under review, the country experienced some food shortages in some areas despite recording a national maize surplus of around 0.5 million metric tons after the 2012 harvest. According to the Ministry of Agriculture and Food Security (MoAFS) Surveillance System, the most affected areas were in the Southern and Central part of the country due to the prolonged dry spells and erratic rainfall those areas experienced in the 2011/2012 season. The Malawi Vulnerability Assessment Committee (MVAC) estimated that close to two million (2,000,000) people, as from the sixteen districts were in need of food aid.

In April, 2013 the MoAFS field reports indicated that the proportion of farm families without food from their own production was at 12 per cent, an increase of 5 per cent points from 7 per cent recorded the same time in the previous year.

At regional level, the Southern region registered more farming households without food from their own production at 14 per cent. This is slightly higher than the 9 per cent registered same time last year. The Central region registered 11 per cent of the farming households with no food from their own production higher than the 6 per cent registered same period last year. 9 per cent of the farm families were reported to have no food from their own production from the Northern region compared to 3 per cent same time the previous year (MVAC Report). The food situation outlook for the year is promising as most households have started harvesting the 2012/2013 crop.

Malawi has recorded food surpluses for the past six years as indicated in the Table 3.2 below.

[1] Figures for 2012/13 are based on the second round estimates
[2] Tobacco estimates for 2010/2011 onwards are based on TCC data which captures both smallholder and estate production.

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

	Season							
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Surplus	0.5	1.3	0.5	1.3	0.8	1.1	0.5	0.56

Source: Ministry of Agriculture and Food Security

3.2.4 Livestock Production

On livestock, increases have been registered in almost in all major livestock species. This increase is attributed to good animal husbandry and management by both smallholder and commercial farmers. Table 3.3 below shows livestock estimates in 2012/2013 compared to the final estimates in previous year.

TABLE 3.3: LIVESTOCK CENSUS

Animal Class	Third Round Livestock Production Estimates 2011/2012	First Round Livestock Production Estimates 2012/2013	% Change
All cattle	1,155,300	1,220,734	*5.36*
Beef cattle	1,100,024	1,161,758	*5.31*
Dairy cattle	55,276	58,976	*6.27*
Goats	4,845,318	5,180,785	*6.48*
Sheep	239,377	254,891	*6.09*
Pigs	2,312,524	2,711,221	*14.71*
All chickens	57,840,385	61,577,432	*6.07*
Indigenous chickens	24,173,846	26,921,960	*10.21*
Broilers	27,437,766	28,063,678	*2.23*
Layers	5,449,368	5,812,141	*6.24*
Black australorp	779,405	779,653	*0.03*

Source: Ministry of Agriculture and Food Security

3.2.5 Farm Input Subsidy Programme

The Government of Malawi through the MoAFS implemented the Farm Input Subsidy Programme (FISP) for the eighth season running on maize fertilizers, maize and legume seeds in the 2012/2013 crop season. This aimed at making seeds and fertilizers available to all poor resource smallholder farmers at affordable prices as one way of improving crop productivity hence increasing food security at both household and national levels.

During the 2012/2013 FISP, 154,400 metric tons of fertilizers were subsidized, constituting 77,200 metric tons of NPK and 77,200 metric tonnes of Urea. Farmers got two bags (one for Urea and the other one NPK) at a price of MK500.00 per 50kg bag through ADMARC and Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM). About 8,000 metric tons and 3,000 metric tons of maize and legume seeds (groundnuts, beans, soybeans and pigeon peas), respectively, was subsidised. In addition, Government included maize storage pesticides on the package of the farm inputs subsidies.

3.2.6 Agriculture Sector Wide Approach (ASWAp)

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

The ASWAp is expected to operationalise the MGDS II in agricultural related areas such as food security, irrigation and disaster risk management. The ASWAp has three focus areas namely: (*a*) food security and risk management; (*b*) commercial agriculture, agro-processing and market development; and (*c*) sustainable management of natural resources. ASWAp has two support services namely (i) technology development and dissemination; (ii) capacity building and institutional strengthening; and also has enshrined cross-cutting issues such as HIV and AIDS and gender.

During the 2012/2013 season, ASWAp has institutionalized operations of a Sector Working Group (SWG) and Technical Working Groups (TWGs). There are seven technical working groups namely: Food Security and Risk management; Commercial Agriculture, Agro processing and market development; Sustainable Land and Water Management; Institutional Strengthening and Capacity Building; Technology Generation and Dissemination; Monitoring and Evaluation; and Cross Cutting Issues (Gender and HIV/AIDS). The main objective of TWGs is to ensure that the SWG is effective in terms of its operations and deliverables. The TWGs provide technical support, guidance and back-up in the implementation, monitoring and reporting of the relevant functional area of the sector. The TWGs work with Task Forces which are set up under them as and when it is necessary to deal with specific issues identified under each functional area.

3.2.7 Economic Recovery Plan

The country developed an Economic Recovery Plan to rejuvenate the ailing economy. The plan identified the agricultural sector as one of the sectors that would bring quick gains and turn round the economic performance of the country in the medium term. As such the MoAFS undertook a number of reforms and initiatives. The reforms included the introduction of Integrated Production System (IPS) in the tobacco industry and reviewing some regulations in the sector. It also undertook projects to enhance production and value addition on cotton under the cotton up scaling programme.

To diversify the export base and improve economic livelihood of the rural population, the sector undertook a programme to enhance production of pulses under the Presidential Initiative on Legume Production. Under this project, the Ministry distributed about 1,809 mt of legume seeds to the farming communities. It also engaged legume seed multipliers to improve seed availability in the following season.

Also included under the ERP is the dairy production. The Ministry has to date acquired and distributed 50 dairy cows to farmers across the country. It has also produced 103 dairy crosses. The objective is to increase milk production from the current 58,568mt to 61,443mt per year.

During the year, the Ministry endeavored to further improve the livelihood of the rural communities by distributing small stock ruminants under the Presidential Initiative on Small Stock Production. The Ministry as of April 2013 procured and distributed 9,620 goats and 52 sheep to farmer groups across the country.

3.3 Fisheries Sector

This section assesses performance of the fisheries sector for the 2012/2013 fiscal period. It discusses the socio-economic role of the sector; status of fisheries sector; fish markets and fish processing methods; performance of aquaculture; and fisheries development and need for investment.

3.3.1 The Socio-economic Role of the Fisheries Sector

3.3.1.1 Employment

The fisheries sector continued to play a greater role to Malawi's economy as a source of employment, food, rural income, export, import substitution and bio-diversity. During the reporting period the sector directly employed about 58,525 fishers and indirectly over 500,000 people who are involved in fish processing, fish marketing, boat building and engine repair. Furthermore, nearly 1.6 million people in lakeshore communities continued to derive their livelihood from the fishing industry.

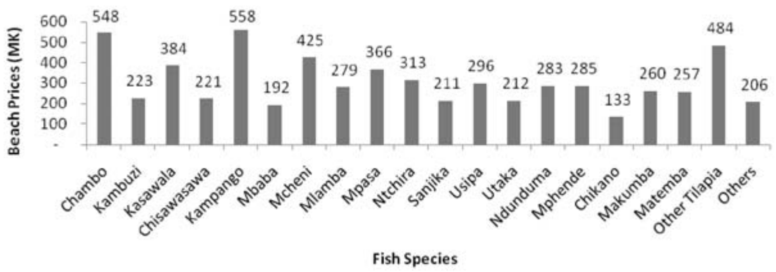
3.3.1.2 Food security

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

3.3.1.3 Source of income

Fish landings (120,328 tonnes) in 2012 had a beach or landed value of MK35.62 billion (approx USD 92.5 million). The national average beach price was at MK296 per kilogram. Kampango fetched the highest average beach price of MK558/kg followed by Chambo (MK548/kg) whilst Chikano, Mbaba, Sanjika, and Utaka recorded the lowest average beach prices of MK133/kg, MK192/kg, MK211/kg and MK212/kg respectively as shown in figure 1.

FIGURE 3.1: AVERAGE BEACH PRICES FOR ALL FISH SPECIES IN 2012

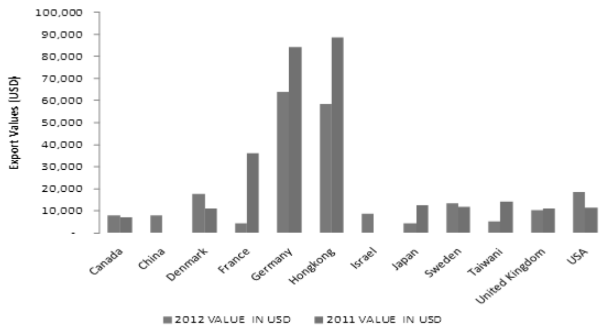


Source: Department of Fisheries

3.3.1.4 Foreign exchange through Fish Exports

Lake Malawi has over 800 endemic fish species which are of both local and international scholarly importance and also act as a source of tourism attraction. Some fish species such as Mbuna are exported outside the country and this helps to bring much-needed foreign exchange. In 2012, the total fish exports through aquarium trade were made to Taiwan, USA, UK, France, Hong-Kong, Germany, Canada, Denmark, Japan, Israel, and Sweden as shown in Figure 2. More exports were made to Germany and Hong-Kong both in 2011 and 2012. The exports for 2012 amounted cumulatively to 19,874 individual live fishes, thereby generating cumulative total revenue of MK59,149,083 (USD218,990) whilst in 2011 a total of 18,313 individual live fishes were exported and generated MK45,119,290 (equivalent USD288,250).

FIGURE 3.2: EXPORT OF LIVE ORNAMENTAL (AQUARIUM) FISH TO VARIOUS COUNTRIES IN 2012 COMPARED TO 2011



Source: Department of Fisheries

3.3.2 Status of the Fisheries Sector

3.3.2.1 Total annual fish production by water body

National catch statistics from all water bodies for Malawi show that total fish production for 2012 had registered an increase of 46 per cent from 82,414 tonnes in 2011 to 120,328 tonnes in 2012. About 91.65 per cent of the catch originated from Lake Malawi, followed by 6.64 per cent from Lake Chilwa whilst Lake Chiuta and Shire River contributed 1.10 per cent and 0.61 per cent respectively (*see* Table 3.4).

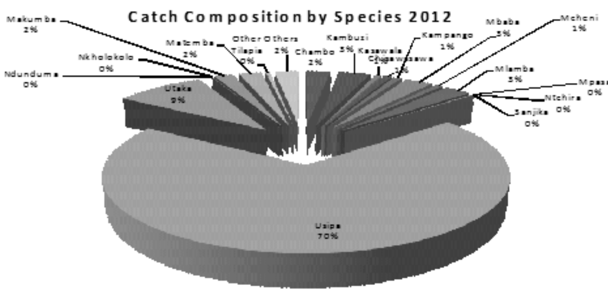
TABLE 3.4: FISH CATCH CONTRIBUTION BY WATER BODY FOR 2002 - 2012

Year	Lake Malawi Artisanal (tons)	Lake Malawi Commercial (tons)	Lake Malombe tons	Lake Chirwa tons	Lake Chiuta tons	Lower & Middle Shire tons	Total tons	Landed value (MK '000)	Beach price (MK/kg)
2002	32,038	3,767	693	6,288	1,275	2,173	45,369	1,175,815	26
2003	36,730	36,730	553	6,773	1,148	2,024	50,382	2,661,210	53
2004	36,610	3,391	510	7,155	7,91	2,292	50,240	4,876,300	97
2005	58,859	4,225	649	5,822	9,75	3,032	72,913	7,145,474	98
2006	51,796	4,413	780	4,350	1,085	3,840	65,484	6,810,336	104
2007	50,527	4,102	530	5,904	1,024	3,643	65,200	7,563,200	116
2008	56,846	3,597	671	6,006	1,018	3,128	71,266	9,478,378	133
2009	56,850	3,752	590	5,879	1,034	3,184	71,289	16,895,493	238
2010	80,623	3,470	3,336	8,019	2,549	1,197	95,724	19,900,000	210
2011	56,923	1,296	4,109	16,960	2,627	451	82,366	18,944,180	230
2012	106,769	2,367	1607.92	7993.02	1322.24	269.25	120,328	35,617,215.28	296

Source: Department of Fisheries

In terms of catch composition, the traditional catch is composed of 18 main species or groups of species, of which Usipa, Utaka, Kambuzi, Mbaba, Mlamba, Chambo, Makumba and Matemba are the eight dominant species groups with an average total contribution of 70 per cent, 9 per cent, 3 per cent, 3 per cent, 3 per cent, 2 per cent, 2 per cent and 2 per cent respectively (Figure 3)

FIGURE 3.4: PER CENT SPECIES COMPOSITION OF TOTAL NATIONAL CATCHES FOR 2010



Source: Department of Fisheries

3.3.2.3 Annual fish production and landed value

The 2012 catch trends together with 2013 and 2014 projections in fish production per fish species and the estimated revenue gained by the small scale fishers is shown in Table 3.5. In terms of fish sales, whatever was produced by the sector was wholesomely translated into monetary value as reflected in Table 3.5. A total of MK35.62 billion was accumulated by the sector and this contributed to the national GDP. The catch contributions for 2013 and 2014 are expected to be lower than the 2012 figure due to a projected drop in abundance and catch for Usipa (*Engraulicypris sardella*) which is influenced by climatic changes of the lake. However, the projected accrued value will still rise to MK38.3 billion and MK42.8 billion for 2013 and 2014 respectively.

TABLE 3.5: FISH CATCH AND VALUE FOR 2012 AND ESTIMATES FOR 2013 AND 2014 FOR MAJOR SPECIES

Local Name	Scientific Name	Quantity	Value	Quantity	Value	Quantity	Value
Chambo	Oreochromis spp.	2,914.57	862,711,894	3,060	1,071,103,449	2,973	1,129,686,250
Kambuzi	Lethrinops spp. & Allied genera	3,785.55	1,120,522,800	3,975	1,391,189,625	3,861	1,467,279,180
Kasawala	Juvenile Oreochromis spp.	724.41	214,424,291	761	266,219,347	739	280,779,916
Chisawasawa	Lethrinops spp. & Allied genera	1,024.11	303,137,152	1,075	376,361,160	1,045	396,945,811
Kampango	Bagrus meridionalis	978.00	289,487,812	1,027	359,414,767	998	379,072,554
Mbaba	Buccochromis spp. & Allied genera	3,291.79	974,370,136	3,456	1,209,733,193	3,358	1,275,898,192
Mcheni	Rhamphochromis spp.	869.12	257,259,361	913	319,401,403	887	336,870,704
Mlamba	Bathyclarias & Clarias spp.	3,147.25	931,586,065	3,305	1,156,614,455	3,210	1,219,874,185
Mpasa	Opsaridium microlepis	112.08	33,175,680	118	41,189,400	114	43,442,208
Nchila	Labeo mesops	3.52	1,041,920	4	1,293,600	4	1,364,352
Sanjika	Labeo cylindricus	124.87	36,961,919	131	45,890,221	127	48,400,135
Usipa	Engraulicypris sardella	84,081.82	24,888,218,010	71,470	25,014,340,737	75,674	28,755,981,620
Utaka	Copadichromis virginalis & relatives	10,752.40	3,182,709,202	11,290	3,951,505,513	10,967	4,167,628,671
Ndunduma	Diplotaxodon spp	65.31	19,331,760	69	24,001,425	67	25,314,156
Nkholokolo	Synodontis nyassae						
Makumba	Oreochromis shiranus & relatives.	2,253.08	666,911,424	2,366	828,006,582	2,298	873,293,473
Matemba	Barbus paludinosus & relatives	2,707.59	801,445,792	2,843	995,038,272	2,762	1,049,460,774
Other Tilapia	Tilapia rendalli & others	575.78	170,430,989	605	211,599,286	587	223,172,471
Others	Various spp	2,917.21	863,493,325	3,063	1,072,073,638	2,976	1,130,709,502
TOTAL		**120,328**	**35,617,219,532**	**109,529**	**38,334,976,072**	**112,645**	**42,805,174,154**

Source: Department of Fisheries

3.3.3 Fish Markets and Fish Processing Methods

3.3.3.1 Present fish processing and marketing trends

Several methods are used to process fish in Malawi. The common processing methods include (*a*) sun drying, which is most common for fish species like Kambuzi and Matemba; (*b*) smoking which is used on Chambo and Mlamba; para-boiling for usipa and (*c*) pan roasting for utaka (*Copadichromis spp*.). In some cases fish is frozen or iced to enable fish traders to transport the fish to distant rural and urban markets, as is the case with the MALDECO Fisheries Limited, the largest fishing company on Lake Malawi, which has shore based facilities, ice plants and chill storage facilities.

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

3.3.3.2 Major fish markets

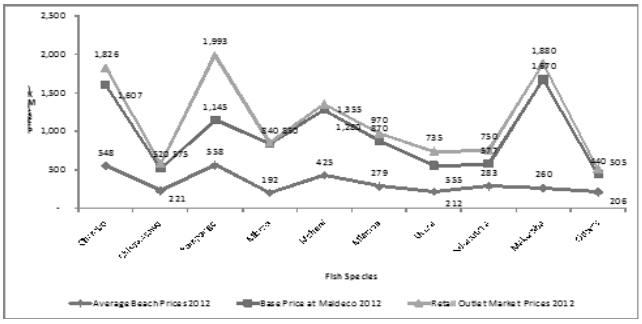
The major markets of fish in Malawi include the urban centers (Blantyre, Zomba, Lilongwe and Mzuzu) and other districts. Fish from Lake Malawi, Nkhotakota is sold in Mzuzu, Mzimba and Kasungu. Likewise fish from Likoma and Chizumulu Islands dominates Mzuzu market apart from Rumphi and Mzimba. Lilongwe market has fish from Lake Malawi (Salima and Nkhotakota) and sometimes from

Mangochi especially Malembo area. Zomba market is dominated by fish from Lakes Chilwa, Chiuta, Malombe and Malawi. In Blantyre (Limbe and Blantyre markets) there is plenty of fish from Lakes Malawi, Chilwa, Chiuta and Lower Shire River.

3.3.3.3 Fish Prices for major fish species

In terms fish market prices, there is a marked difference when compared with the beach prices. The 2012 prices show that in all cases the retail outlet market prices were the highest as shown in figure 4. The general upward trend in fish retail prices seems to have been caused by a number of different factors, such as the devaluation of Malawi currency which resulted in increased landing and transportation costs, supply and demand fluctuations and seasonality.

FIGURE 4: AVERAGE BEACH PRICES FOR MAJOR FISH SPECIES COMPARED WITH MALDECO AND RETAIL OUTLET MARKETS IN 2012



Source: Department of Fisheries

3.3.3.4 Fish supply per capita

In terms of per capita fish consumption, the sector registered a significant increase from 5.92kg/person/yr in 2011 to 8.66 kg/person/yr in 2012. This increase is due to high production of fish that was attained in the year as seen from Table 3.6.

TABLE 3.6: PER CAPITA FISH SUPPLY FROM 2002 TO 2012 WITH ESTIMATED POPULATION GROWTH

Year	Estimated Population	Total catch (kg)	Fish supply/kg/ person/yr
2002	10,700,000	45,369,000	4.24
2003	10,900,000	50,382,000	4.62
2004	11,100,000	50,240,000	4.53
2005	11,300,000	72,913,000	6.45
2006	11,500,000	65,484,000	5.69
2007	11,700,000	65,200,000	5.57
2008	13,100,000	71,266,000	5.44
2009	13,300,000	71,289,000	5.36
2010	13,500,000	95,724,000	7.09
2011	13,700,000	81,070,000	5.92
2012	13,900,000	120,328,000	8.66

Source: Department of Fisheries

The current average per capita consumption of 8.66 kg/yr is still less than the recommended 13-15 kg of the World Health Organisation (WHO). However, the current Fisheries and Aquaculture Policy focuses on fish quality and value addition as a means of promote adoption of best practices including sanitary and phytosanitary (SPS) that will enhance quality, hygiene and sanitation and value addition for fish and fish products so that the annual catch that is lost through post harvest spoilage and insect infestation is reduced. This will ensure continued availability of fish in required amounts that will avert the per capita consumption deficit.

3.3.3.5 Status of fishing fleet (craft) and fishers

Many different gears are employed in the small-scale fisheries. Dugout canoes and plank boats, with or without outboard engines, are the main fishing vessels. The main gear types are beach seines (chambo, kambuzi and mosquito nets), chilimira, fish traps, gillnets, handlines and longlines. The fisheries statistics for the various water bodies indicate that the number of fishermen, fishing gears and fishing crafts have steadily increased since the 1990s (*see* Table 3.7).

TABLE 3.7: FRAME SURVEY COUNTS OF THE DOMINANT FISHING CRAFT, GEAR OWNERS, CREWMEMBERS AND FISHING GEARS OF MALAWIAN WATERS

Indicator	1998	1999	2003	2007	2008	2009	2010	2012
Boats with engine	578	534	493	586	814	872	960	1,211
Boats without engine	3,240	3,088	2,999	3,502	3,360	2,942	2,613	2,582
Dug-out canoes	14,306	11,457	11,824	11,215	11,540	11,289	10,785	11,089
Planked canoes						764	1,227	833
Gear owners	14,471	13,503	15,542	13,305	14,065	13,403	14,538	12,761
Crew members	37,488	35,347	42,312	41,993	41,841	46,123	45,335	45,764
Gillnets (normal)	32,941	43,430	77,668	67,552	70,606	75,291	63,225	260,716
Ngongongo					13,704	14,979	19,303	624,311
Chikwekwesa					337	59	90	7,674
Longlines	2,753	3,954	2,884	3,902	5,726	5,740	5,791	150,397
Kambuzi seines	546	345	385	438	484	399	408	200
Chilimira nets	2,584	2,568	3,079	2,588	3,491	3,394	3,349	2,931
Fish traps	38,255	40,078	27,071	20,460	15,814	25,362	34,644	16,690
Handlines	4,400	3,084	1,383	2,414	1,563	1,589	660	870
Kandwindwi					98	98	106	870
Scoop nets	21	75	83	14	36	56	29	54
Cast nets	37	47	766	535	717	701	705	782
Chambo seines	106	62	71	70	212	89	85	129
Nkacha nets	204	258	309	279	238	315	241	524
Matemba seine	498	422	276	853	406	542	690	587
Chomanga	35,579	23,298	24,350	13,371	5,814	38,506	44,847	67,354

Source: Department of Fisheries

Further analysis of the 2012 frame survey by numbers, type and distribution of small-scale fishing craft in Malawi indicates that:

(i) Over 15,715 fishing crafts were recorded during the 2012 frame survey (Table 3.7) constituting 7.71 per cent motorised plank boats, 16.43 per cent non-motorised plank boats and 70.56 per cent dugout canoes. It is also noted that the sector is fast adopting the plank canoes which currently are contributing 5.30 per cent to the total number of crafts.

(ii) For the past decade (1999 to 2012) only 5 per cent increase of the fishing craft has been registered implying that no major investment. However, there has a shift in the use of powered boats since 1999 with an increase of about 39 per cent. This shows that fishers have ventured into fishing in offshore waters having experienced declining catches in the inshore waters of Lake Malawi.

(iii) Of the 58,525 fishers recorded countrywide during the 2012 frame survey, the majority were crewmembers (78.2 per cent) while the rest were gear owners. Over 80 per cent of the fishers were recorded in the Lake Malawi districts of Mangochi (26 per cent), Nkhotakota (17 per cent), Nkhata bay (13 per cent), Salima (10 per cent), Karonga (10 per cent) and Likoma (5 per cent) while Lake Malombe, Zomba and Lower Shire accounted for 8 per cent, 7 per cent and 5 per cent, respectively.

(iv) The most important fishing gears in the Malawian waters are gillnets which are widely used in all waters and fish traps, most of which are used in Lake Chilwa. Others include seines (open and shore based) for higher capital fishing units.

3.3.4 Performance of Aquaculture Sector

The sector continued to implement aquaculture activities through the National Aquaculture Strategic Plan (NASP) that provides a guiding framework for the development of aquaculture in Malawi. Hence, using the developed aquaculture data collecting methodology and tools, the aquaculture sub sector contributed about 3,232 tonnes of fish harvested from all production systems which ranged from cage culture as well as pond culture (*see* Table 3.8).

TABLE 3.8: ESTIMATED PRODUCTION LEVELS (TONNES) AND VALUE (US$) OF THE MAJOR CULTURED FISH SPECIES

Species	Estimated units	1999	2000	2001	2002	2003	2010	2011	2012
Oreochromus	Production (tons)	565	500	600	670	680	650	1420	2186
shiranus/m Value									
ossambicus	(US$)	565,000	550,000	575,000	649,600	696,000	869,550	1,219,780	1,877,774
Tilapia	Production (tons)	-	-	12	70	85	630	862	633
Rendalli	Value (US$)	-	-	13,800	11,200	42,000	113,647	740,458	543,747
Clarias	Production (tons)	12	15	18	10	17	42	175	262
Gariepinus	Value (US$)	-	14,400	18,000	11,200	17,000	42,000	150,325	225,058
Cyprinus	Production (tons)	8	10	10	8	4	30	76	67
Carpio	Value (US$)	8,000	10,000	10,000	8,960	5,600	42,000	65,284	57,553
Oncorhync	Production (tons)	5	5	8	4	15	48	98	84
hus mykiss	Value (US$)	20,000	17,500	57,200	24,800	96,000	307,200	56,078,956	72,156
Total major species (tons)		**590**	**530**	**648**	**752**	**801**	**1600**	**2631**	**3232**
Total value (US$)		**607,400**	**595,500**	**674,000**	**705,760**	**856,600**	**1,374,397**	**2,260,029**	**2,776,288**

Source: Department of Fisheries

During the same period, the number of fish farmers has also grown from 4,050 to 6,010 and ponds from 8,206 to over 9,500 ponds. A total of over 1,698,550 fish fingerlings have been produced and distributed to over 1,200 fish farmers countrywide. This production implies availability of 254 tonnes of fish when grown at 150g in six months time.

There has been promotion of private sector participation resulting in 3 more commercial farmers being in operation. As such, an additional 2,100,000 fingerlings have been produced by the private sector (MALDECO), which have been stocked in their cages and newly constructed ponds.

3.3.5 Fisheries Development and Need for Investment

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

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

TABLE 3.9: IDENTIFIED KEY PRIORITY AREAS FOR INVESTMENT

Policy Priority Area	Priority Development Programme	Estimated Cost (US$)
Capture Fisheries	Lake Malawi Fishing Technology Development Programme	6,000,000
	Lake Malawi Fisheries Development Programme	19,000,000
Aquaculture	Malawi Fish Farming Development Programme	18,500,000
	Fish Farming Community Livelihood Programme	2,600,000
	Institutional Capacity Building for Integrated Aquaculture Development in Malawi	1,600,000
	Cage Culture Development Programme	6,235,290
Fish Quality and Value Addition	Lakewide Fisheries Infrastructure Improvement Programme	18,000,000
	Strengthening inspection and quality control of fish and fish products	4,500,000
	Value addition Promotion to Fish and Fisheries Products for better Returns	3,500,000
Governance	Participatory Fisheries Management Enhancement Programme (PFMEP)	4,650,000
Research and Information	Support to Fisheries Research and Resource Monitoring Programme	15,000,000
Human Resource & Skills Development	Fisheries Sector Capacity Building Programme	10,400,000
Grand Total		**109,985,290**

Source: Department of Fisheries

3.4 Forestry Sector

This section reviews the performance and contribution of the forestry sector to the economy during 2012/2013 financial year. The section reviews and assesses the economic contribution of the forestry sector in line with the provisions of Forest Policy and Forestry Act and the interventions proposed in the Malawi Growth and Development Strategy II (MGDS II). The focus is on forest utilization and marketing; budget allocation and revenue collection; tree planting and plantation rehabilitation; and various programmes and projects being implemented in the sector.

3.4.1 Forest Utilisation and Marketing

Ninety export licenses and permits, and four hundred phytosanitary Certificates (Plant Protection Services) worth MK4.5 million and MK1.4 million respectively were issued to Mobile Sawmillers, RAIPLY Malawi and various individuals for forest products exported to various countries. The forest products exported from the country were: 61,776 m3 of softwood timber, 6,200 pieces of wooden curios, 3,000 pieces of cane furniture, 16,000 kilograms of Colombo roots, 777 kilograms of Shutter Ply and Medium Density Fibre (MDF) Boards, 55,117m3 of rubber timber and 1,800 pieces of wooden pallets.

The products were destined to markets in Republic of South Africa, Mozambique, Kenya, Tanzania, Botswana, India, Zimbabwe, China, Zambia, Indonesia, Malaysia, Namibia and Italy. The values for forest products exported from the country are summarised in Table 3.10 below.

TABLE 3.10: EXPORT VALUES FOR FOREST PRODUCTS FOR 2012/13 FINANCIAL YEAR (UP TO APRIL 2013).

No.	Type of forest product	Export value USD	Export value ZAR (South African Rand)
1	Wood and Lumber-Sawn Softwood Timber	3,895,370.98	-
2	Medium Density Fibre (MDF Plain Boards)	1,066,856.24	23,517,835.87
3	Plywood	157,627.50	2,934,352.89
4	Kiln Dried Treated Timber	298,868.52	2,368,800.00
5	Shutter Ply (Boards)	1,205,123.46	11,390,861.50
6	Block Boards	400,050.00	206,033.00
7	Laminated Pine	-	178,697.34
8	Laminated Shelving	-	291,888.00
9	Nature Curios	1,597.98	-
10	Assorted Cane Furniture	2,650.00	-
	Total	**7,028,144.68**	**40,888,468.60**

Source: Department of Forestry

3.4.2 Tree Planting and Plantation Rehabilitation

The target for tree planting in 2012/2013 financial year was 60,000,000 seedlings. The trees were expected to be planted by different stakeholders such as smallholder farmers, communities, private sector, Village Natural Resources Management Committees and Non Governmental Organisations. The actual trees planted in the National Forest Season were 53,817,974 as shown in Table 3.11 below.

TABLE 3.11: TREE PLANTING IN THE 2012/13 NATIONAL FOREST SEASON

Region	Target	Production	Planted (by April 2013)
North	6,000,000	3,270,819	5,341,110
Centre	34,000,000	34,929,316	30,423,068
South	20,100,000	20,848,257	18,053,796
Totals	60,100,000	59,048,392	53,817,974

Source: Department of Forestry

For Government Plantations, a total of 2,944.10 hectares have been planted as shown in Table 3.12 through the Forestry Development and Management Fund (FDMF).

3.4.3 Forestry Programmes and Projects

The department is currently implementing the following programmes/projects:

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

The programme focuses on improving the management of trees and forest resources, access to income generating opportunities and enhancing rural livelihoods through sustainable management of forest areas in the country. It is financially supported by the European Union and aims at improving the livelihoods of local communities in twelve districts (Chitipa, Karonga, Rumphi and Mzimba in the north; Kasungu, Ntchisi, Dedza and Ntcheu in the centre; and Nsanje, Chikhwawa, Machinga and Zomba in the south) through the provision of forest goods and services and the development of forest based enterprises.

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

(ii) Forestry Preservation Programme

The Government of Japan through the "Hitoyama Initiative" is supporting the Government of Malawi through MK6 billion grant aid to the Department of Forestry for the Forestry Preservation Programme. The programme has purchased equipment for both monitoring and management of forest resources. For monitoring of forest reserves and other forest resources, some vehicles and motor bikes are purchased. In order to survey the forest reserves for monitoring and gathering several information such as area, vegetation (land cover), biomass equipment like Global Positioning Systems (GPS), surveying instrument, pocket compass, digital camera, transceiver, binocular and others have been procured. Through Asia Air Survey, about 17 maps have been produced for forest resource monitoring and inventories were also done for 17 forest reserves. The targeted districts are Mangochi, Blantyre, Machinga, Zomba, Mwanza, Dowa, Mchinji, Lilongwe and Nkhatabay. The programme is also enhancing capacity in the area of Geographical Information Systems (GIS) and Image Processing for the Department of Forestry staff. Vehicles will be handed over to the Government of Malawi soon.

(iii) Forest Development and Management Fund (FDMF)

The FDMF became operational in the 2011/2012 Financial Year. It aims to augment the conservation and management of forest resources and forest land in Malawi. In the year under review, the Department of Forestry was allocated

MK519.3 million from the revenue collected. The major expenditures for the FDMF in the year under review were:

- Tree Planting and Management (MK51.2 million),
- Contract work in 11 government plantations for various silvicultural operations (MK 25.2 million),
- Law enforcement (MK16.9 million),
- Maintenance of vehicles (MK26.8 million),
- Purchase of 8 vehicles (MK 82.7 million),
- Fire fighting expenses (MK22.6 million),
- Training of Forestry Assistants at Malawi College of Forestry and Wildlife (MK6.8 million) and
- Forestry Research (MK 2.4 million).

A detail of replanting of harvested or bare areas in government plantations as supported by the Forestry Development and Management Fund is shown in Table 3.12 below.

TABLE 3.12: TREE PLANTING IN GOVERNMENT PLANTATIONS IN 2012/13 FINANCIAL YEAR

No.	Name of Plantation	Area planted (Hectares) by April 2003
1	Viphya	2,155.30
2	Zomba Mountain	202.00
3	Chongoni	190.50
4	Dedza Mountain	82.00
5	Dzalanyama	62.10
6	Dzonzi-Mvai	30.30
7	Katete Fuel Wood	5.00
8	Dowa Hill Fuel Wood	11.00
9	Kaombe	37.00
10	Ngala Fuel Wood	7.60
11	Ndirande	17.14
12	Chigumula	60.00
13	Michiru	24.90
14	Likhubula	9.50
15	Thuchila	6.75
16	Eastern Outer Slopes (Mulanje)	10.00
17	FortLister	11.43
18	Nanchidwa Fuel Wood	15.30
19	Nauko Fuel Wood	3.28
20	Amalika Fuel Wood	3.00
	Total	**2,944.10**

Source: Department of Forestry

Chapter 4

IRRIGATION AND WATER DEVELOPMENT

4.1 Overview

The goal of the Sector is to ensure that water resources are well protected and managed to meet agricultural, domestic and industrial demands. This report highlights the developments in the sector during the period July 2012 to June 2013 and the prospects for the 2013/14 fiscal year.

4.2 Irrigation

In order to ensure that household and national food security is achieved, a total of 950 hectares of land was developed and 1,687 hectares of irrigable land was rehabilitated for the smallholder farmers. This brings the total developed land to 95,637 hectares with 45,637 hectares under smallholder farmers and 50,000 hectares under estates.

During the 2012/2013 financial year, significant progress has also been made on the development and rehabilitation of smallholder irrigation schemes through implementation of a number of projects. The Smallholder Crop Production and Marketing Project (SCPMP), Rural Infrastructure Development Programme, Malawi Irrigation Development Support Programme (MIDSUP), Development of Medium Scale Irrigation Project (MIDP), Small Farms Irrigation Project (SFIP), the Green Belt Initiative, Irrigation Rural Livelihood and Agricultural Development Project (IRLADP), Agriculture Infrastructure Support Project (AISP) were some of the on-going projects implemented in the 2012/2013 financial year. These projects will ensure the development of another 2,759 hectares of land for irrigation to benefit 72,449 additional farmers.

The newly developed schemes, under the aforementioned programmes/projects, made use of different irrigation technologies, i.e. gravity fed schemes, motorised pump schemes as well as treadle pump schemes. During the reporting period, out of 45,637 hectares developed, approximately, 22,144 hectares (51 per cent) were under gravity-fed schemes, 12,617 hectares (29 per cent) were under treadle pumps, 5,197 (12 per cent) hectares were under watering can based irrigation, and 3,224 hectares (8 per cent) were under motorized pumps,

Overall, irrigation contributed over 15 per cent of cereal production and over 26 per cent of tuber production.

4.3 Water

The water sector continued to score on its objectives of ensuring that the people in Malawi have access to potable water through the implementation of a number of programmes/projects in the 2012/2013 financial year. According to the statistics released by the Joint Monitoring Programme (UNICEF and World Health Organisation) national access to clean water was at 83 per cent (95 per cent in the urban and 80 per cent in the rural areas).

4.3.1 Water Resources Management and Development

Availability of water resources is a catalyst for socio-economic development in the country. The Government has, therefore, embraced an integrated approach to water resources management to properly manage the country's precious resource and make it readily available for multiple uses such as domestic use, industrial/municipal water supply, irrigation, hydropower generation, tourism, fish farming, livestock production, recharging groundwater resources as well as sustaining the ecosystem.

Under the National Water Development Programme (NWDP), Government has identified new water sources for the cities of Lilongwe and Blantyre, namely, Diamphwe Dam Site and new intake point on Shire River (upstream of Walkers Ferry), respectively. The Government, through the Ministry of Water Development and Irrigation, will soon carry out detailed designs of these sites to enable construction works to be undertaken in the near future. The development of these new water sources is very crucial for addressing the water problems in the two cities.

The Government has also finalised the necessary work for the upgrading of Kamuzu Barrage at Liwonde. The upgraded Barrage will be a state-of-the-art facility which will improve regulation of the Lake Malawi - Shire River System and weed management. The Government has already secured funding from the World Bank under Shire River Basin Management Programme to support construction work of the upgraded Kamuzu Barrage. The Shire River Basin Management Programme also seeks to lay a foundation for more integrated planning and modernised system operations for the Shire River Basin. The programme will further rehabilitate and manage sub-catchments in Ntcheu, Neno, Zomba and Blantyre and protected areas of Lengwe and Liwonde National Parks and Forest Reserves in Neno and Mangochi in order to reduce soil erosion and improve people's livelihoods. Furthermore, the programme will support community-level flood adaptation investments in Chikhwawa and Nsanje districts.

During the reporting period, the Government also continued with the implementation of the Songwe River Basin Development Programme, which is a joint programme between the Government of Malawi and the Government of the United Republic of Tanzania whose ultimate goal is to contribute to improved living conditions of the basin population and the socio-economic development in both countries. Amongst several benefits, the two countries will have improved hydropower, irrigation, and trade, once the programme is finalised. In the 2012/13 financial year, the sector finalised all preparatory works for the development of the detailed designs.

The sector, with support from the Japanese Government through JICA, embarked on a study to develop a new National Water Resources Master Plan to replace the existing master plan which was developed in 1986. The new National Water Resources Master Plan will be based on long term vision of up to 2035 and will propose feasible water projects for water resources management and development in the country.

To enhance catchment protection, the sector also planted over 554,500 tree seedlings in the districts of Lilongwe, Machinga, Zomba and Mulanje with funding from AusAID and ADF under the National Water Development Programme (with Lilongwe planting 384,500 seedlings covering 240 ha, Machinga planting 70,000 covering 63 ha, Zomba planting 45,000, and Mulanje planting 55,000 covering 54 ha of land). In addition to other developments that have been done in these four districts, the sector has constructed 4 office blocks and 12 staff houses for the district water officers.

4.3.2 Water Supply

Government is implementing a number of programme/projects to ensure that potable water is available to its people. Some of the programmes and projects include: National Dispersed Borehole Programme, National Water Development Programme, Ground Water Development Project for Mwanza and Neno districts and Project for Rehabilitation of Boreholes in Mchinji, among others. The strategies in these programmes /projects will enable the country to achieve the aspirations enshrined in the Vision 2020, MGDS II and also the aspirations of the UN Millennium Development Goals (MDGs) and the World Summit on Sustainable Development (WSSD) targets of 2015.

(*i.*) *Rural Water Supply*

In order to ensure that the rural population has access to potable water supply, the sector facilitated the construction of 50 new boreholes across the country under the National Dispersed Borehole Construction, 40 boreholes under Borehole Treasury Fund, 97 under the Mwanza-Neno Project (funded by JICA), 85 boreholes under the Chinese funded Borehole Construction Programme. Under the NWDP (ADF component), a total of 2,134 boreholes have been constructed and handed over whilst 748 old boreholes have been rehabilitated. All these boreholes are benefiting 580,200 people within the communities. In addition to the boreholes, Construction Works for the 17 gravity fed water supply schemes (GFS) have started in earnest with most of the intake works completed. The completion dates for the GFS in Machinga and Mulanje is 31st July 2013 whereas in Zomba it is 31st August 2013.

The Government also finalised designs for the construction and rehabilitation of a number of gravity fed water supply schemes across the country. Some of the schemes are Mvula in Dedza, Usisya-Usingini, Chapanga, Misuku, Nkhamanga (Katizi), Lizulu, Chikhwawa, Ntonda. Works were expected to commence soon. Contractors were engaged for all major works while distribution pipe lines and tap points will be constructed by artisans who will work with Water User Associations (WUAs).

(ii.) Urban Town and Market Centres Water Supply

In the urban, town and market centres, water supply services are provided by the five water boards (Lilongwe, Blantyre, Southern Region, Central Region and Northern Region water boards) in the country. Overall, water supply coverage has increased by 1.9 per cent between 2011 and 2012 as shown in Table 4.1 below. However, during the reporting period, the per centage of the population with access to safe drinking water within the service areas of these water boards averaged at 75.4 per cent as presented in Table 4.2.

TABLE 4.1: WATER COVERAGE FOR THE WATER BOARDS

	Jan-Dec 2011	Jan-Dec 2012	Increase	% Increase
Lilongwe	493,990	532,584	38,594	7.8
Blantyre	750,000	750,000	0	0
Central Region	158,623	176,654	18,031	11.4
Northern Region	205,905	217,046	11,141	5.4
Southern Region	288,244	255,694	(32,550)	(11.3)
Totals	**1,896,762**	**1,931,978**	**35,216**	**1.9**

TABLE 4.2: ACCESS LEVELS IN WATER BOARD SUPPLY AREAS

	2012 Access
Lilongwe	*74.5%*
Blantyre	*75%*
Central Region	*75.7%*
Northern Region	*74.9%*
Southern Region	*75.6%*
Average	***75.4%***

These achievements are as a result of several projects that the water boards are implementing. A good example is the NWDP (with funding from World Bank and EU/EIB among other donors), through which the water boards implemented works for construction/extension/rehabilitation of a number of water Supply schemes.

Another important performance indicator for the water boards is the percentage of Non-Revenue Water (NRW), which is most appropriate in assessing utility efficiency. NRW is the percentage of the total water produced for which no revenues have been received. During the reporting period, NRW averaged around 30 per cent across all the water boards as outline in the Table 4.3 below. A high proportion of NRW is due to factors such as physical leakages of tanks and pipes as a result of ageing infrastructure and variations in pressure, non- payment of water bills, and inaccuracies in billing or meter reading.

TABLE 4.3: LEVELS OF NON- REVENUE WATER

	2009	2010	2011	2012
Lilongwe Water Board	*36%*	*36%*	*37%*	*33%*
Blantyre Water Board	*48%*	*47%*	*48%*	*34%*
Central Region Water Board	*26%*	*23%*	*26%*	*23%*
Northern Region Water Board	*28%*	*33%*	*32%*	*30%*
Southern Region Water Board	*31%*	*28%*	*27%*	*31%*
Average				***30.2%***

On the average number of debtor days, the debtor days for all water boards are still on the higher side (averaging 110 days) as outlined in Table 4.4 below. This is because most of the debtors are government institutions who usually take a very long time to settle their bills. This outcome in turn affects the collection ratio which averages 0.8 across water boards instead of the actual 1.0. Bill-collection efficiency (amount collected/amount billed multiplied by 100) must reach the ideal where the amount billed is equal to the amount collected; however as the average number of debtor days show, this is not the case. On the other hand, reaching the ideal would depend on other external factors to which the water boards have no control such as power outages or delays by Government institutions to pay their bills.

TABLE 4.4: AVERAGE NUMBER OF DEBTOR DAYS

	2011	**2012**
Lilongwe Water Board	105	101
Blantyre Water Board	189	187
Central Region Water Board	93	77
Northern Region Water Board	77	80
Southern Region Water Board	106	105

4.4 Major Challenges Facing the Sector

Despite registering the progress highlighted above, the water sector faces a number of challenges including the following: vandalism of water supply infrastructure; inadequate funding to the sector; ageing infrastructure; dwindling water resources i.e. streams, dambos and rivers; inadequate production capacity of water due to increased water demand; lack of equipment (plants and machinery) for undertaking construction of dams and boreholes; and land disputes, which affect construction of permanent infrastructures in irrigation schemes.

4.5 Prospects for the 2013/14 Fiscal Year

With regards to irrigation, the sector will continue to implement the current projects including: the Green Belt Initiative; Small Farms Irrigation Project; the Malawi Irrigation Support Programme; and the Irrigation, Rural Livelihood and

Agriculture Development Project. In addition to these on-going projects/ programmes, during the 2013/14 fiscal year, the sector plans to develop new irrigation schemes covering 2030 ha and rehabilitate existing irrigation schemes covering 1295 ha of land under the Smallholder Irrigation and Value Addition Project (SIVAP) funded by AfDB. Financing of the project was approved by the AfDB in March, 2013.

Through the Agriculture Infrastructure Support Programme, with support from AfDB, the sector will construct 1,200 ha of smallholder irrigation schemes in Neno, Chikhwawa and Nsanje districts, to benefit 10,655 farmers. Contractors have already been identified.

The sector will continue to carry out a number of studies and designs under the Rural Infrastructure Support Project, IRLADP and Shire River Basin Management Project. The Irrigation Master Plan and Investment Framework will be developed through these programmes. The sector also intends to establish a National Irrigation Fund.

With regards to Water Resources Management and Development, the sector plans to construct a total of six multipurpose dams across the country to make water resources readily available for multiple uses such as domestic usage, irrigation, fish farming, livestock production, recharging groundwater resources as well as sustaining the ecosystem. The Government will also continue the implementation of the ongoing projects such as the Shire River Basin Management Programme and Songwe River Basin Development Programme.

To increase the percentage of the population with access to safe water supply, the sector will continue with implementation of the National Water Development Programme, National Dispersed Borehole Programme and other projects under the Public Sector Investment Programme (PSIP).

CHAPTER 5

TRANSPORT AND PUBLIC WORKS

5.1 Overview

This chapter reviews the performance of the transport sector during the 2012/13 financial year. In particular, the chapter evaluates developments and performance of various programmes and projects in the sector.

5.2 Road Transport

The road transport sub-sector focuses on road maintenance and development programmes and projects, which are implemented by the Roads Authority (RA). It also focuses on the oversight functions provided by the Roads Department within the Ministry of Transport and Public Works.

Overall, the subsector performed well in the period under review despite the challenges that the economy faced such as shortages of foreign exchange and fuel. Under-funding of projects that were wholly financed by Government remained one of the key challenges affecting smooth implementation of most projects in the sub-sector. These in turn had serious implications on the overall performance of the sector.

5.2.1 Roads and Bridges Construction/Upgrading

During the period under review, Chikwawa-Ngabu road, Karonga-Chitipa road and the South Rukuru Bridge projects were completed and opened to traffic. On-going projects include the construction of Mzimba-Mzalangwe road, Nkhotakota - Msulira road, Ekwendeni-Ezondweni-Ntwaro road, Lumbazi-Dowa-Chezi road, Chiradzulu-Miseu-Folo-Chiringa road, Zomba-Jali-Phalombe-Chitakale Road, Blantyre-Zomba Road, Lilongwe-Nsipe Road and the Lilongwe City Western Bypass. Government is also conducting economic feasibilities, preliminary and detailed engineering designs on the following roads: Ntcheu - Tsangano - Neno – Mwanza, Lilongwe Old Airport - Kasiya – Santhe, Chiringa – Muloza, Chikwawa – Chapanga – Mwanza, Nsanje-Marka, Mitundu-Lobi-Linthipe, Ntcheu-Kasinje, Dzaleka-Mwangala-Ntchisi-Mpalo-Malomo, Euthini-Rumphi, Mtunthama-Wimbe-Kapelula, Rumphi-Nyika-Chitipa, Mzuzu-Bula-Usisya, Bunda turn off-Kanengo, and Kaphatenga-Nkhotakota-Dwangwa-Mkanda-Kapiri Road.

Commendable progress on most of these on-going projects was registered during the year under review for both government funded projects as well as those that were funded by the development partners. Specifically, the following projects progressed extremely well during the year under review: Chikhwawa - Nchalo - Bangula road, Lilongwe - Nsipe road, Lumbadzi-Dowa-Chezi road, Chiringa-

Miseu Folo-Chiradzulu road and Mzimba-Eswazini-Kafukule-Ezondweni-Njakwa road (including Ezondweni Ekwendeni spur (Ekwendeni-Ezondweni Mtwalo section and Mzimba- Mzalangwe section).

5.2.2 Annual Road Grading Programme

To improve the condition of the rural roads, Government embarked on a grading exercise of rural roads. During the period under review, 1400km were graded using MK163million part II resources.

On policy reforms, plans are under way to review the Public Roads Act and gazetting of new road classification is also at an advanced stage. Certification of construction materials for several infrastructure projects continued to be other main program through the Central Material Laboratory.

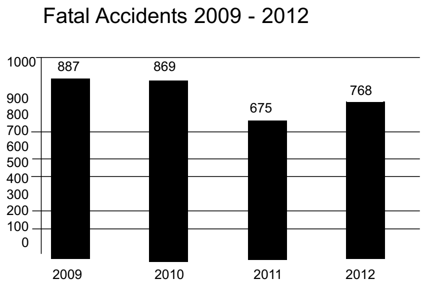
5.2.3 Road Traffic and Safety Management.

The Department of Road Traffic, National Road Safety Council (NRSC) and the Malawi Traffic Police continued to play a vital role in the Road Traffic Management to ensure road safety in the country. These included strengthening of road traffic law enforcement and civic education in the country. The Government of Malawi has approved the establishment of Road Traffic and Safety Directorate by merging the Road Traffic Directorate and the NRSC. This is envisaged to enhance traffic management and safety in the country against the current fragmented functions.

Road Traffic Directorate activities are automated by Malawi Traffic Information system (MALTIS). Upgrading MALTIS is at an advanced stage and it is expected that this will improve current operating conditions through data capturing and the traffic management in the country. Government has also successfully introduced the payment of road tax through the pump price of the fuel in January 2013. Currently, the road tax has been fixed at K12 per liter of petrol and diesel. This has led to effectiveness in the collection of the road tax in the country and also reduced the congestion at the Road Traffic Offices.

On road infrastructure protection, Government of Malawi has over the past year invested heavily in the road infrastructure asset to strengthen axle load functions. In the period under review, three portable scales were procured for mobile weighbridge stations and 160, 000 vehicles were weighed in the different weighbridge stations. Number of accidents significantly decreased by about 6.57 per cent in 2012/2013 FY from 1,841 in the 2011/12 FY. On the contrary, fatalities, were increased to768 from 675 fatalities in the 2011/12 FY. This was essentially on account of lack of civic education and law enforcement among other factors. There have been inadequate financial resources to intensify road safety programmes, procure equipment, as well as law enforcement exercises.

FIGURE 5.1: FATAL ACCIDENTS



Source: NRSCM

Comparatively in terms of districts, Blantyre registered a higher number of fatal road traffic accidents with 145, Lilongwe came second with 113 fatal road accidents. Then Ntcheu came third with 53 fatal road accidents. Saloon vehicles registered a higher number of fatal road accidents followed by pickups, bicycles, minibuses then lorries.

Most accidents occurred as a result of over speeding, careless overtaking, failure by drivers to keep to the left when driving and also failing to give way or deliberately ignoring traffic signs. Drink-driving was another cause of accidents during the period under review.

5.3 Water Transport

In order to achieve the overall objective of active inland shipping network, Government carried out a number of policy reforms in the maritime transport. These included the review of some concessions as well as the resuscitation of the shippers council of Malawi.

5.3.1 Review of the Malawi Shipping Company Concession

Shipping services along Lake Malawi have been concessioned out to Malawi Shipping Company, for which Mota-Engil Limited is the majority shareholder. The concessionaire has undertaken to modernize and improve freight haulage operations and revitalize passenger services. Clause 45.3 of the Concession Agreement provides that 120 days after the end of each Financial Year, the Performance Monitoring Committee, being led by the Public Private Partnership Commission (PPPC), shall review the performance of the concession. In line with this, a Concession Performance Review was carried out in the period under review.

The review learnt that Malawi Shipping Company's plans for the future include increased shipping of break bulk and containerized cargo and efficient passenger services. The company is in the process of acquiring a new passenger/cargo vessel which will be constructed by Damen Shipyard of Holland at an estimated cost of USD7.7 million. Tourist shipping services on the lake and some rivers are also planned. Already, the concessionaire has embarked on a comprehensive maintenance programme of some of the vessels as follows:

(*a*) MV Ilala: MV Ilala was dry docked on 30th June, 2012 and underwent a major refit/rehabilitation which involved, among other things, the replacement of the entire propulsion plant, lifesaving equipment, communication system, sewage and sanitary systems and the re-plating of the entire hull and the superstructure. The total cost of the refit works amounted to USD730,000.00.

(*b*) M.V. Karonga: In order to ensure compliance with the International Maritime Organisation SOLAS Standards and other national statutory operational requirements, M.V. Karonga has undergone significant rehabilitation, including the total refurbishment of the main engine, telecommunication system, eco-sounder and life-saving equipment. Total expenditure on the works amounted to USD 90,000.00

(*c*) M.V. Katundu: During the reported period, MSCL also repaired the M.V. Katundu at a total cost of USD 54,000.00. This 720 metric tonne capacity container vessel is scheduled to carry sugar from Dwangwa to Chipoka Port starting from June, 2013.

5.3.2 Concession of Malawi Lake Ports

In order to bring in much needed investment for efficient and effective port operations, Government concessioned the operations of Lake Malawi ports to Mota Engil for a period of 35 years. The concession, among other things, grants the Concessionaire the right to finance, manage, operate and maintain the Malawi Lake Ports as provided in the Concession Agreement. The Concessionaire also has the right to provide for new project facilities or assets, services and functions to customers, such as pilotage, towage, bunkering, stevedoring, cargo handling and warehousing.

5.3.3 Resuscitation of the Shipper's Council of Malawi

Government successfully resuscitated the Malawi Shippers Council whose management fully lies with private sector. This has resulted in a significant improvement in the shipping services as evidenced by the increase of freight volumes (see Table 5.1 below)

TABLE 5.1: CARGO AND PASSENGER STATISTICS

	FY 2009/20	FY 2010/11	FY 2011/12	FY 2012/13 (As of April 2013)
Freight Tonnes	23,140	25,200	28,420	37,320
Annual Change (%)	2.9	8.9	12.7	23.8
Passenger Numbers	71,545	75,650	77,320	30,492
Annual Change (%)	-0.8	5.7	2.5	-60.6

Source: Marine Department

Note: *The heavy reduction in passenger carried in 2012/13 FY is a result of the temporary withdrawal of MV Ilala from 30th June, 2012 for refit works. The situation is expected to improve once the vessel starts operation in June, 2013.*

In view of the increased cases of accidents involving small vessels, Government undertook law enforcement exercises along the rivers and lakes. In the period under review, the Marine Department had registered, surveyed and licensed 753 vessels, certified 35 seafarers and also trained 58 cadets.

5.3.4 Development Projects

To further improve on the in-land water shipping network, Government continued with a number of development projects. These include: the Construction of Jetty(s), the Shire-Zambezi Water Way and Nsanje World Inland Port. Rehabilitation and re-fit works on MV Illala were completed in the year under review.

5.4 Air Transport

Air transport is one of the most prioritized sub-sectors as it offers speedy connections to regional and international destinations. After the liquidation of Air Malawi which was meant to ring-fence the company from the huge outstanding debts, Government, through the PPPC, is in the process of establishing a new company, Air Malawi 2012. Government has also sought a strategic equity partner for the new airline and discussions are underway with Ethiopian Airlines who won the bid. It is envisaged that the new company will be operational by July 2013.

In a bid to further improve on aviation services, Chileka Airport was opened for more international traffic. Apart from South African Airways which has been operating twice a week to Chileka, Ethiopian Airlines has also introduced their services and Kenya Airways is expected to commence in July 2013. Rehabilitation of the airport continued in the year under review and is expected to be completed by July 2013. Plans for further expansion of airport are underway and these will include the construction of a new international terminal and an additional runway. A project to improve air navigation and safety at Kamuzu International Airport was completed in December, 2012 with funding from JICA. Security and navigation systems have been installed at the airport.

Regarding the international flight operations, South African Airways continues to offer services between Malawi and South Africa and a monopoly in the absence of Air Malawi. They have five (5) and two (2) frequencies to Lilongwe and Blantyre, respectively. Kenya Airways is offering services between Lilongwe and Nairobi and they have ten (10) frequencies per week. Ethiopian Airlines have seven (7) frequencies per week between Malawi and Ethiopia. Table 5.2 below shows the figures for passengers at Kamuzu and Chileka International Airports.

TABLE 5.2: PASSENGERS HANDLED AT CHILEKA AND KAMUZU INTERNATIONAL AIRPORTS

Year	Chileka International Airport	Kamuzu International Airport
2007/08	85,239	146,900
2008/09	84,951	143,378
2009/10	68,423	136,377
2010/11	68,853	112,465
2011/12	72,847	132,456
2012/13*	81,200	145,230

Source: Department of Civil Aviation

*Projections

The passenger figures for both airports have shown a declining trend from 2008/9 to 2010/11. Some of the contributing factors were the shortage of foreign exchange which forced air operators to pull out some services and fuel availability which had become a real challenge. However, an increasing trend is observed and projected for 2011/12 and 2012/13, respectively.

5.5 Rail Transport

The creation of the Railways Division has strengthened the oversight functions of the railway services in the period resulting in an improvement in coordination between the stakeholders and Government. Programmes undertaken in the year under review are as below:

5.5.1 Railway Infrastructure Development

5.5.1.1 Emergency spot rehabilitation

Emergency spot rehabilitation works on the Lilongwe-Balaka railway section continued in the year under review. These were specifically to replace thirty (30) vandalised culverts, repair one bridge and supply and fix 1500 rotten timber blocks on several bridges on this section. There has been satisfactory work progress on the bridge maintenance.

5.5.1.2 New Railway Construction

The Government of Malawi and Vale Logistics Limited signed a Concession Agreement in December, 2011 for the construction of a new railway line (138.5km) from Kachaso Village in T.A. Chapananga in Chikwawa District, passing through Mwanza and Neno to join the existing railway at Nkaya junction in Balaka District. Construction works commenced in 2012 and progress is on good course. This project is part of the Nacala Corridor Railway Project and is wholly being financed by Vale. It is expected to cost USD1billion and to be completed by December 2014.

5.5.2 Regulation of Railway Transport

5.5.2.1 Railways Act Review

The Railways Act (1907) is the principal regulatory legislation applicable to the railway sub-sector. However, the Act does not provide adequate framework for the management and safety regulation of concessioned railways. In this regard, the Railways Act and the railways regulations are currently being reviewed by consultants with funding from the European Union. A revised preliminary report is yet to be submitted.

5.2.2.2 CEAR Concession Agreement Review

The twenty year Concession Agreement between GOM and CEAR signed in 1999 has only about six years to end and is currently undergoing a review by consultants with funding from the World Bank and the European Union. A Working Paper Report was submitted in the period and is currently being reviewed by GOM Steering Committee Members.

5.5.3 Freight and Passenger Traffic

The subsector performed tremendously well in terms of both freight and passenger traffic during the year under review. Total freight traffic on the country's railway lines increased by 56.5 per cent while passenger traffic also increased by about 77 per cent. This was largely on account stabilized supply of forex and fuel that positively impacted both international and domestic passenger and freight traffic.

TABLE 5.3: PROGRESS AGAINST TARGETS AND AGREED PERFORMANCE INDICATORS

Description/Year	2008/09	2009/10	2010/11	2011/12	2012/13 as of April 2013	Annual Change (%)
Freight (Tonne)	217,000	248,702	206,254	133,495	208, 878	56.47%
Passenger (Nr)	814,000	559,076	271,038	500,028	883, 326	76.66%
Track Maintenance cost (MK million)	44	26	75	151	136	-9.93%
Track Maintenance coverage (%)	4	2	5	11	10	-10%

Source: Railways Division

5.6 Challenges

The main challenges faced by the transport sector are:

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

- Capacity constraints due to high vacancy rates in all departments of the Ministry. This is affecting the ability of the Ministry to effectively carry out its duties;
- Lack of capacity in the local construction industry in terms of number of qualified firms and personnel as well as construction equipment result in delays in programmes implementation;
- High construction costs in the country as compared to other countries within the region;
- Low levels of funding; financial resources to implement projects and activities have been inadequate especially for projects that are 100 per cent funded by the Malawi Government. This has been compounded by the increase in costs due to the devaluation and subsequent continuous depreciation of the kwacha and rising fuel prices; and
- Vandalism of infrastructure across the sector.

Chapter 6

MINING AND QUARRYING

6.1 Overview

The mining and quarrying sector experienced tremendous growth in the year 2012. Mineral exploration and production also increased as a result of continued demand by the consuming industries, and the export market. This chapter reviews the performance of Malawi's mineral sector in terms of production, employment opportunities, as well as a synopsis of new mineral exploration and assessment of existing exploration projects, mineral licenses and mining investment opportunities.

6.2 Mineral Production

6.2.1 Coal

Malawi has over 22 million tonnes of proven coal reserves in a number of coal fields across the country (see Table 3). In general, coal remains one of the most mined mineral in the country for industrial use.

The Mchenga, Kaziwiziwi and Eland Coal Mine Companies continued to be the sector's largest producers of coal in Malawi, contributing about 95 per cent. The companies have a combined maximum capacity of up to 10,000 metric tonnes of coal production per month. The coal is mainly used for provision of energy for different production processes in the cement, tobacco, textile, brewery, food processing and ethanol industries. Besides mining, the three companies have all embarked on expansion projects by, among other activities, continuing with exploration outside their current mining areas so as to increase their respective production capacities and meet the ever growing demand for coal.

6.2.1 Uranium Concentrates

The Kayerekera Uranium Mine which was commissioned in 2009 has remained the largest mining investment in the country's mining sector. Despite the economic slowdown that the country was undergoing in 2012, production of uranium concentrates kept increasing. In 2012, the company produced 1,236 tonnes valued at US$ 136,447,272 equivalent to about MK47.75 billion.

6.2.2 Agricultural, Calcitic and Hydrated Lime

Zalco, Lime-Co and Flouride companies are the largest producers of agriculture, hydrated and calcitic lime in the country with a combined production capacity of up to 3,500 metric tonnes of lime products per month. All the three companies increased their respective production capacity in 2012 as compared to their productions in the previous year. Demand for agriculture lime from the tobacco estates, poultry and paint industries remained robust from within the country. Production of hydrated lime was mostly dominated by medium to small scale operators like the Lirangwe Lime Makers Association, Balaka Lime Makers Associations among others. Most these operators have increased their production capacity owing to overwhelming support they are getting from OVOP in terms of monetary and equipment assistance.

6.2.3 Rock Aggregate

The production of rock aggregates declined in 2012 due to the slowdown of economic activities in the country which included construction and rehabilitation of roads and a number of infrastructure. There are a total of 12 operating quarries for production of rock aggregate both at commercial and project level. Out of these only 6 are commercial quarries and the remaining 6 are project quarries.

6.2.4 Phosphate

Apatite deposits suitable for the manufacture of compound phosphate fertilizers are found at Tundulu in Phalombe District. The phosphates are contained in a carbonatite complex and occur as apatite sovite and apatite carbonatite. Drill indicated reserves amounting to 2 million tonnes and averaging 17 per cent P205 have been outlined to a depth of 100 metres. There is potential for increasing the ore reserves by investigating the adjacent areas capped by agglomerate. Part of the Tundulu area is being developed by Optichem for Phosphate mining to be used in the production of fertilizer.

6.3 Employment Levels

Employment levels in the sector declined significantly in 2012 as may be noted in Table 6.1 below. The decline was as a result of reduced production of Quarry Aggregate which employs a large number of people. It is also worth noting that the sector also employs about 13,500 artisanal and small scale miners scattered across the country wide. Out of the total workforce in the sector, women account for only 10-15 per cent. However, the number of people self-employed in the mining sector especially small scale operators is over 20,000 and it is generally difficult to get the actual number of artisanal and small scale miners since most of these operate in remote areas and are unregulated. This also means that the actual production statistics from the sub-sector remains partial. Employment figures for Cement manufacturing, Gemstones/Mineral Specimens, Ornamental Stones, Terrazzo, Other Industrial Minerals, and Exploration activities were not readily available during production of the report.

TABLE 6.1: FORMAL EMPLOYMENT IN THE MINING SECTOR BY 2012

Workforce	2010	2011	2012
Coal 907	907	671	
Uranium Mine	859	859	840
Cement Limestone	90	90	—
Agricultural,Calcitic and Hydrated Lime	1,640	1,640	665
Quarry Aggregate production	12,030	12,030	1,024
Cement manufacturing	511	511	—
Gemstones/Mineral Specimens	1,260	1,260	—
Ornamental Stones	46	46	—
Terrazzo 2,144	1,340	—	
Other Industrial Minerals	1,340	2,144	—
Exploration activities	195	195	—
Total	**21,022**	**21,022**	**3,200**

Source: Department of Mines

6.4 New Mining Operations and Licences

In 2012, Government granted various licenses to prospecting mining companies and individuals as presented in Table 2.

TABLE 6.2: NEW MINING AND PROSPECTING LICENCES ISSUED IN 2012

Type of Licence	*Number issued*	*Mineral (s)*
Small Scale Operators		
Non-Exclusive Prospecting Licence	76	Gemstones, Ornamental stones
Mining Claim Licence	58	Gemstone, Ornamental stones
Reserved Minerals Licence	36	Gemstones, Ornamental stones
Large-Medium Scale Operators		
Exclusive Prospecting Licence	63	Uranium, Heavy mineral sands, Base metals and Platinum Group Metals, Limestone, Gypsum, Iron ore, Glass sands
Mining Licence	14	Quarry aggregate, heavy mineral sands, limestone and Rare earth minerals
Reconnaissance Licence	1	Graphite

Source: Department of Mines

6.5 Mining Investment Opportunities

6.5.1 Mineral Potential of the Country

Malawi produces cement, coal, crushed stone for aggregates, dolomite, limestone, and some artisanal salt for domestic consumption. Apart from industrial mineral production which services local demand and the Kayerekera Uranium Mine, Malawi's mineral sector is still in its infancy stage. However, there is potential for heavy mineral sands, bauxite, phosphate, uranium and rare earth element deposits. Artisanal and small scale mining activities have grown considerably and are source of livelihood for many families in rural areas.

A regional geochemical drainage reconnaissance survey prior to 1973 showed several anomalies considered to be worth following up (see Table 6.3). Local and international companies are both actively engaged in the exploration for various minerals in Malawi. Potential exploration targets include gold, uranium, platinum group of minerals (PGMs), base metals nickel and copper, dimension stone, phosphates, heavy mineral sands, graphite, and coal.

Government also started the procurement process for a contractor to undertake a countrywide airborne geophysical survey. It is expected that the survey will generate invaluable data that will be more informative to potential investors and other interested parties.

TABLE 6.3: KNOWN MINERAL DEPOSITS, RESERVES AND GRADE

DEPOSIT	LOCATION	DELIANATION RESERVES (Million tonnes/grade)
Bauxite	Mulanje	28.8/43.9% Al_2O_3
Uranium	Kayelekera	12,5/0.15% Ur_3O_8
Monazite/Strontianite	Kangankhunde	11/ 8% Strontianite and 60% REO
	Karonga/Chitipa	
Corundum	Chimwadzulu-Ntcheu	11.0/8% Sr and 2% REO
Graphic	Katengeza-Dowa	8.0/75.6gm per m3
Limestone	Malowa Hill-Bwanje	15/48% CaO, 1.2% MgO
	Chenkumbi-Balaka	10/46.1% CaO, 3.5% MgO
Titanium Heavy Mineral Sands	Nkhotakota-Salima Chipoka	700/5.6% HMS
	Mangochi	680/6.0% HMS
	Halala (Lake Chilwa)	15/6.0 % HMS
Vermiculite	Feremu-Mwanza	2.5/4.9% (Med+Fine)
Coal	Mwabvi-Nsanje	4.7/30% ash
	Ngana-Karonga	15/21.2% ash
	Mchenga	5/17% Ash, 0.5% Sulphur and calorific value of 6,800kcal/kg
Phosphate	Tundulu-Phalombe	2.017% P_2O_5
Pyrite	Chisepo-Dowa	34/8% S
	Malingunde-Lilongwe	10/12% S
Glass Sands	Mchinji Dambos	1.6/97% SiO_2
Dimension Stone	Chitipa, Mzimba, Mangochi, Mchinji,	Blue, Black, Green, and Pink Granite
Gemstones	Mzimba, Nsanje, Chitipa, Chikwawa, Rumphi, Ntcheu	Numerous pegmatites and volcanic

Source: Geological Surveys Bulletins and Private Companies Mineral Exploration Reports

6.5.2 Pipeline Projects

A number of both international and local companies are actively engaged in mineral exploration and mine development for various minerals. The minerals being sought after include rare earth elements, niobium, uranium, zircon, tantalite, limestone and heavy mineral sands.

During the year under review, a number of companies both local and foreign have vigorously continued to actively pursue intensive exploration for different minerals in various parts of the country. The minerals being pursued include heavy mineral sands, PGMs, base metals, rare earth elements, coal and bauxite, among other minerals. Generally the year 2012 experienced a boom in mining exploration activities compared to the previous year with a number of companies both local and foreign acquiring new exploration areas. The major projects in the pipeline include the Kanyika multi-commodity project in Mzimba, Ntcheu and Mangochi; cement production by Bwanje Cement Company and Cement

Products Limited. A summary of potential mining projects are presented in Table 4.

TABLE 6.4: POTENTIAL MINING PROJECTS

Company	*Minerals to be mined*	*Site*	*Country of Origin*	*Status*
Globe Metals & Mining	Niobium, Uranium, Zircon and Tantalite	Kanyika, Mzimba	Australia	Bankable Feasibility Study
The Bwanje Cement Project (Deco)	Limestone	Ntcheu/ Dedza	Malawi	Bankable Feasibility Study
Lynas Corporation	Rare earth elements	Kangankunde, Balaka	Australia	Bankable Feasibility Study
Tengani Titanium Minerals Ltd	Heavy mineral sands	Tengani, Nsanje	Malawi	Bankable Feasibility Study
Cement Products Ltd	Limestone for cement manufacturing	Mangochi	Malawi	Construction
Mkango Resources limited	Rare Earth Metals	Songwe, Phalombe	Canada	Feasibility Study

Source: Department of Mines

During the year 2012, Globe Metals and Mining continued with intensive stakeholder consultations on the development of the Kanyika Niobium Mine. The project is at an advanced level of Environmental Impact Assessment. The Kanyika project is still expected to kick start mining niobium at Kanyika in Mzimba district by the year 2014 in a project likely to start at a value of around $220 million. The company has continued to undertake the bankable feasibility study in order to come up with a bankable project plan. The project, with an estimated deposit of around 50 million tonnes of the multi commodity minerals comprising niobium, tantalum, zircon and uranium, could earn Malawi in excess of US$100 million in foreign currency per annum which if added to the Kayerekera Uranium project could provide a big boost to the country's foreign exchange earnings.

Chapter 7

ENERGY SECTOR

7.0 Overview

This chapter reviews the performance of the energy sector during the 2012/2013 financial year. In particular, the chapter examines performance in energy demand and developments in electricity, petroleum, coal and biomass sub-sectors and various renewable energy programmes.

7.1 Electricity

In the period under review, Electricity Supply Commission of Malawi (ESCOM) sold 1,466.52 GWh of electricity compared to 1,585.13 GWh in the same period of the previous year. This represents 7.48 per cent decrease in units sold largely owing to a 6.9 per cent and 14.6 per cent decline in domestic and industrial sector consumption, respectively, compared to previous year. However, the drop in total consumption was partially compensated by a 10.41 per cent growth registered in the general customer category. The number of registered consumers, however, grew by 2.41 per cent from 213,022 in 2011 to 218,164 in 2012. The installed capacity for the interconnected system during 2012 remained at 287MW (see Table 7.1).

TABLE 7.1: ELECTRICITY GENERATION AND CONSUMPTION (2003-2012)

YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Installed Hydro Capacity (MW)	284.5	284.6	284.5	284.5	285	285	285	286	287	287
Maximum (Peak) Demand (MW)	212.3	212.5	232	242	251.03	241.88	256.67	273.01	277.75	277.88
Energy generation (GWh)	1,177.40	1,179.30	1,703	1,390.80	1,453.00	1,543.00	1,661.32	1,822.20	1,887.70	1,911.5
Number of Consumers	120,172	128,396	155,589	163,147	164,795.00	172,924	189,166	196,780	213,022	218,164
Consumption Domestic (GWh)	304	308	377	417.3	437.54	456.63	516.1	578.28	640.46	596.10
General (GWh)	146	149	180	185.3	196.49	218.16	225.15	217.66	221.41	244.47
Power Demand (GWh)	480.6	483.4	491	503.3	__	521.9	584.27	646.36	708.45	604.88
Export (GWh)	6.5	6.5	7	10.6	17.4	21.93	16.35	21.2	21.2	21.1
Total Consumption (GWh)	937.6	992.8	1055	1,076.50	1,109.52	1,218.59	1,341.87	1,463.50	1,585.13	1,466.52

Source: ESCOM Ltd

7.1.1 Demand Analysis and Planned Projects

In the period under review, the sector continued to monitor the Base Scenario of the Power Demand Forecast carried out in 2011. According to the study, generation requirements were estimated to increase from 335MW in 2012 to 890.1MW in 2020, respectively. The growth rates captured by the study are generally higher in the second decade due to higher long-term economic growth rates (see Table 7.2).

TABLE 7.2: FORECAST ENERGY AND POWER DEMAND

`	**Energy and Power**				**Average growth rate (% p.a.)**		
Item	2012	2015	2020	2025	2012-2015	2015-2020	2012-2025
Domestic (GWh)	596.10	1,035.00	1,564.00	2,186.00	*12.0*	*8.60*	*8.75*
General (GWh)	244.47	551.00	859.00	1,190.00	*14.0*	*9.29*	*9.29*
Small Power (GWh)	214.76	404.00	575.00	787.00	*8.01*	*7.32*	*7.23*
Large Power (GWh)	390.12	624.00	918.00	1,275.00	*10.0*	*8.03*	*7.92*
Export (GWh)	21.1	50.00	53.54	86.22	*27.23*	*10.00*	*13.98*
Total Sales (GWh)	**1,466.52**	**2,664.00**	**3,969.54**	**5,524.22**	***12.0***	***8.38***	***8.37***
Losses (GWh)	444.98	468	712.46	968.78	*5.36*	*6.30*	*6.29*
Generation (GWh)	1,911.5	3,132	4,682	6,493	*11.05*	*8.38*	*8.37*
Peak Load (MW)	277.88	534	798	1,106	*8.62*	*7.91*	*7.97*
Step Loads(MW)	25	25.6	37.1	50	*187*	*7*	*32*
Reserve Margin(MW)	32	37	55	75	*10*	*10*	*10*
Generation Requirements(MW)	335	596	890.1	1,231	*16.47*	*9.86*	*15.0*

Source: ESCOM Ltd

The study further showed that domestic, general consumers and export have high growth rates of 12.0 per cent, 14.0 per cent and 27.2 per cent, respectively, in the period 2012-2015. This is explained, firstly by the very high GDP growth rates used as proxies for the income levels of these consumer categories and secondly, by increased expectation of regional power trading opportunities to exist once the Malawi – Mozambique Interconnection project is implemented.

Based on the demand forecast, the study revealed that some impetus in electricity demand will emanate from continued expansion of mining, irrigation and telecommunications activities due to the prioritization of the mining sector, food security and popularity of mobile phones, and a modest expansion in government spending. Inter-tariff subsidies and the on-going tax reforms will increase disposable incomes of the domestic/general sector, which should result in higher appliance ownership and therefore high electricity consumption by this category. The power demand forecast also shows that with the present total installed capacity of 287MW, ESCOM is currently not able to meet demand and the desired reserve margin. Therefore, there is urgent need for capacity additions. With the projected peak load of 534MW, 798MW and 1,106MW for years 2015, 2020 and 2025, respectively, the generation capacity needs to be increased accordingly in order to meet the projected demand and the reserve margin.

7.1.2 Feasibility Studies and Status of Kapichira II

Feasibility studies for hydropower at Chasombo and Chizuma, with potential of 50MW for each site along Bua River, are near completion for review by the Ministry of Energy and key stakeholders. The results will be used by investors as a basis for making investments to generate power.

The installation of turbines at Kapichira II is at an advanced stage, with the first phase of about 32 MW to be connected to the grid by August, 2013, while the last phase will be connected in December 2013. A total of 64 MW will be added to the grid.

7.1.3 Electricity Tariff Developments

Malawi Energy Regulatory Authority approved electricity tariffs adjustment by 63.52 per cent across all customer categories on 11th May 2012 based on the Automatic Tariff Adjustment Formula. However, inflation and exchange rate have continued to deteriorate and negatively impacted upon ESCOM's financial position given that most materials are procured from foreign countries. Another tarif adjustment, of about 25 per cent across all customer categories, was effected on 9th November 2012 to counter the impact of inflation and the depreciation of the Kwacha.

In recognition that renewable energy sources have the potential to enhance the country's electricity supply capacity, Government of Malawi through MERA, has developed the Malawi Feed-In-Tariff policy. The formulation of this policy, which is specifically for small hydro, wind, solar, biomass, biogas and municipal waste will encourage and boost the development of renewable energy sources.

7.1.4 Malawi Rural Electrification Programme (MAREP)

The Malawi Rural Electrification Programme (MAREP), aims at increasing access of electricity to people in peri-urban and rural areas as part of Government's effort to reduce poverty, transform rural economies, improve productivity and improve the quality of social services. Six phases are being implemented through extension of power transmission and distribution lines to district administration centres, major trading centres, tobacco growing areas, and the development of the 4.5 Mega Watt Wovwe Hydro Power Plant.

In the period under review, the Government of Malawi has electrified a total of 178 trading centres by the end of MAREP Phase VI with contribution of funds from the Japanese Government and own resources. The last completed Phase VI has been solely financed by Government's own funds amounting to MK2.2 billion and reached a total of 54 trading centres in all 27 districts (two in each district except Likoma District which is fully electrified).

The implementing agency, Department of Energy Affairs, is in the process of procuring materials for MAREP Phase Seven which is expected to electrify 81 trading centres. Out of these centres, the following 27 trading centres are expected to be completed by December, 2013 (Table 7.3 below).

TABLE 7.3: MAREP PHASE SEVEN TARGETED TRADING CENTRES

NO.	District Name	Targeted T.C Name
	NORTHERN REGION	
1	Chitipa	Kapirinkhonde
2	Karonga	Lupaso
3	Rumphi	Nkhozo
4	Mzimba	Manyamula
5	Nkhatabay	Kalowa
	CENTRAL REGION	
NO.	**District Name**	**Targeted T.C Name**
6	Kasungu	Kakwale
7	Nkhotakota	Mpamatha
8	Ntchisi	Kangolusa
9	Dowa	Kayembe
10	Salima	Kambwiri
11	Lilongwe	Chadza
12	Mchinji	hwazi
13	Dedza	Mganja
14	Ntcheu	Njolomole
	SOUTHERN REGION	
NO.	**District Name**	**Targeted T.C Name**
15	Blantyre	Lundu
16	Chiradzulu	Muyere
17	Thyolo	Gombe
18	Mulanje	Mpholiwa
19	Phalombe	Maliro
20	Chikhwawa	Gumbwa
21	Nsanje	Sankhulani
22	Mangochi	Lungwena
23	Balaka	Nandumbo
24	Machinga	Molipa
25	Zomba	Mateketa
26	Mwanza	Thawale
27	Neno	Mizemba

Source: Department of Energy Affairs

7.1.5 Community Solar/Wind Hybrid Electrification Project

The Department of Energy, through MAREP is implementing Village Electrification Projects using Solar-Wind (Hybrid) Systems. The main thrust of this project is to experiment on the suitability of stand-alone renewable energy technologies for rural electrification in order to increase access to modern energy services by the rural communities. The project concept is to electrify a village using a centralized Solar-Wind Hybrid System (60 per cent Solar and 40 per cent wind) with estimated system capacity of 25 KW. The area coverage for the village is between 2 and 3 km radius with about 150 households each, including institutional (Government) facilities such as staff houses, schools and clinics. Each house has five lighting points and one socket outlet. The generated electricity is used for the provision of the following services to the village:—

- Domestic and street lighting;
- Running electrical domestic appliances; and
- Running refrigerators at the trading centre of the village.

Phase I of the project targeted three villages namely Elunyeni in Mzimba district, Kadzuwa in Thyolo district, Chigunda in Nkhotakota district

Phase II of the project targeted another three villages namely Kadambwe in Ntcheu district, Mdyaka in Nkhatabay district and Chitawo in Chiradzulu.

In the period under review, there was completion of installation works of Chitawo community solar/wind hybrid system. The project has been delayed due to under performance of the contractor.

7.1.6 Energy Sector Support Project

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

In addition to Electricity Network Strengthening and Expansion (ENSE), in the period under review, potential suppliers have been identified for procurement of generation spare parts for the earmarked hydropower stations.

In the period under review, TORs for Fufu hydro power and wind technology were developed and no objection was raised by the World Bank who are the financiers of the project. Expression of Interest for the exercise was advertised. Bidders were shortlisted and evaluation reports prepared for World Bank for endorsement.

7.2 Promotion of Alternative and Renewable Energy Sources

The Department of Energy initially identified 13 alternative energy sources for promotion as shown in Table 7.4 below:

TABLE 7.4: SELECTED ALTERNATIVE AND RENEWABLE ENERGY SOURCES

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

Source: Department of Energy Affairs

Currently the Department is concentrating on promotion of two viable and market-ready alternative energy sources to charcoal and firewood, namely biomass briquettes and biogas. The briquettes were promoted through groups which were producing and selling the briquettes. In the period under review, it was noted that there is slow uptake of the briquette technology owing to a number of factors which include group dynamics and marketing of the technology.

7.2.1 Biogas Production and Utilization

In an effort to promote usage of biogas technology for energy production, the Sector planned to construct 3 pilot biogas plants for demonstration purposes. The plan is to roll out to 38 villages across the country. Dairy cattle farmers who are stall- feeding their animals are to be targeted. The United Nations Development Programme (UNDP) is expected to fund construction of the three biogas demonstration plants through contractors. The other plants will be funded by Government. In the period under review, three sites for the pilot plants had already been identified and procurement process of the contractor is underway.

The Sector has been working with the Malawi Bureau of Standards (MBS) to come up with bio fuels standards. UNDP provided resources for the development of these standards that were approved by the Standards Board. It is expected that once gazetted, Malawi will have its own bio fuels standards to guide investors. MBS is also developing coal briquette standards and expected to be finalized in the 2013/14 financial year.

7.2.2 Renewable Energy Demonstration Centre

The Ministry of Energy through the Department of Energy Affairs has installed various renewable energy technologies, namely, solar/wind hybrid system for electricity generation and water pumping. Biogas technology for cooking is under construction. The renewable energy technologies have been installed at the Department of Energy Affairs offices behind Natural Resources College. The objective is to demonstrate how best and efficient the renewable energy technologies can be utilized. The centre was funded by the UNDP.

7.2.3 Capital Hill Solar Street Lights Project

In order to maximise security at the Capital Hill, the Ministry of Energy has embarked on a project to install solar street lights in the streets at the Capital Hill with funding from People's Republic of China. A total of 220 street lights are expected to be installed in 2013.

7.2.4 Presidential Initiative on Clean Cook stoves

The Department of Energy Affairs has embraced a Presidential Initiative on clean cook stoves. Under the initiative clean cook stoves are to be promoted to 2 million households by 2020. This is part of the country's commitment as a signatory to the Global Alliance on clean cook stoves which aims at adoption of clean cook stove by 100 million households by 2020 worldwide. In addition to be a clean source of energy, the clean cook stoves will also benefit users through the sale of carbon credits.

In the period under review a market assessment of clean cook stoves with financial support from the American Government has been commissioned. The objective of the study is to establish a niche for the promotion of clean cook stoves. A Task Force has been established.

7.2.5 Energy Saver Bulbs

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

The Project involves procurement of 2 Million energy saver bulbs of which 1.3 million bulbs will be distributed nationwide for free to residential customers, small enterprises and public buildings. This will be by direct replacement of existing Incandescent Bulbs (IBs) with energy saver bulbs. Commercial and industrial customers will be required to purchase the remaining 700,000 energy saver bulbs at subsidised prices via retail outlets owned by Malawi Post Corporation (MPC), Farmers World and Rab Processors. The project is supported by the UK Government's Department for International Development (DFID) to a tune of £3million.

In the period under review, a total of 1, 083,809 energy saver bulbs have been installed in 27 districts saving about 43 MW (which is equivalent to generation capacity of Tedzani I and II power plants). At the time of reporting, the installation works are expected to commence in Mwanza district to complete installations in all districts.

The activity is behind schedule by nine months due to late delivery of energy saver bulbs which was attributed by payment to Philips SA and also clearing of the containers by Malawi Revenue Authority (MRA).

7.2.6 Project for Introduction of Clean Energy by Solar Electricity Generation System

The Government of Malawi received a grant from Japanese International Cooperation Agency (JICA) under the Clean Energy Development Initiative of US$ 6,000,000 to install Grid Connected Solar project at Kamuzu International Airport (KIA). The beneficiary of the project is the Airport Development Limited (ADL) who will be using the generated electricity for its operation.

The planned capacity to be installed was 459 KW, however, there was surplus money and it was increased to 830 KW. ADL will solely depend on the electricity from solar during the day and ESCOM electricity will be a back up. In the period under review, the installations are in progress at the Airport.

7.2.7 Geothermal Feasibility Study

Geothermal feasibility study has been put on hold in order to sort out the issue of three licenses issued by the Department of Mines to a geothermal resources project limited company for exploration. The licenses will expire by 2014.

During the World Bank mission visit to the country, the Ministry explained the status of the situation on the side of the company which accepted and cleared government to conduct the feasibility studies on the sites; however, the Bank recommended that there should be clarification from legal experts on this.

7.3 Petroleum

7.3.1 Fuel Importation

Overall, imports of petroleum products during 2012/13 Fiscal Year slightly increased by 2 per cent above that of last year. The importation of petrol decreased by 5 per cent and diesel increased by 7 per cent, as compared to that of last year while Paraffin decreased by 36 per cent below that of last year (see Table 7.5). Despite foreign exchange shortage challenge which affected fuel importation, the decrease in importation of petrol and paraffin products was largely due to logistical problems that were frequent at the ports. Additionally, paraffin imports decreased due to scarcity of paraffin of the required standard 38˚ flash point on the international market. However, there has been an increased demand for the imported fuel due to expanded base of socio-economic activities.

TABLE 7.5: FUEL IMPORTS (LITRES) 1999 – 2012

Year	Petrol	Diesel	Jet a-1	Paraffin	Avgas	Total
1999	91,797,272	130,545,103	1,639,326	46,413,088	-	270,394,789
2000	84,896,135	124,905,868	7,238,749	31,397,224	107,269	248,545,245
2001	81,039387	125,106,968	8,800,186	18,921,235	356,926	234,224,702
2002	88,329,685	127,157,516	6,417,316	20,955,949	201,917	243,062,383
2003	92,976,658	136,408,597	11,911,286	23,652,991	213,898	253,038.246
2004	94,186,321	147,922,241	10,862,036	24,762,093	284,286	266,870,655
2005	84,023,978	152,664,646	9,267,805	21,838,787	235,537	258,527,411
2006	88,330,024	153,235,938	11,764,101	20,310,207	224,682	259,158,172
2007	91,289,689	167,120,445	13,001,437	18,232,957	259,393	289,903,921
2008	103,003,788	199,251,252	13,261,288	17,957,471	268,978	333,742,777
2009	112,236,705	203,302,459	9,758,855	13,916,949	254,470	339,469,438
2010	101,173,574	186,539,556	11,710,626	10,639,538	318,087.5	310,381,382
2011	104,825,891	189,983,124	12,838,968	10,254,955	126,422	318,029,360
2012	99,593,583	205,213,866		6,565,312		

Source: Malawi Energy Regulatory Authority (MERA)

Malawi capitalized on the Beira, Nacala, Dar-es-Salaam and Mbeya routes for procurement of fuel in 2012. About 83 per cent of fuel imports were procured through Beira, 12 per cent through Dar-es-Salaam, 2.4 per cent through Nacala and 3 per cent through Gweru.

7.3.2 Petroleum Pricing

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

In the period under review, price adjustments were effected on all petroleum products. For instance, one liter of petrol rose by 45.7 percent while diesel by 46.1 percent (see Table 7.6).

TABLE 7.6: PUMP PRICE REVISIONS FROM 2007-2012 (MK/LITRE)

Product	Sept.- 2007	Jan. 2008	June 2008	Feb. 2009	Feb. 2010	Nov. 2011	May 2012	May 2013
Petrol	200.90	200.90	251.20	213.50	256.20	380.00	490.00	714.09
Diesel	186.61	187.60	234.50	199.30	231.20	360.00	475.00	693.90
Paraffin	140.0	132.20	165.30	132.20	199.00	171.00	171.00	171.00

Source: Malawi Energy Regulatory Authority (MERA)

7.4 Energy Planning with Support from IAEA

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

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

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

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

Chapter 8

TRADE AND PRIVATE SECTOR DEVELOPMENT

8.1. Overview

This chapter reviews the external trade performance and highlights major achievements of the trade and private sector development during the 2012/13 Fiscal Year.

Malawi Government, through the Ministry of Industry and Trade, is responsible for creating a conducive and regulatory environment, formulating and implementing policies on trade for industry development and competitiveness. It is also responsible for ensuring the expansion of products and services from Malawi on domestic and international markets.

8.2. Trade Performance

The overall external trade indicates that exports and imports have both increased with imports increasing at a faster rate than exports. During the period under review, total merchandize exports registered an increase estimated at 41.3 per cent. The total export value in 2012 was MK296.5 billion, while in 2011 exports recorded MK209.4 billion. In 2012, Malawi imported merchandize goods worth MK661.5 billion compared to MK345.3 billion in 2011 registering an increase of 91.5 per cent in imports.

The trade deficit increased in 2012 from the previous year. According to provisional trade data from the National Statistical Office (NSO), the country registered a trade deficit of MK365.2 billion while that of the previous year was MK135.5 billion as indicated in Table 8.1.

TABLE 8.1: EXPORTS AND IMPORTS IN 2005-2012, IN MILLIONS OF KWACHA,

INDICATOR	2009	2010	2011	2012
Total Export of Goods, fob	179,052.3	171,441.0	240,931.4	365,537.5
Total Imports of Goods, fob	283,513.0	344,286.3	414,815.6	645,110.9
Trade Balance (Net)	(104,460.7)	(172,845.3)	(173,884.2)	(279,573.4)

Source: NSO

* Provisional data

8.3 Major Trading Partners in 2012

The Southern Africa Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), the European Union (EU), the Asian countries and Canada continue to be the major trading partners for Malawi. The major export destinations for Malawi in 2012 were Canada, South Africa, Belgium, Switzerland, China and Egypt, with merchandize goods worth

MK128.9 billion, MK93.1 billion, MK87.4 billion, MK84. 4 billion, MK63.9 billion and MK57.1 billion respectively (see Table 8.2A below).

TABLE 8.2A: TOP TEN DESTINATIONS OF MALAWI'S EXPORTS IN 2012, IN US DOLLARS

Countries	*Values (US$)*	*Per cent of Exports (%)*
Canada	128,890,850	*10.3*
South Africa	93,122,800	*7.4*
Belgium	87,379,046	*7.0*
Switzerland	84,430,661	*6.7*
China	63,917,263	*5.1*
Egypt	57,061,399	*4.5*
USA	49,690,822	*4.0*
Netherlands	48,356,642	*3.9*
Russia	46,869,645	*3.7*
Zimbabwe	46,851,468	*3.3*

Source: NSO

In 2012, Malawi's imports were mainly sourced from SADC and Asian countries. Malawi imported goods worth US$1.2 billion from SADC representing 42 per cent of the total imports from the whole world. Malawi exported goods worth US$0.2 billion to SADC representing 19 per cent of its exports to the whole world.

TABLE 8.2B: TOP TEN SOURCES OF MALAWI'S IMPORTS IN 2012, IN US DOLLARS

Countries	*Values (US$)*	*Per cent of Imports (%)*
South Africa	608,391,098	*22.1*
Mozambique	315,340,633	*11.5*
China	266,276,381	*9.7*
India	231,233,381	*8.4*
United Arab Emirates(UAE)	122,504,217	*4.5*
USA	87,282,578	*3.2*
Zambia	85,109,866	*3.1*
Korea, Republic	84,898,104	*3.1*
Portugal	71,160,759	*2.6*
United Kingdom	66,112,008	*2.4*

Source: NSO

Tables 8.2A and 8.2B above depict ten key export and import markets for Malawi during the period under review. The exports to various countries are also presented as a percentage to the rest of the world. Canada (10.3 per cent), Republic of South Africa (7.4 per cent), Belgium, (7.0 per cent), Switzerland (6.7 per cent) and China (5.1 per cent) were the top destinations of Malawi's merchandize exports. While the top sources of imports were South Africa (22.1 per cent), Mozambique (11.5 per cent, China (9.7 per cent) and India (8.4 per cent) and United Arab Emirates (4.5 per cent).

8.3.1 Main Export and Import Products in 2012

The major exported commodity from Malawi in terms of values during the period under review was tobacco with a value of US$653.6 million seconded by ores-slag and ash with value of US$ 135.1 million. Coffee, tea and spices were on third position with a value of US$119.9 million and cotton on fourth position generated US$55.9 million. Oil seeds/fruits closed on top 5 with value of US$50 million as indicated in Table 8.4A.The top most export product, tobacco, accounted for over 50 per cent of the total exports to the world. The major imported goods during the period under review included fuels (petrol, paraffin, diesel) at 6.4 per cent, fertilizers at 5.4 per cent and pharmaceuticals at 4.5 per cent of the total imports. Other major commodities which dominated the import basket included salt and related items at 4.0 per cent, vehicles and parts at 3.9 per cent and electrical machinery at 2.3 per cent.

TABLE 8.4A: MALAWI'S MAIN EXPORT COMMODITIES, 2012 IN US DOLLARS

Commodities	*Values (US$)*	*Per cent of Exports*
Tobacco	653,575,636	*52.1*
Ores, slag and ash	135,058,693	*10.8*
Coffee, tea and spices	119,957,197	*10.0*
Cotton	55,931,523	*4.6*
Oil seeds/fruits	50,687,633	*4.0*
Edible vegetables	46,143,983	*3.7*
Sugar	42,984,367	*3.4*
Wood products	20,646,630	*1.6*
Plastics	19,796,005	*1.6*
Edible fruits	12,806,252	*1.0*

Source: NSO

TABLE 8.4B: VALUES AND PERCENTAGE OF WORLD IMPORTS OF SELECTED COMMODITIES, 2012 IN US DOLLARS

Commodities	*Values (US$)*	*Per cent of Imports*
Fuels	352,379,402	*6.4*
Fertilizer	298,066,972	*5.4*
Pharmaceuticals	247,856,306	*4.5*
Salt and related items	220,084,991	*4.0*
Vehicles and parts	212,908,747	*3.9*
Electrical Machinery	129098,109	*2.3*
Plastics	106,532,065	*1.9*
Iron Sheets	69,605,842	*1.3*

Source: NSO

8.3.2 Trade Agreements

Malawi integrates into regional and multilateral trading systems as such it continued to actively participates in bilateral, regional and multilateral trading agreements. These are summarized as follows:

8.3.2.1 Regional Trade Agreements

At regional level, Malawi is a member of COMESA and SADC. COMESA member states including Malawi took steps to consolidate the Free Trade Area (FTA) and to implement the Customs Union that was launched in Zimbabwe in June, 2009. The preparatory requirements included aligning national tariff structures to COMESA Common Tariff Nomenclature (CTN) and the Common External Tariff (CET), adoption and domestication of the Customs Management Regulations (CMR) and submission of lists of sensitive and excluded products.

Malawi is also participating in trade in services liberalization under COMESA. Members States agreed to initially liberalize four priority sectors namely Financial Services, Tourism, Transport and Communications. Presently, Malawi submitted schedules of specific commitments in two sectors, financial services and communication, and it is expected that schedules of specific commitments will be submitted in the remaining two sectors by the end 2013/14 FY.

Under SADC, Malawi has been phasing down her tariffs with the SADC region progressively. Malawi reached 100 per cent with all SADC Member States whereas with South Africa the phase-down is at 86 per cent. The SADC Protocol of Trade implementation was aimed at creating SADC FTA which was achieved in 2008 and it envisages the establishment of a Customs Union in the near future.

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

At present, there is already cooperation and implementation of programmes in areas such as elimination of non-tariff barriers (NTBs) and infrastructure development under the Comprehensive Tripartite Trade and Transport Facilitation Programme (CTTTFP).

The Tripartite trade negotiations are also progressing well with three technical working groups established and transacting work. These are Technical Working Groups (TWGs) on (i) Technical Barriers to Trade, Sanitary and Phytosanitary Measures and Non-Tariff Barriers; (ii) Customs Cooperation, Documentation, Procedures, and Transit Instruments; and (iii) Rules of Origin. Member States also agreed to liberalize 60 per cent to 85 per cent of their tariff lines at the time the Tripartite FTA enters into force. The remaining 15 per cent to 40 per cent of the tariff lines will be negotiated by June 2014 for liberalization over a timeframe of between 5 to 8 years. In addition, it has been agreed that the Member States exchange tariff offers by September 2013 and that negotiations based on the draft Agreement establishing the Tripartite FTA and its Annexes will begin mid 2013.

Malawi also co-championed the Accelerated Programme on Economic Integration (APEI) which is an initiative agreed upon by Malawi, Mauritius, Mozambique, Seychelles and Zambia. The initiative is in line with the process of regional integration based on the principles of variable speed adopted at the regional level by the Ministers of Finance and Central Bank Governors of Common Market for Eastern and Southern Africa (COMESA) and Southern Africa Development Community (SADC) countries in 2011.

On this basis, APEI member countries agreed to partnering together and pursuing own programmes to improve competiveness and accelerate economic growth by removing barriers to trade. The focus was on setting up a road-map to identify concrete reforms in the following areas:

i. Eliminate barriers to trade in goods ranging from tariffs to non-tariff barriers such as permits and licenses that prevent trade in agriculture and light manufacturing;

ii. Promote trade in services by eliminating or reducing regulations that limit entry of people or firms that can provide a wide range of services which are often in shortage and are key to competiveness;

iii. Improve business regulatory environment to enable firms to export more competitively to the region as well as to the world;

iv. Improve trade facilitation in all its aspects such as reducing costly delays at ports, enhance customs facilitation, and transit regimes critical for land locked countries; and

v. Capacity building through peer to peer learning in areas like tourism and business deregulation to ultimately set country benchmarks in trade facilitation and relevant doing business indicators.

8.3.2.2 Bilateral Trade Agreements

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

8.3.2.3 Multilateral Trade Agreements

Malawi is member of the World Trade Organization (WTO) as well a beneficiary of the African Growth Opportunities (AGOA) and Everything But Arms (EBA) Agreement. In this regard, the country continues to participate in the WTO trade negotiations under the Doha Development Agenda. Malawi being a Least Developed Country (LDC), her concern is to safeguard her interest by focusing on trade related development issues such as market access, preservation of existing preferences, provision of special and differential treatment to poor countries and the reduction of technical barriers to trade, non-tariff barriers and other distorting measures that hamper Malawi's performance. Malawi strives for a comprehensive breakthrough under the Doha "development" agenda.

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

8.3.2.4 Competition and Consumer Protection

In pursuit of the Government's policy objective of transforming the country from a predominantly importing and consuming nation to a predominantly producing and exporting one, the Ministry of Industry and Trade through the Competition and Fair Trading Commission (CFTC) has implemented programs and activities aimed at strengthening efficient operation of markets and safeguarding consumer welfare. These programs and activities focused on regulating anti-competitive business practices to create a conducive business environment for investment, and taking corrective action to practices that created unfair trading conditions for consumers. These programs and activities include:

(*a*) Regulations of mergers and acquisitions

Mergers and acquisitions are a form of investment but can also be used by companies to thwart competition. This is why the Commission takes keen interest on any merger or acquisition that takes place in Malawi or outside Malawi involving companies that have subsidiaries in Malawi.

In the year 2012 the Commission received three applications for authorization of proposed mergers which include:

i. Sale of 49% shares in NICO Holdings Limited to Santam Limited of South Africa;

ii. Sale of Makandi Tea and Coffee Estates and Kawalazi Estate by Global Tea and Commodities Limited to Dhunseri Petrochem Tea and Pte Limited; and

iii. Acquisition of at least 41.99 per cent shareholding in CFAO Malawi Limited and CICA Motors Limited by Toyota Tsusho Corporation.

The merger between NICO Holdings Limited and Santam Limited and the acquisition of Makandi Tea and Coffee Estates and Kawalazi Estate by Dhunseri Petrochem Tea and Pte Limited were found to have no serious competition concerns and were, therefore, authorized. However, to ensure that Malawi get full benefits from the merged businesses, the approval was granted subject to conditions that the acquiring companies would fully comply with the country's laws particularly those relating to labour relations and export earnings repatriation which were found to be areas of major public concern in Malawi.

The Toyota Tsusho Corporation - CFAO merger was found to raise some competition concerns but was authorized based on public interest. Considerations included avoidance of disruption of the supply of certain brands of motor vehicles into the Malawi. To remedy the competition concerns established, the approval has been granted on condition that Toyota Malawi and CFAO Malawi and CICA Motors would operate as independent companies and Toyota Tsusho Corporation would not engage in conduct that would undermine the operation of CFAO and CICA Motors or use the joint market power of CFAO Malawi and Toyota Malawi to undermine other motor vehicle distributors in Malawi.

(*b*) Regulating anti-competitive and unfair trading practices

In the year 2012, the Commission also investigated and remedied four cases of anti-competitive and unfair trade practices brought to the attention of the Commission by the general public. These include:

i. A price cartel by Minibus Owners Association of Malawi (MOAM);

ii. Anti-competitive business practice by members of the Banker Association of Malawi with regard to operation of Credit Reference Bureaus;

iii. Predatory conduct by Airtel Malawi Limited against its appointed distributor in Blantyre; and

iv. Anti-competitive conduct by Illovo and Simama General Dealers in relation to sugar distribution in Karonga and neighboring districts.

The Commission determinations of these cases have helped to create a competitive environment for conduct of businesses. In the case of the Bankers Association of Malawi (BAM), the CFTC determination sought to address discrimination in the provision of information by credit institutions which are crucial for operation of credit reference bureau. The Commission's findings have since been brought to the attention of the Reserve Bank. On the Illovo sugar distribution system, the Commission ruled that Illovo Sugar Malawi should adopt a system that does not create market dominance and that those involved in the management of sugar should not engage in practices that prevent competitors from accessing sugar as was the case in Karonga District. Transparency in the sugar distribution system was also a condition given to Illovo by the Commission in light of the public interest.

With regard to Airtel predatory conduct, the Commission's remedy was that Airtel Malawi Limited should adopt a distribution system of its products and services that is not discriminatory so that consumers should benefit from competition.

Through these cases, advocacy and sensitization activities implemented in the period under review, the Commission has contributed to improving the business environment in Malawi and has offered remedy to consumers for safeguarding of their welfare.

8.4 Industrial Performance

8.4.1 Industrial Projects

Pharmaceutical Industry: The Ministry facilitated the establishment of Crown Pharmaceuticals Limited, a subsidiary of Crown Group of Companies that has invested US$21 million in building a state-of-the-art factory. The company will be manufacturing several pharmaceutical products including, for the first time in the history of Malawi, ARVs.

The company will be employing 700 people and is expected to generate US$10 million from exportation of their products. The company will target SADC and COMESA markets. The project will also save US$15 million through import substitution.

Lime and Cement Industry: Facilitated the establishment of Cement Products Limited. The company has already invested US$8 million and is producing 600 tonnes per day of two brands of cement (Njati and Tarzan). The company intends to invest up to US$55 million and production per day is expected to rise up to 1,250 tonnes per day once it is fully operational. The company will also be producing clinker as such foreign earnings which were used to import clinker from countries like Zimbabwe will be saved. Currently the company is employing 100 people.

It also facilitated the expansion of Shayona Cement Project in Kasungu worth US$50 million. It is anticipated that with a lot of construction taking place in the country, local cement production would enormously reduce foreign exchange outflow that is used to import the commodity which is estimated at US$70 million annually. The project will be producing 1,000 tonnes daily and these quantities will be able to satisfy the current domestic demand as well as exporting to Tete, Mozambique.

Agro-processing: The Ministry facilitated the establishment of Crown Agro Industries that are in integrated poultry farming. The company has invested US$12 million and is situated in Ntcheu district. The company will create 300 direct employment and over 3000 indirect job opportunities. The market segmentation will be 60 per cent local and 40 per cent export. Therefore, the expected annual total income is US$3,519,642 and about US$2 million will be realized from the export market per year.

Export Processing Zones: Facilitated the establishment of an Export Processing Firm, MNI Macadamia (EPZ) Company Limited. The company has invested US$500,000 and is exporting processed macadamia nuts to Japan, European Union, United States of America, Republic of South Africa and Netherlands and is expected to yield turnover of US$1 million annually. Currently the company is employing 176 people.

Leather Industry: Facilitated the establishment of Fu Jian He Shieng Company, a Tannery based in Liwonde. The company has invested US$1.5 million and employs 90 people. It has a production capacity of 2,000 skins and 600 hides per day.

Bio Fuel Industry: In collaboration with the Department of Energy, Ministry of Industry and Trade facilitated the operationalization of Bio Energy Resources Limited (BERL). Total investment is at US$8 million. The company will be producing bio fuel from Jatropha carcus starting from January 2013. The bio fuel is produced by blending 8% of Jatropha oil with 92% of diesel. Jatropha oil is also blended with paraffin for lighting in rural areas. The byproduct is seedcake which is used in farms as bio fertilizer. The price of biodiesel will be lower than that of diesel. Currently the company is employing 130 people. BERL is also working with 25,000 farmers from 10 districts who are planting Jatropha and supplying to the company. The company buys the Jatropha from the farmers and the expected income generation is MK363,000,000 per annum. The production capacity of bio-fuel is estimated at 750,000 litres in 2013 that will gradually increase to 22,000,000 litres in 2015.

Buy Malawi Initiative: The Ministry has embarked on Buy Malawi campaign in order to build local productive capacity, value addition and save foreign exchange. The main focus is on pharmaceutical products and a Memorandum of Understanding has been signed to start implementing the initiative. The companies to participate in this initiative are Pharmanova, Kentam Products Limited, Malawi Pharmacies Limited, SADM, Health Net, Victoria Pharmaceutical and Crown Pharmaceuticals. This will save US$50 million used in the importation of pharmaceutical products.

Sugar Industry: The Malawi National Export Strategy identifies sugar as an important agricultural product to enhance export. In this regard, the Ministry facilitated the establishment of Limphasa Sugar Project in Nkhata Bay District. The project's investment is worth US$80 million and is expected to be producing 120,000 metric tonnes thereby generating US$50 million from sugar exports per annum. The company will have 2,000 beneficiaries under the out-growers scheme. The company has acquired extra 2,568 hectares of agricultural land and water right license to extract water from Lake Malawi for irrigation and manufacturing purposes. The project is further expected to generate power of 14 Megawatts (MW), 10MW of which will be sold to ESCOM grid. So far 230 people have already been employed and total employment is expected to reach 3,500 when commercial production starts in April 2014.

Ministry also facilitated the establishment of Mtalimanja Sugar Project. This is a purely Malawian initiative, to start sugar manufacturing in Nkhotakota. It has invested about K500 million and already planted 300 ha with cane. When fully operational, the factory will be crashing 1,500 tonnes of sugar cane and produce 10 tonnes of sugar per day. The project has employed 60 labourers and will engage 600 farmers in the out growers scheme. Total expected income per year is US$2,019,047 if operating at the maximum capacity.

8.5 Private Sector Development

The development of the private sector is crucial in fostering sustainable economic growth and reducing poverty in Malawi. It is a core component of the Malawi Growth and Development Strategy II and is key in addressing Malawi's trade deficit, strengthening its foreign exchange reserves and reducing its reliance on imports and aid. In this regard, the Ministry, in cooperation with key stakeholders including other ministries, has undertaken an ambitious programme to develop the private sector in Malawi by improving the investment climate and ease doing business.

8.5.1 Doing Business Reforms

During the period under review, the Ministry sought to implement measures to encourage the formation and expansion of 'formal' enterprises. The aims of doing business reforms are to reduce cost and time of doing business, and also to streamline regulations and procedures that affect businesses. These reforms have been specifically targeted at the World Bank Doing Business Survey indicators. A number of reforms have been made which are expected to improve Malawi's ranking, and the most notable bills that were enacted into law were as follows:

(*a*) **Business Registration Act 2012:** This Act will allow for launch of a new online registration platform for business registration which will reduce the time and cost for registering a business as well as encouraging businesses to operate in the formal sector. The system will interface all institutions relevant to the process of starting a business.

(*b*) **Business Licensing Act 2012:-** The Act aims at simplifying the regime for starting a business in Malawi by introducing a single business license.

(*c*) **Companies (Amendment) Act 2012:** Amongst other changes, the amendment makes the use of a company seal optional thereby streamlining the processes, time and cost of incorporation in Malawi.

(*d*) **The Investment and Export Promotion Act 2012:** This established the Malawi Investment and Trade Centre (MITC) and forms the basis for the formation of a one-stop-shop for investment in MITC.

(*e*) **The Malawi Bureau of Standards Act 2012:** The Act seeks to update the MBS Act to make it consistent with international best practices.

Furthermore, the Ministry has developed four additional pieces of legislation which are awaiting enactment. These include:

(*a*) **Personal Property Security Bill 2013:** This will introduce a secured transactions legal framework that consolidates the regulations for using movable property such as plant and machinery as collateral.

(*b*) **A Revised Companies Bill 2013:** The Bill seeks to create a modern core company law framework that facilitates ease of incorporation, protects investors, and enshrines international accounting standards and good corporate governance.

(*c*) **Insolvency Bill 2013:** The Bill seeks to update and streamline the legal framework for dealing with bankruptcies in Malawi and provides a mechanism for resurrecting ailing companies instead of focusing on bankruptcy;

(*d*) **Export Processing Zones (Amendment) Bill 2013:** The Bill seeks to restructure the regulations for Export Processing Zones (EPZs) to attract increased investment in Malawi's key export sectors.

The Ministry, with assistance from the World Bank and EU funded BESTAP project, has overseen the automation of the land registries in an effort to avoid overreliance on files and paper transactions thereby reducing the time taken to register property. Similarly, the Commercial Court system has also undergone administrative improvements through computerization of case tracking and management systems.

8.5.2 Business and Investment Promotion

Three high level business fora were held during the period under review with key trading partners of Malawi namely;

- Malawi - Nigeria on 10th September 2012
- Malawi - Kenya on 16th January 2013
- Malawi - Mozambique on 4th April 2013.

The overall aim was to boost economic relations and collaboration between the private sectors of the countries, through the showcasing of investment opportunities. These fora offered an opportunity for Malawian companies and business organizations to meet and explore business relationships with their counterparts from other countries, among them areas of business opportunities or collaboration were power and energy, transportation, agro-processing, manufacturing, mining, and tourism.

In the case of Nigeria, particular interest was in cassava production in Malawi, whilst Malawi was interested in importing oils from Nigeria.

For Mozambique, a key area of discussion was the Malawi-Mozambique interconnector, and Malawi's interest in attracting investments related to the mining sector.

8.5.3 The Competitiveness and Job Creation Support Project

The Ministry is currently implementing the Competitiveness and Job Creation Support Project (CJCSP), a five year project financed by the African Development Bank through a loan worth US$15 million.

The Project's goal is to contribute towards the reduction of poverty in Malawi through sustainable pro-poor economic growth and improved socio-economic development led by the private sector. The CJCSP aims to achieve this by improving the capabilities and the competitiveness of the private sector, thus increasing export diversification and job creation.

The project includes the following two components:

(*a*) Private Sector Policies and Institutional Strengthening and Entrepreneurial Skills Development; and

(*b*) Development of Strategic Value Chains (specifically edible oils and pulses) and Access to Finance for MSMEs.

8.6 Small and Medium Enterprise (SMEs) Promotion

8.6.1 SME Development

In order to improve the operating environment for SMEs, the Ministry of Industry and Trade finalized the review of the Micro, Small and Medium Enterprise (MSME) Policy and the Microfinance Policy. When approved by Government, the policies will provide for a robust national strategy capable of creating an innovative and sustainable SME sector.

Noting that infrastructure is one of the critical elements necessary for SME development, the ministry through the Small and Medium Enterprises Development Institute (SMEDI) completed construction of four Business Development Centres (BDCs) at a total cost of K130 million. The BDCs which are aimed at bringing business development services close to entrepreneurs in rural areas which will become vibrant local economies enabling Malawians to become key participants in economic development.

The Ministry of Industry and Trade in collaboration with the Common Market for Eastern and Southern Africa (COMESA) Secretariat commenced activities to develop three SME industrial clusters focusing on textiles and clothing, leather and leather products, and food processing (cassava). It is anticipated that when the project is fully implemented, 2,000 SMEs will benefit through training, access to finance, access to technology, and market linkages within the COMESA region.

8.6.2 SME Promotion

In the quest to increase the contribution of SMEs to the country's Growth Domestic Product, the ministry implemented a number of key interventions aimed at building the capacity and capability of SMEs in order to improve their productivity and profitability. In 2012 alone, the SME sector generated revenue amounting to K326 billion.

Under a co-financing grant agreement with the United States Africa Development Fund (USADF) focusing on the export market, six projects were provided technical and financial support worth K410 million. The beneficiary enterprises are able to generate export earnings in excess of K120 million per annum. In addition, under a grant agreement with USADF worth US$ 1million, the ministry, through the National Association of Business Women (NABW), has supported over 2000 dairy farmers with both financial and technical assistance to enable them increase milk production and processing.

Significant efforts have been made increase access to credit and finance by small enterprises. This has culminated in over 800,000 small businesses accessing credit and finance worth over K13 billion to start and expand their business ventures by December 2012.

The ministry has continued to support SMEs access market opportunities. In this regard, 120 SMEs exhibited their products during a Malawi-Tanzania Joint Exhibition held in Lilongwe in May 2012. This was followed by a similar fair held in Dar es Salaam, Tanzania in November 2012. During both exhibitions, Malawian entrepreneurs generated on-the-spot sales and business deals worth over K20 million. The ministry also supported eighteen small scale entrepreneurs to exhibit their products and services at the International Trade Fair held in Blantyre where on-the-spot sales and business deals worth K15 million were generated. Eighteen small scale business people were also supported to exhibit their products and services in Tete, Mozambique during a Ministerial Business Visit to Tete aimed at identifying business opportunities for Malawi. Some SMEs were supported to exhibit at the COMESA Summit held in Kampala, Uganda in 2012 where orders worth US$ 10,000 were secured.

In order to improve the competitiveness and skills of SMEs, 337 entrepreneurs were trained in various disciplines including, business management skills, advanced garment making, agro-processing, and metal fabrication. In addition, 80 entrepreneurs engaged in honey and mushroom production continued to supply to local supermarkets.

8.7 Cooperative Development

8.7.1 Performance of the Cooperative Sector

In the period under review, the cooperative sector grew by registering 31 new cooperatives. Out of these, 6 were savings and credit cooperatives (SACCOs), 4 were community savings and investment promotion (COMSIP) cooperatives while 21 were producers and marketing cooperatives. This increase represents 4.3

per cent growth per year. At present, the country has a total of 748 registered cooperative societies. This has created an addition the job opportunities to the labour market of 300 direct employment and over 2,000 indirect jobs.

The cooperative sector had cumulative share capital rise from K4.9 billion in the previous period to MK7.2 billion during the period under review. Loans granted during the same period amounted to over K5.3 billion while cumulative deposits amounted to MK 3.8 billion.

During the period under review, 22 agro-based cooperatives with membership in excess of 15 000 were supported to participate at the 9th National Agriculture Fair held in Blantyre from 23rd to 25th of August 2012. Through such initiatives, 7 dairy cooperatives with 6000 members secured USADF grants worth US$30,000 per year for each cooperative aimed at boosting production and skills development. This resulted in sales increase from MK22 million to MK41 million.

In order to promote access to markets, about 31,000 farmers were linked to potential and better markets such as EU and Japan for products like rice, honey and groundnuts worth MK600 million and also 5,000 farmers were linked to financial institutions such as banks and insurance companies. This has resulted into MK150 million worth of loanable funds to be made available to farmers

The Ministry also trained 300 cooperative members belonging to internal audit committees of 30 cooperatives. As a result, MK20 million worth of cooperative funds have been safeguarded through timely reporting of proper cooperative audits and inspections.

8.7.3 One Village One Product (OVOP) Programme

The programme focuses on value addition of agriculture commodities and natural resources through organized groups through processing of products, thereby creating employment, offsetting imports and in turn creating wealth.

During the period under review, the programme installed and commissioned twenty one (21) machines namely; one concrete block making in Lilongwe, one mango processing machine in Ntcheu, one honey processing machine in Mchinji; three (3) cooking oil processing machines in Chikhwawa, Kasungu and Rumphi; one cotton ginnery in Chikhwawa and fourteen (14) sugarcane juice extractors.

The programme is involved in ensuring that the cooperatives get relevant skills to improve their business performance. To this end, a total of MK40,641,845 was realized by OVOP cooperatives during the period under review.

Chapter 9

EDUCATION

9.1 Overview

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

9.2 Key Sectoral Developments

9.2.1 Basic Education

Enrolment in primary schools is currently at 4.1 million pupils and with a current growth rate of about 3 per cent. It is projected that by 2017, the enrolment shall be at around 5.3 million.

The Ministry has successfully procured and distributed teaching and learning materials as follows: 60,000 double seater desks to needy primary schools; and 32,000,000 exercise books to primary schools country wide.

As a way of fast tracking the process of decentralisation, the Primary School Improvement Program (PSIP) has been rolled out to the 24 education districts. Under this program school management members have been trained in good management and governance and schools are now receiving grants to implement their planned activities as stipulated in School Improvement Plans.

In order to increase access and equity, 600 Complementary Basic Education Centers are in operation in 10 districts, and it is estimated that 18,000 students will be reached with this program which targets youth who dropped out, or never attended school.

9.2.2 Secondary Education Department

Secondary net enrollment is 13 per cent of the children aged 14 to 17 years. Currently, therefore, there are 256,343 pupils attending secondary school.

In order to increase access and equity, a total of 2,300 orphans and vulnerable children in standard 1 have received cash transfers, which complements the already existing bursary scheme which reaches out to 12,000 students. It is also expected that the following teaching and learning materials will be procured in the current financial year 2012/13: 20,000 single seater desks and chairs; 313,210 secondary school text books; and 9,967 student mattresses.

9.2.3 Teacher Education Department

Enrolment in primary schools is currently at 4.1 million pupils. This requires about 65,000 qualified teachers so as to achieve the ratio of 60:1 by the end of 2013. Currently there are 48,000 qualified teachers, bringing the shortfall to 17,000 qualified teachers. Annual primary teacher supply is at 8,100, both from Open Distance Learning (ODL) and IPTE Conventional programmes.

9.3 Infrastructure Development

Under the Education Sector Wide Approach (ESWAP), the Ministry approved the award of 38 contracts for construction of 58 primary schools with a total contract value of K2.83 billion. This construction will cover 496 classrooms, 126 teachers houses, 58 administration blocks, 16 ablution blocks, 817 pit latrines and 116 urinals. The civil works commenced in January 2011 and construction is around 90 per cent complete.

The Ministry had also planned to construct 2,000 more primary school classrooms, 738 teachers houses, 369 administration blocks, 6,642 pit latrines, and 735 urinals in all the districts commencing in the 2011/12 financial year at a cost of MK17.3 billion. However, progress on this has been very slow due to lengthy procurement procedures prescribed in the Joint Financing Agreement governing the pool fund. Moreover, the devaluation of the kwacha has affected the costs and, therefore, at the moment, the Ministry of Education has phased the project.

The Ministry has channeled resources amounting to a total MK5.5 billion to the Local Development Fund (LDF) to construct various primary school infrastructure. Initially, MK3.5 billion was disbursed to LDF and in 2012-13 MK4.7 billion has just been disbursed. The expected outputs under the LDF programme are: 819 classroom blocks; 201 staff houses and 350 VIP latrines. There has been substantial progress to date with an average of about 90 per cent completion rate. The Ministry intends to continue with this approach and there are plans to construct a further 1,500 classroom blocks, 700 teacher houses and other related infrastructures through the LDF approach.

Girls' hostels are being constructed to reduce drop-out rate for girls. To date, 18 girls' hostels are under construction. To address issues of teacher shortages, the Ministry is constructing 5 new primary teacher training colleges (TTCs).

External assistance is also being allocated to infrastructure development in the education section. With assistance from DFID, a total of 21 contracts were let out for the construction of 278 primary school classrooms, 72 teachers' houses, 30 administration blocks, pit latrines and external works with a total value of MK1.36 billion. Of these contracts, 85 per cent have been completed whilst the others are on-going. The Government of the People's Republic of China is constructing a state of the art primary school in Lilongwe (Area 47) with the project expected to be completed in 2013. The Chinese Government is also funding construction of a new secondary school in Thyolo district. In the secondary subsector, the Ministry is upgrading 30 Community Day Secondary Schools (CDSS) through funding from the Japanese Government as well as separate funding from the African Development Fund.

9.4 Public Examination Results

In 2012, there was a 51.8 per cent pass rate in the Malawi School Leaving Certificate Examinations a 66.9 per cent pass rate in the Junior Certificate Examination, and a 58.9 per cent pass rate in the Primary School Leaving Certificate Examination. At secondary level, the low pass rate is attributed to inadequate teaching and learning materials and an unsupportive school teaching and learning environment, due to absence of critical infrastructures like laboratories, libraries, and equipment. This is mostly obviously the case in the community day secondary schools. Another challenge is that about 60 per cent of the teachers currently in secondary schools are unqualified to teach.

At primary school level, some of the challenges leading to low pass rate, amongst others, are: high pupil-teacher ratios, high pupil-classroom ratios, shortage of teaching and learning materials. The Ministry is trying to improve the pass rates, amongst other things, by: revising the primary and secondary curricula; increasing the supply of teaching and learning materials to schools; training teachers through ODL and conventional training; providing continuous professional development programmes for teachers; providing in-service trainings for teachers, particularly science and mathematics teacher; and supplying schools with laboratory equipment.

9.5 Quality and Standards

In order to strengthen quality, standards and relevance of the education system, the Ministry has continued to strengthen the Inspectorate and Advisory Services Department. This time around the Ministry has undertaken a major drive towards evaluation of schools and education institutions, both public and private, in order to improve the quality and maintain standards of education at all levels.

The Ministry is reviewing the secondary school curriculum in order to enhance its quality and relevance, and also to align it to the revised primary curriculum currently used in schools. The reviewed curriculum is expected to be implemented at the beginning of the 2014 academic year.

The Ministry developed a reading programme called Early Grade Reading Assessment (EGRA) and this is being implemented in 1,972 primary schools and in all the 315 Teacher Development Centres. This is a USAID funded programme and is being scaled up to cover more districts.

9.6 Higher Education

The first phase of construction of the Malawi University of Science and Technology (MUST) is about 90 per cent complete. The completed structures will be handed over to Government in December this year. The 3,500 capacity university will open its doors in the 2013/14 academic year.

The Lilongwe University of Agriculture and Natural Resources (LUANAR) is now operational. The University Council already started its work and the Vice Chancellor was appointed and has reported for duties. The construction work currently taking place at Bunda College includes construction of administration block and some lecture rooms.

The National Council for Higher Education (NCHE) Act has been operationalised and the Council is now in place.

The Ministry has now adopted a new selection criterion to the public universities that is based on teaching space and not bed space as was the case in the past. This will see a remarkable increase in the intake of students to public universities.

As regards the University Students Loan Scheme, the Government had assigned the Malawi Savings Bank (MSB) to administer student loans in all the public universities. MSB has since withdrawn from administering these loans and the Ministry is developing a Students Loan Policy and Bill which are expected to be ready before commencement of next academic year. In the meantime, the Ministry is administering these loans on an interim basis pending the establishment of a separate independent body that will manage students` loan scheme.

9.7 Special Needs Education

The Ministry is constructing a Special Needs Education Institute in Lilongwe.

Currently 150 resource rooms for learners with special education needs are being constructed countrywide. The Ministry will purchase specialised teaching, learning and assessment materials and assistive devices for the learners with special educational needs worth MK 200 million in the current 2012/13 financial year. These will be distributed to 104 primary school resource centres and 22 secondary school resource centres and some colleges.

Currently there are 88,527 Special Needs students in primary schools, 4,963 in secondary schools and 42 at Chancellor College and Domasi College of Education. There has been an increase in enrolments for Special Needs students due to the Ministry's policy for Inclusive Education, which is in line with the Disability Act which was recently passed in parliament.

9.8 School Health and Nutrition

The Government of Malawi started implementing a National School Meals Programme in the 2011/2012 financial year and this programme is continuing in the current budget. Currently, there are 1,642 public schools and 1.6 million pupils who are fed every school day in Malawi. This programme is improving enrolment and retention rates.

The Ministry has also launched home grown school meals programme in order to sustain the school feeding program which is attracting children, especially girls, to school whilst increasing local agriculture production and stimulating the local economy. The first phase is in progress.

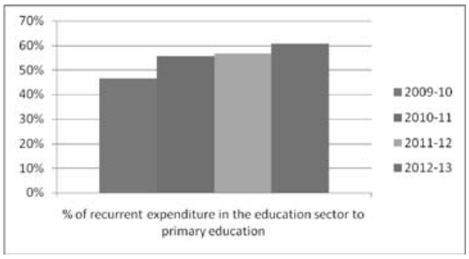
9.9 Overview of 2012-13 education budget

The 2012-13 approved education budget is MK78.4bn, which is an increase of 36 per cent to the 2012-13 approved level.

TABLE 9.1: APPROVED EDUCATION BUDGET 2012/13

	Approved 2012-13 (million MK)
MoEST	
Personal Emoluments	32,646.5
Recruitment Allocation under Department of Human Resource Management and Development (DHRMD)	2,300.0
Other Recurring Transactions	12,537.6
Recurrent at MoEST	**45,184.1**
Recurrent including recruitment allocation at DHRMD	47,484.1
Development Part 1	4,371.8
Development Part 2	5,126.5
Total Development	9,498.2
Grand total MoEST	**54,682.3**
Construction under Local Development Fund (Vote 272)	2,000.0
Education at Local Assemblies	5,692.0
Education Subventions	13,758.0
Grand Total for the Education Sector	78,432.3
Grand Total for the Education Sector	**78,432.3**

The Government of Malawi has demonstrated its support of the sector by allocating 24 per cent of its recurrent budget to the education sector in line the Common Approach to Budget Support (CABS) and Global Partnership for Education (GPE) targets. Within the sector, the Government is continuing its pro poor funding by allocating 61 per cent of the recurrent budget to basic education.



Source: budget unit MoEST

The shift in internal funding allocations towards basic education translates into an increase of the district education budget of 115 per cent compared to the previous fiscal year. Most of the increase in the funding for primary education, through the district education budget, is attributed to the decentralisation of the procurement of teaching and learning supplies, as well as the increased in the funding volume of the Primary School Improvement Programme. Through the latter, primary schools are receiving direct funding into schools' own bank accounts for the implementation of School Improvement Plans. The volume of the programme was increased by 152 per cent to MK1.9bn and the base rate funding for each primary school is MK350,000. In 2012-13 the programme covers 3,754 schools in 24 districts.

Primary teacher training was another focal point of the 2012-13 budget. An additional 6,000 Open Distance Learning teacher trainees started teaching in their local communities. Furthermore the Complementary Basic Education Programme, which enables school drop outs to re-join, has been operating in 10 districts in line with MoEST's GPE pledge.

9.10 Financing of the 2012-13 education budget

Costs for personal emoluments (PE) are solely born by the Government whereas Other Recurring Transactions (ORTs) and development are jointly financed by UNICEF, DfID, the German Development Cooperation, World Bank, the Global Partnership for Education and the Government through the pooled arrangement under the ESWAp. Seven priority areas are at the centre of the National Education Sector Plan, which are: construction; support to disadvantaged children; teaching and learning materials; training of primary school teachers; in service training for primary school teachers; the primary school improvement programme; and improvements in planning and financial management. Internal funding allocations are directed towards these 7 areas and in order to access the Development Partners' (DP) pool contribution MoEST needs to identify "eligible activities" across these 7 areas amounting to a minimum of DP's contribution towards the pool. Expenditure on eligible expenditures is tracked throughout the year and DP are reimbursing the Government's outlays retrospectively.

For 2012-13 DP's pool, partners originally committed a total contribution of MK16.5bn towards the budget of the education sector. The pool partner contribution towards the 2012-13 budget was spread across the education budget according to column three in Table 9.2 below.

TABLE 9.2: DEVELOPMENT PARTNERS' CONTRIBUTION TO THE APPROVED BUDGET 2012/13

Eligible expenditures out of the 2012/13 approved budget	Approved budget (million MK)	DP funding of ORT under ESWAP
Personal Emoluments	32,646.5	-
Other Recurring Transactions	12,537.6	7,559.8
Development Part 1	4,353.8	-
Development Part 2	5,126.5	3,000.0
Total MoEST	**54,664.3**	**10,559.8**
Districts	5,692.0	3,996.3
Local Development Fund	2,000.0	2,000.0
Subventions	13,758.0	
Overall	**76,114.3**	**16,556.1**

9.11 Supplementary budget

At mid year the overall education budget was revised upwards by 18 per cent. Detailed changes are outlined in Table 9.3 below.

TABLE 9.3: SUPPLEMENTARY EDUCATION BUDGET 2012/13

	Approved 2012-13 (million MK)	Revised 2012-13 (million MK)	% Increase	Dev Partner funding under ESWAp
Personal Emoulements	32,646.5	37,887.0	*16%*	-
Recruitment Allocation under Department of Human Resource Management and Development (DHRMD)	2,300.0	2,300.0	*0%*	-
Other Recurring Transactions	12,537.6	14,708.3	*17%*	9,492.0
Recurrent MoEST	**45,184.1**	**52,595.3**	***16%***	**9,492.0**
Recurrent Including Recruitment Allocation at DPSM	47,484.1	54,895.3	*16%*	9,492.0
Development Part 1	4,371.8	4,453.1	*2%*	-
Development Part 2	5,126.5	3,996.5	*-22%*	1,755.0
Total Development	9,498.3	8,449.5	*-11%*	1,755.0
Grand Total MoEST	**54,682.3**	**61,044.8**	***12%***	**11,247.0**
Construction Under Local Development Fund	2,000.0	4,742.0	*137%*	4,742.0
Education at Local Assemblies	5,692.0	5,762.0	*1%*	4,066.3
Education Subventions	13,758.0	18,565.9	*35%*	-
Grand Total for the Education Sector	**78,432.3**	**92,414.7**	***18%***	**20,055.3**

Increased provisions within ORT were for teaching and learning materials for primary and teacher training, utility bills at teacher training colleges and secondary schools, inputs for the Primary School Improvement Programme as well as capacity building for the financial management section. The LDF was given an additional MK2.7bn to start the construction of an additional 300 classrooms and 200 sanitary facilities on top of the 1200 classrooms that were being completed, till the end of the financial year.

Through the supplementary budget the DP contribution towards the 2012-13 budget increased from MK16.5bn to MK20bn. Hence overall the Government is financing 73 per cent of the education budget which is amounting to MK55.2bn, with DP contributing the other 27 per cent.

TABLE 9.4: BUDGET UTILISATION UP TO MAY 2013

Description	Revised Budget 2012/13 (million MK)	Total Expend -iture (million MK)	Total Expend -iture& Commitments (million MK)	- Budget Balance (million MK)	% Utilisation
Recurrent					
Personal Emoluments	37,886.9	31,125.7	31,205.9	6,681.0	*82%*
Other Recurrent Transaction	14,708.3	7,923.2	10,754.2	3,954.1	*73%*
Total Recurrent	**52,595.3**	**39,048.9**	**41,960.2**	**10,635.1**	***80%***
Capital					
Donor Funded Projects (Part I)	4,453.1	1,024.7	1,024.7	3,428.4	23%
Locally Funded Projects (Part II)	3,996.5	2,265.0	3,133.6	862.9	*78%*
Total Capital	**8,449.5**	**3,289.7**	**4,158.2**	**4,291.3**	***49%***
Total MoEST	**61,044.8**	**42,338.6**	**46,118.4**	**14,926.4**	***76%***

9.12 Progress in the co-operation with development partners

As outlined in an earlier paragraph DfID, World Bank, Global Partnership for Education, UNICEF, the German Development cooperation together with GoM are jointly funding the ESWAp, which is the financial mechanism for the implementation of the National Education Sector Plan. DfID was the first DP pool partner to disburse its committed financial contribution of £14 million towards the 2012-13 education budget in June 2012. Disbursements from UNICEF, IDA and GPE followed in May 2013 amounting to a total of US$34,250,000.

TABLE 9.5: USE OF DP POOLED RESOURCES IN THE 2012-13 BUDGET

	Development Partners' Pledges (Million MK)	Actual Expenditure up to 31.12.2012	Cumulative Expenditure on 7 priority Areas Since the Start of SWAP in 2010
			1,607.85
1: Construction and upgrading of education facilities	7,510.3	2,823.91	9,388.07
2: Direct support to disadvantaged children	1,020.6	310.12	1,136.39
3: Textbooks and learning materials	5,019.3	1,315.21	4,011.24
4: Training of primary school teachers	3,562.4	988.52	3,797.16
5: Continuous Professional Development (CPD) for teachers	324.0	107.69	1,220.62
6: Primary School Improvement Programme (PSIP)	2,283.8	601.11	1,487.17
7: Planning and Financial Management at Central and District level	339.9	98.07	381.95
Total	**20,060.3**	**6,244.64**	**23,030.44**

Apart from the pooled funding arrangement under the ESWAP, DPs supported the 2012-13 education budget through discretely financed development projects. African Development Fund is completing the construction of 7 secondary schools and is supporting quality improvements in technical and higher education institutions through the support of the HEST programme, Japanese International Cooperation Agency is starting the construction of 8 new Community Day Secondary Schools (CDSS), the Arab Bank for Economic Development in Africa is construction 3 Teacher Training Colleges and UNICEF is constructing a new Teachers Training College in Chriradzulu.

TABLE 9.6: SELECTED NESP/ESIP INDICATOR PERFORMANCE (PRIMARY AND SECONDARY EDUCATION)

	2009 (Base Year)		2012		2013 (Target)	
Indicator	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Repetition rate	17%					5%
Drop-out rate	12%					0%
Pupil qualified Teacher Ratio	92:1	70:1	95:1			60:1
Net Enrolment Rate	79%	13%	112%			100%
Gross Enrolment Rate	115%	19%	127%			100%
Survival Rate (Std 8)	38%		38%			100%
Pupil-Textbook Ratio	3:1					1:1
Pupil-Classroom ratio	116:1	42:1	107:1		40:1	40:1
Completion rate	51%		38%			
% Orphans		13%	19%			
% Special Needs Education learners	2%	1%				
Transition rate	N/A	49%	N/A		N/A	50%
PSLCE Pass Rate	69%	N/A	68.56%		N/A	N/A
JCE Pass Rate	N/A	62%	66.43%		N/A	*
MSCE Pass Rate	N/A	38%	N/A	52.99%	N/A	60%
Exp. on secondary education as a % of total expenditure on education	N/A	15%	N/A		14%	N/A
Public Exp. on primary education as a % of total public exp. on education	51%	N/A	53%	N/A	64%	N/A
Education Budget as a per centage of total Government budget		14%			18%	

TABLE 9.7: THE EDUCATION MILLENNIUM DEVELOPMENT GOALS (MDGs)

Indicator	Year 2000	2009/10 Status	Current Status (2012/13)	2015 Target	2015 Projection	Feasibility of achieving the goal
NER in Primary schools	78%	83%	112%	100%	92%	UNLIKELY TO BE MET (although, progress on some indicators is very good and it is expected that the projected values could be surpassed moving towards the 2015 targets)
Proportion of pupils starting grade 1 reaching grade 5	69%	74%	59%	100%	75%	
Literacy Rate (15-24 years)	68	84		100	95	
Ratio of girls to boys in primary education	0.91:1	1.03:1	1.01:1	1	1	UNLIKELY TO BE MET (although substantial progress has been made on some indicators, i.e. Gender gap at primary school level has been closed)
Ratio of girls to boys in secondary education	0.6:1	0.79	*	1	0.9	
Ratio of Literate women to men (15-24 years old)	0.82	0.94	*	1	1	

9.13 SECTOR CHALLENGES

- Serious shortage of teachers, especially in rural areas. The system needs about 60,013 qualified teachers to meet the recommended pupil-qualified teacher ratio of 60:1 by 2013. The current pupil-qualified teacher ratio is 91:1 is too high (EMIS, 2010);
- The primary pupil-classroom ratio has been worsening from 85: 1 in 2005 to about 101:1 in 2010/11 against the recommended 40:1. There are many temporary shelters: 20 per cent in 2010/11 compared with 16 per cent in 2008;.
- Inadequate teachers' houses with nearly 30,000 teachers un-housed in 2010;
- Lack of safe water and sanitation facilities in most schools;
- At secondary level, access remains limited. Only about 70,000 children started secondary school in the 2010/2011 school year;
- Access to tertiary education remains a challenge. Access needs to expand if Malawi is to produce the professionals it needs to work, inter alia, in hospitals, schools, business and government. On average, only 1,700 students graduate annually from the University of Malawi and Mzuzu University and other private universities; and
- There is still gender disparity in the access to higher education. Female enrolment has remained at around 30 per cent in public institutions and at around 45 per cent in private institutions.

Chapter 10

TOURISM, WILDLIFE AND CULTURE

10.1 World Tourism Prospects in 2013 and Beyond

Despite many global economic challenges, the tourism industry remained one of the world's fastest growing sectors in 2012. According to the World Tourism and Travel Council (WTTC), the world Travel & Tourism sector experienced robust growth, with total contribution to the world GDP growing by 3.0% faster than growth of the world economy as whole (2.3%), and also faster than growth of a number of broad industries including manufacturing, financial and business services and retail.

The World attracted over a billion international tourist (overnight visitor) arrivals in 2012 and directly contributed US$2.1 trillion to GDP in 2012 and directly supported 101 million jobs. Taking account of its direct, indirect and induced impacts, Travel & Tourism's total contribution was US$6.6 trillion (9.3% of global GDP) in 2012, 260 million jobs (1 in 11 jobs), US$760 billion (5% of investment) in investment and US$1.2 trillion (5% of exports) in exports (foreign visitor spending, including spending on transportation). In 2013, this is expected to grow by 3.1%, and the world is expected to attract 1,086,320,000 international tourist arrivals. By 2023, international tourist arrivals are forecast to total 1,581,250,000, generating expenditure of USD1,934.8 billion, an increase of 4.2% per annum.

Out of the international tourist (overnight visitor) arrivals in 2012, Africa received 65.5 million, generating USD52.4 billion in visitor exports (foreign visitor spending, including spending on transportation). In 2013, this is expected to grow by 3.4%, and the continent is expected to attract 67,849,000 international tourist arrivals. By 2023, international tourist arrivals are forecast to total 96,235,000, generating expenditure of USD87.2 billion, an increase of 4.9% per annum. 36 million tourists visited the sub-Saharan Africa in 2012, generating USD29.8 billion in visitor exports (foreign visitor spending, including spending on transportation). In 2013, this is expected to grow by 2.4%, and the region is expected to attract 36,916,000 international tourist arrivals. By 2023, international tourist arrivals are forecast to total 53,698,000, generating expenditure of USD47.3 billion, an increase of 4.5% per annum.

23.1 million tourists visited the SADC region in 2012, generating USD19.8 billion in visitor exports (foreign visitor spending, including spending on transportation).In 2013, this is expected to grow by 2.8%, and the region is expected to attract 23,721,000 international tourist arrivals. By 2023, international tourist arrivals are forecast to total 35,190,000, generating expenditure of USD32.3billion, an increase of 4.7% per annum.

10.2 Tourism in Malawi

As a member of SADC, Malawi sits amidst a vibrant tourism region that is growing rapidly and increasing its market share. In 2012, the country received

770,341 visitors, contributing MK59.6 billion in visitor exports and it expects to increase its international tourists to 800,000 in 2013. In this regard, tourism remains one of the country's sector's with significant potential for growth as an export service sector that is capable of making a substantial contribution to the socio-economic development of the country.

In the long term, the sector aims at having *"A Malawi that is an attractive and competitive tourist destination"* through the development and promotion of tourism, management of wildlife and conservation and promotion of the country's national identity. In the medium term, the sector projects to bring about a million high-paying visitors into Malawi, create creating 300,000 additional direct and indirect jobs and increase its annual contribution to the economy to MK400 billion. In line with these medium term sector targets, the sector planned and implemented several activities in the 2012/2013 financial year, including development and marketing of tourism products, development of support infrastructure and capacity development through policy and law enforcement as well as institutional reform and strengthening. Consequently, the sector received 770,341 visitors and contributed MK59.6 billion.

10.3 Major Achievements in the 2012/2013 Fiscal Year

Despite several economic challenges that hindered tourist travel, including fuel and foreign exchange shortages, Malawi managed to attract a higher number of international visitors in 2012 than in 2011. The key priority outputs by programme as follows:

10.3.1 Capacity Development

The Capacity Development Programme aims at improving the planning, implementation, coordination and effective delivery of tourism, wildlife and cultural programmes through policy, legal and institutional reform and strengthening human resource development. In this regard, the sector completed preparation of architectural drawings and bills of quantities and is about to engage a contractor to construct a modern hospitality training school in Lilongwe to provide the much needed skilled labour force to march with the ever-growing skilled labour demands of the sector. The sector also commenced the review of the Cultural Policy, Classification Bill and the Copyright Act. To empower and train the youth of Malawi in indigenous skills, the sector also conducted a youth camp at Chongoni where 20 youths were trained in heritage management for sustainable use.

Further, in line with current tourism regulations, the sector also undertook rigorous inspections, licensing and grading of tourism enterprises, thereby improving the standard and quality of service. 1,133 tourism enterprises were inspected in 2012, out of which 823 were licensed after meeting the minimum standards. This compares with 770 units that were licensed in 2011. In addition, excellence in service delivery of hospitality units was improved and maintained through assessment of 13 properties, of which 5 got a 4 star grade, 4 received a 3 star grade, 3 were awarded a 2 star grade and 1 acquired a 1 star grade. Furthermore, to enforce regulations and preserve Malawi's culture and innocence of children, the sector licensed 70 libraries, film theatres and shops; issued 10 filming and public entertainment permits; confiscated 244 pornographic materials; and conducted one anti-piracy street march, thereby destroying pirated material worthy MK10 million. The sector also conducted public education programmes for operators within the films and public entertainment sector to ensure provision of entertainment that promotes culture and tourism. Finally, the sector conducted 5 researches on traditional architectural design, natural history and restoration of endangered archives so as to enhance research expeditions.

10.3.2 Product Development

Malawi needs to develop her tourism products in order to become an attractive and competitive destination for tourists as well as investors in the tourism industry. As such, tourism investment promotion and facilitation in the 2012/2013 fiscal year resulted in new investments, especially in the hospitality sector. These include the expansion of the Peacock Sogecoa Hotel by an additional 110 rooms, the construction of 150-room hotel by Manobec and a 52 room Simama Hotel in Lilongwe, the construction of Crossroads Hotel in Blantyre and Grand Palace Hotel in Mzuzu. Furthermore, the sector continued with the development of the Chongoni Rock Art in Dedza as a World Heritage Site and 70% of the development works were completed in FY2012/13; which include the construction of an office block, an information centre and a workshop such that the Chongoni Rock Art World Heritage Site is slowly turning into a great tourist attraction.

The sector also continued with its efforts to increase the number of animals in protected areas through restocking of National Parks, Wildlife Reserves and Nature Sanctuaries. As such, the sector completed preparation of a Rhino Management Plan/Strategy to guide the management and restocking of Black Rhinos in Malawi. It has also identified a company to translocate animals to Nkhotakota Wildlife Reserve. The sector also formed 365 Wildlife Clubs, 64 Natural Resources Committees and 12 CBOs in order to involve and empower communities surrounding the protected areas in improving wildlife resource conservation. In Kasungu National Park, the sector sensitized the District Executive Committee and District Environmental Subcommittee on the restocking programme and 63 square km of a breeding sanctuary has been mapped.

To address the challenge of poaching in the protected areas, the sector intensified law enforcement and protection of wildlife by undertaking 1,300 and 880 long and short patrols, respectively, and arrested over 800 poachers. In addition, the sector completed the construction of 6 houses for law enforcement officers at Wozi Camp in Nkhotakota Wildlife Reserve. Further, the sector completed the construction of 31 km of electric fence in Vwaza Wildlife Reserve, 10 km in Lengwe National Park and procured fencing materials for 20 km in Liwonde

National Park. The sector also secured funding from the World Bank and the Norwegian Government to improve the effective management of the Nyika National Park. Furthermore, the sector addressed the health concerns of tourists in protected areas by installing, maintaining and replacing 575 tsetse control targets in the Kasungu National Park and Nkhotakota and Vwaza Wildlife Reserves in order to mitigate the impact of trypanosomiasis (sleeping sickness) incidences. Finally, the sector launched and held the inaugural Malawi Cultural Festival (MaCfest) and facilitated the fourth Blantyre Arts Festival, the first *Bwalo la Aluso* Arts festival as well as *Umthetho* and *Gonapamuhanya* Traditional Festivals.

10.3.3 Marketing and Communication

In FY2012/2013, the sector intensified marketing campaigns in major source and regional markets of South Africa, United Kingdom, Germany, Switzerland, Netherlands and China. Major tourism and cultural events were show-cased on international travel channels such as the Travel Channel, Bavaria TV and CBS and several travel features appeared in major travel magazines in the UK and South Africa. All these marketing and communication initiatives harnessed all tourism efforts and managed to promote Malawi as a tourist destination and attracted 770,341, thereby generating a total of K59.6 billion. On the domestic scene, the *'Tiziyamba ndife Amalawi'* campaign resulted in increased numbers of Malawians visiting tourist facilities and attractions for holidays, especially during Easter, New Year and Independence holidays.

10.4 Planned Activities and Developments/Opportunities for the Tourism Sector in 2013/2014 Fiscal Year

To take advantage of the tourism opportunities in the region, the sector plans to undertake the following activities and projects in the 2013/2014 fiscal year:—

10.4.1 Capacity Development

The sector will continue with policy, legal and institutional reform and strengthening as well as human resource development. To address the shortage of skilled personnel in the tourism and hospitality sector, the Government will commence the construction of an ultra-modern Lilongwe Campus Malawi Institute of Tourism at Lingadzi Inn to churn out enough skilled manpower to meet the ever-growing labour demand of the sector. This will be combined with crush up-skilling training programmes targeting those already working and employed in the travel and tourism sector to improve service delivery and instill customer care attitude. Further, in line with international standards, the sector will also continue with the implementation of the star grading system to grade properties and inspect tourism units for compliance with minimum standards.

10.4.2 Product Development

Product development will continue to focus on restocking animals and developing ecotourism infrastructure, facilities and services in several National Parks, Wildlife Reserves and Nature Sanctuaries. Further, with support from the World Bank and the Norwegian Government, the government will continue to improve the effective management of the Nyika National Park. As such, the government will maintain boreholes and water pumps in Mbambanda Sanctuary (Vwaza) and at Thazima (Nyika), clear 250 km boundary line in Nyika and 15 km fence line in Vwaza, rehabilitate 16 houses, construct 8 new houses and improve and operationalize the Chilinda Airstrip to facilitate tourist air travel to the site. In addition, to boost events tourism, the government will improve facilities at the Bingu International Conference Centre as well as complete the rehabilitation of the Blantyre Cultural Centre (formerly French Cultural Centre) and open it to the general public. Furthermore, the Government will complete the construction works at the Chongoni Rock Art World Heritage Site to attract tourists interested in the history of the rock art and train artists in production of art pieces.

10.4.3 Support Infrastructure and Facilitation

To ensure that there is seamless road network to all areas with touristic value, the Government will upgrade to bitumen standard 4 km access roads at Senga Bay in Salima districts. In addition, sector collaboration with the private sector and relevant government Ministries and Departments will continue in order to facilitate easy movement and entry of tourists into Malawi by streamlining the process of issuance of visa for bonafide tourists, facilitating local, regional and international air access into and around Malawi as well as introducing tourist cruise vessels on Lake Malawi and Shire River.

10.4.4 Marketing and Communication

The government will continue to engage the tourism private sector and intensify marketing efforts to promote the country as a competitive tourism destination in the region. To position itself as a preferred tourist destination, Malawi will embark on strategic advertising in major television networks and other media. The country will continue to give special promotional attention to traditional markets, including South Africa and Southern Africa countries, United Kingdom, German-speaking countries, Holland, and new source markets of China and America. Malawi will also continue to promote herself as a leading destination for conferences and events due to the modern conference and events facilities available in Lilongwe.

10.5 Challenges and Constraints to Development and Promotion of Tourism

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

Specific challenges include:—

- Lack of direct long-haul flights, leading to more air costs and long travel time, thereby reducing the contribution of holiday tourists.
- Late capture and production of tourism statistics due to manual collection of statistics, leading to underestimation of the sector's contribution to theeconomy.
- Continued perception by some local Malawians that the services offered by tourism facilities are expensive, thereby negatively effecting domestic tourism.
- Reduced access to accommodation and infrastructure in tourist attraction areas, especially in the rainy season due to poor road infrastructure.
- Inadequate data-base for planning and monitoring tourism development.
- Lack of appreciation by SMEs in the industry on the importance of engaging skilled staff in the management of tourism enterprises, resulting in low standards in some of the accommodation units and poor service delivery especially in rest houses and lodges.
- Low levels of wildlife in the protected areas due to poaching, resulting in the reduction of tourist visits to some National Parks and Wildlife Reserves and Nature Sanctuaries.
- Leakage of foreign exchange earnings in tourist off-shore pre-paid packages.
- Lack of zoned prime land and consistent sector-specific incentives for private sector investment and development.
- Perception that some tourist attractions pose a health risk in terms of bilharzia, sleeping sickness (Tsetse fly) and Malaria (mosquitoes); and
- Inadequate destination marketing largely due limited financial resources.

Chapter 11

INTEGRATED RURAL DEVELOPMENT

11.1 Overview

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

The Government has therefore adopted the implementation of Rural Growth Centres (RGCs) Programme and the construction of market centres both in the rural and semi-urban centres as critical development components within the realm of Integrated Rural Development (IRD). The report highlights the activities that have been implemented during the 2012/2013 fiscal year.

11.2 Major Achievements during the FY 2012/13

The following are highlights of the major achievements and plans.

11.2.1 Rural Growth Centres (RGCs) Programme

Under this programme, Government through the Ministry of Local Government and Rural Development completed construction of the basic social infrastructure in two of the three RGCs. These are Neno district in Neno and Nthalire in Chitipa district respectively. With regards to Nambuma in Dowa district, which is the other RGC under first phase, the remaining works are completion of a Police Unit and Health Centre expected to be through by August 2013.

Regarding second phase of Rural Growth Centres, work began at Chitekesa in Phalombe, Mkanda in Mchinji and Chapananga in Chikhwawa districts.

In addition to completion of works at Neno and Nthalire, Government has also made tremendous strides by embarking on construction works at Mkanda and Chapananga as new centres for the programme. It is expected that the works at Nambuma will be finalized within the year.

Table 11.1 depicts the progress of work of RGCs construction that has been achieved in the year which is under review (FY 2012/2013):

TABLE 11.1: SHOWS ACHIEVEMENT AND CURRENT STATUS OF RURAL GROWTH CENTRES

Name of the RGC	*Completed Structures*	*Outstanding works*	*Remarks*
1. Nthalire	1. Community hall 2. Bus depot 3. Library 4. Police unit & staff houses 5. Community Ground 6. Butchery & slaughter house		Waiting for final Inspection before handover to Chitipa District Council
2. Neno	1. Community hall 2. Bus depot 3. Library 4. Community ground 5. Mortuary 6. Laundry & kitchen 7. Guardian shelter		The site is ready for handover to council
3. Nambuma	1. Community hall 2. Bus depot 3. Library 4. Community ground	Standard Police unit with staff house and health centre	Constructions works on Police Unit and Health Centre are 90% complete. The completion has been delayed because of compensation issues
4. Chitekesa	None	1. Bus Depot 2. Market shed 3. Community ground 4. Community hall	Construction works for the structures have stalled due to compensation wrangles
5. Chapananga	None	1. Market sheds 2. Market kiosks 3. Butchery 4. Slaughter house	The construction are 85 % complete
6. Mkanda	None	1. Market sheds 2. Market kiosks 3. Butchery 4. Slaughter house	The construction are 85 % complete

11.2.2 Markets Development Programme

The construction and completion of market structures has been one great milestone in the sector in terms of infrastructure development in the rural and urban areas. Currently, construction of four markets is 100 percent complete. These are: Matawale, Dwangwa, Bvumbwe and Ekwendeni markets. Construction of Enukweni, Nkhamenya and Limbuli markets are expected to be completed within the 2012/13 financial year.

TABLE 11. 2 DEPICTS THE PROGRESS WORK OF MARKETS CONSTRUCTION THAT HAS BEEN ACHIEVED DURING THE PREVIOUS FINANCIAL YEAR (FY 2012/2013).

Name of the Market	*Completed Structures*	*Outstanding works*	*Remarks*
1. Mangochi	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Fence	None	Officially opened
2.Matawale	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Fence 6. Market pavements		The vendors have occupied and started using the facilities but ESCOM is yet to connect power.
3. Thyolo Boma	1. Market kiosks 2. Market sheds 3. Ablution block 4. Butchery 5. Fence	None	The market is officially opened and currently in use
4. Bvumbwe	1. Market kiosks 2. Market sheds 3. Ablution block 4. Fence 5. Slaughter house	Market pavements	Has been handed over to the District council and waiting for official opening
5. Ekwendeni	1. Market kiosks 3. Ablution block 4. Butchery 5. Bus depot	None	The market is ready for handover to district council
6. Enukweni	1. Market kiosks 2. Market sheds 3. Bus depot 4. Slaughter house 5. Water pump	1. Ablution block 2. Butchery 3. Fence	The market structure was split into two and the other facilities were not provided in the initial design. The works are 95% complete
6. Dwangwa	1. Market Kiosks 2. Market sheds 3. Ablution block 4. Bus depot 5. Slaughter house 6. Butchery 7. Fence 8. Parking bay	Transfering utility facility	ESCOM is yet to relocate their facility before ultimate handover of the site to the council
7. Nkhamenya	1. Market sheds 2. Slaughter house 3. Market kiosks 4. Butcherye	Drilling of Borehol	All structures have been completed except the borehole, since there are no proper connections to the water system. Because of sanitation issues the market cannot be opened
Limbuli	1. Market sheds 2. Slaughter house 3. Market kiosks 4. Bus terminal	None	Ready for final inspection and then official opening

11.3 Major Plans for the 2013/2014 Fiscal Year

For the 2013/14, Fiscal Year, major activities will focus on the full establishment and operationalization of the rural growth centres and markets and expanding the construction of truck parks.

For RGCs, the plan is to continue with works for phase II of the project at Mkanda, Chapananga and Chitekesa and embark on works for Monkey Bay, Jenda and Malomo. The structures that will be included in new RGCs are: market shops and sheds, libraries, butcheries, slaughter houses, community halls, community centre grounds, bus depots and open access roads.

The intention is also to extend the truck parks project to cover more border districts. These include: Songwe in Karonga, Mwanza, Mloza in Mulanje and Mwami in Mchinji.

In terms of rural and urban markets, plans are to concentrate on the completion of the works that started in 2012/13 Fiscal Year, which include the following: completion of Enukweni, Limbuli and Nkhamenya markets and construction of three new markets at Tsangano, Nsanje and Lizulu, respectively.

11.4 Opportunities and Challenges

11.4.1 Opportunities

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

Another opportunity that has been noted is the collaboration between the Ministry of Local Government and Rural Development and the Ministry of Lands, Housing and Urban Development which has ensured availability of technical expertise in the councils. These have been quite helpful in supervising the works in the various councils.

11.4.2 Challenges

There following challenges, however, have hampered the smooth implementation of the projects including:

- Inadequate funding for construction which halted some works at Chapananga and Mkanda rural growth centres and construction of Tsangano, Nsanje and Lizulu markets;
- Delayed evaluations and award of the certificate of payments to contractors have also derailed the progress of construction works in these projects. In addition, the flow of funds to the contractors is not timely. This leads to erratic supply of construction materials to the site hence reducing the pace at which construction works proceed;

- In case of Nambuma and Chitekesa RGCs the biggest challenge has been the disruptions due to delays in compensation and dissatisfaction with compensations. This tends to delay execution of works by the contractors;
- Demand is ever increasing to occupy the structures, hence the need for addition structures which were not planned in initial design, that is, Limbuli and Matawale markets;
- The remaining construction works have also been affected by the devaluation and contractors are demanding revision of contract calculations; and
- Failure by local contractors to comply with deadlines in the implementation plan, which ultimately raises actual and overhead costs of the projects.

Chapter 12

PUBLIC HEALTH, SANITATION, NUTRITION, HIV AND AIDS MANAGEMENT

12.1 Overview

This chapter reviews the performance, and highlights some of the major developments, regarding public health, sanitation, nutrition, HIV and AIDS management.

12.2 Public Health

'Health is A State of Complete Physical, Mental and Social Wellbeing' World Health Organization's (WHO) 1946. It is critical when considering the health of the nation that more than just the number of patients treated is considered. It is preferable from both a welfare viewpoint and a cost effectiveness viewpoint to prevent illness through addressing education, sanitation and the social determinants of health.

12.2.1 Major Developments on Health Indicators

- Malawi had a Maternal Mortality rate of 675 per 100, 000 live births in 2010/11 and is targeting further reducing this. Indeed, UN estimates for 2012 indicate a maternal Mortality Ratio of 460 per 100,000 live births;
- The TB cure rate went from 86 percent in 2010 to 87 percent in 2013 (above the WHO target of 85 percent);
- The Infant mortality rate fell from 76/1,000 live birth in 2004 to 66/1,000 live birth in 2010;
- The Neonatal Mortality Rate of 31/1,000 live births in 2010 was up from 27/1,000 live births in 2004;
- Incidences of malaria dropped from 365/1,000 population in 2006 to 325/1000 in 2011/12
- Improvements in Primary Health Care (PHC) drug stocks have been made courtesy of Drug Kit System.

12.2.2 Malawi's Health Sector Strategic Plan (2011-2016)

The Malawi's Health Sector Strategic Plan (HSSP) vision is to achieve a state of health for all the people of Malawi that would enable them to lead a quality and productive life. This strategic Plan is implanted through Ministry of Health (MOH) The broad objectives of Malawi's HSSP are to:—

1. Increase the coverage of the Essential Health Package'as (EHP) interventions, paying attention to impact and quality.
2. Strengthen the performance of the health system to support delivery of EHP services.

3. Reduce risk factors to health.
4. Improve equity and efficiency in the delivery of quality EHP services.

The implementation of the HSSP provides the roadmap for meeting MDGs and MGDS health goals. The EHP is designed to facilitate delivery of a basic and cost-effective primary health package. In 2011/12 financial year, Government continued to implement various programmes and reforms in pursuit of the policy goal and objectives indicated above.

12.2.2.1 Objective 1: Increase Coverage of Essential Health Services

In a bid to improve access and coverage to quality health care delivery, Government is focusing on three areas: construction and rehabilitation of health facilities; Service Level Agreements (SLAs) and improved health transport system. Government is committed to achieving the WHO target that the entire population lives within 8km of a health facility. However, this is a long term objective and progress has been made over the last year in improving access as Malawi moves towards this goal.

12.2.2.1.1 Improving Access and Coverage of Services through the Development of Infrastructure

Government of Malawi is in the process of rehabilitating its central hospitals. In Mzuzu, plans to renovate the Major laboratory and the Computed Tomography (CT) scan room have been made and the works are about to start. At Kamuzu Central Hospital in Lilongwe renovations on various wards are planned, including: High Dependency Units, the Operating Theatre and CT scanning room. At Queen Elizabeth in Blantyre a number of wards are being renovated including: the Operating Theatre, CT room, the Acute Respiratory Infections ward, and various other departments. At Zomba Central, various wards and administration block are also under renovations.

For secondary health care delivery, rehabilitation at a number of District Hospitals (including Nsanje, Dedza, Balaka and Bwaila) are underway. The funding for these works is being provided both by Government and its development partners. A state of the art District Hospital is also being constructed in Nkhata bay. This is due to be completed in March 2014. Additionally, the construction of a District hospital in Phalombe will commence soon. The Ministry is also in the process of constructing 15 health centres across the country.

Government is also rehabilitating most of its health centres to ensure power and water are available throughout the year. 85 percent of facilities in Malawi are currently able to operate throughout the year with power and water. The target of 100 percent by end of 2015 is expected to be achieved.

In a bid to motivate its staff both in hard to reach areas and Central Hospitals, 140 houses under Umoyo Housing project are under construction in various districts. This accommodation will serve as an incentive for health workers to go to the locations with greatest need. In the next financial year, a further 150 houses are also planned to be constructed.

12.2.2.1.2 Developing Service Level Agreements with Christian Health Association of Malawi (CHAM)/private-for-profit health providers

In order to further improve access to health care, Government has identified gaps which can better be filled by continued partnership with not-for-profit as well as private (for profit) entities who play a critical role in the sector. Currently there are 78 Service Level Agreements (SLAs) whereby the government pays non-government facilities to provide access to health services free at point of delivery in hard to reach areas. This will continue and Government will constantly be monitoring these in order to achieve better services that are efficient, equitable and value for money.

12.2.2.1.3 Improving the Health transport system

In an effort to improve access through referrals between facilities, Government procured 28 ambulances in the 2012-13 financial year. These will improve timely access to higher levels of service when needed. The Government, through the Ministry, plans also to procure at least one ambulance for each District Health Office (DHO) annually and to introduce gate way clinics and trauma centres across the country, which will ensure better access to quality health care services in the country.

12.2.2.2 Objective 2: Strengthen the performance of the health system to support delivery of EHP services

12.2.2.2.1 Human Resources for Health

In a bid to improve health care services, Malawi is seeking to improve both the quantity and quality of the health workforce.

Under the review period, MK858 million has been invested to support 2,231 students in various institutions. The courses being undertaken include midwifery, allied health technical services, and medical and nursing speciality courses.

In terms of Human Resources for Health (HRH) management, a variety of improvements have been made: the HRH Strategic plan has been finalised and will soon be launched and disseminated; the movement to an Integrated Human Resource Management Information System is also underway and, with support from VSO and USAID, work is underway to improve the IT capacity at the central, zonal and district level.

12.2.2.2.2 Essential Medicines and Supplies

Drug stock outs have been an endemic problem in the health sector for a number of years. In a bid to improve the supply of drugs and other medical supplies, reforms have been carried out and additional resources provided to address the problem. These include turning of Central Medical Stores (CMS) into a trust, construction of CMS warehouse, and procurement of emergency drugs kits, containing all the essential medicines and supplies required to run a hospital.

The kit system was introduced during 2011/12 financial year in response to acute drugs shortages in public health facilities. The kit system also serves as a mechanism for recapitalisation of CMS, which was owed a large amount of money by the public health facilities. The kits started being distributed in January 2012 and the programme is to continue for an 18 month period, before the kit system comes to an end in June 2013.

These kits have made a substantial impact at the primary health care level with a reduction in stock outs from 47 percent in 2011 to 28 percent in 2012. However, the secondary and tertiary level care have been experiencing big stock outs that are currently being addressed by an emergency tender and a consignment of drugs for central hospitals will arrive very soon.

12.2.2.2.3 Medical Equipment

So far the Government is building the capacity of medical equipment and infrastructure maintenance services through the provision of training to medical engineers both at central and district level. The MOH has also been carrying out preventive and corrective maintenance that is quality assured, regular and comprehensive. Similarly, the MOH has been conducting regular inventories of all medical equipment as a way to improve efficiency.

MOH has also partnered with other players working in the health sector such as PARTEC, South Africa and Frezenius Medical Care. These organisations are working hand in hand with the Ministry to improve efficiency in terms of procurement and maintenance of medical equipment as well as procurement of spare parts. Training is also being provided to medical engineers on routine maintenance of medical equipment.

12.2.2.3 Objective 3 Reduce Risks to Health

12.2.2.3.1 Improving the living and working environment and reducing risk behaviours

It has come to light over the last few years that illness related to lifestyle constitute a significant proportion of the burden of disease in Malawi. The ministry has currently a vibrant Non Communicable disease programme that is fighting some of the key causes of both mental and physical illness such as alcohol, poor diet and lack of exercise. Alcohol is often used as self-medication for trauma and mental illness especially in the younger members of society. The National Alcohol Policy serves as a guide to limit the excessive use of alcohol, and hence prevent the health problems associated with alcohol abuse.

12.2.2.4 Objective 4 Improved equity and efficiency of the Health System

12.2.2.4.1 Health financing

Malawi faces a challenge of limited financial resources for health. Delivering preventive and curative services to fight HIV, Malaria, and other disease requires substantial resources, and it is vital that government finds ways to mobilise more funds for health, while also increasing the efficiency with which available resources are utilised. To address this challenge, the MOH is now developing a national Health Financing Strategy to guide health sector financing. The strategy will propose new options such as a visa fee for travellers visiting Malawi in order to raise additional revenues for health and will also identify cost efficiencies to be achieved throughout the health system.

At the same time, the MOH seeks to expand revenue collection from paying services at central hospitals, where patients receive enhanced hospitality for a fee. By upgrading the paying, the central hospitals will be able to earn revenue from clients who might otherwise frequent private-sector health providers. This can then be used to subsidise the services provided in the non-fee wards. In addition, the fee structure will be revised to take into consideration the recent movements in the macro dynamics, and reforms will be introduced for the hospitals to retain the revenues generated. The reform will empower hospitals to spend the additional funds at their discretion to meet operational needs.

To promote transparency and increase the efficiency of health spending, the MOH has also adopted an innovative resource mapping exercise. Each year, the ministry produces budget information on both on-budget and off-budget resources. The information specifies how much funding the health sector will have, where it is coming from, which districts it is going to, and exactly which health services that funding is buying for Malawi. This information provides the MOH with a complete view of health resources as it drafts its annual budget and the information is being used to allocate funds to fill critical gaps and is being used by partners on where their funds could most effectively be spent.

12.2.2.4.2 Partnerships

A PPP unit has been established in the MOH to co-ordinate issues of Public Private Partnership with the view to improved efficiency in the delivery of health services in the country. Although it is still in its infancy, through the unit the Ministry has signed Memorandum of Understanding (MoU) with various NGOs, both local and international, in an attempt to improve efficiency in co-ordinating the delivery of health services.

12.3 Sanitation

The Government has identified its vision as “sanitation for all in Malawi” and has set out a mission to ensure that all people in Malawi own and have access to improved sanitation facilities, practice safe hygiene and recycling of liquid and solid waste. Currently, national access to improved sanitation was at 51 percent (with urban population at 49 percent and 51 percent for the rural population). Sanitation programmes are currently co-ordinated under the National Water Development Programme II (NWDP II), which runs from 2007 to 2015 and is a collection of water and sanitation development projects in the Ministry of Agriculture, Irrigation and Water Development. Sanitation support and funding are currently provided under the NWDP II by the following development partners: the Global Sanitation Fund of the UN Water Supply, the Sanitation Collaborative Council, EU/EIB, AfDB, and AusAID.

12.3.1 Major Developments in Sanitation

The government registered the following achievement during the reporting period:—

- Facilitated the construction of 11,000 improved sanitation facilities in households in the low income areas of Lilongwe and Blantyre, with financial assistance from EU/EIB under NWDP;

- Constructed 420 improved sanitation facilities in 110 Primary Schools, 19 Market Centres, and 21 Health Centres with financial assistances from AfDB under NWDP. These interventions benefitted 216,139 people in the districts of Lilongwe, Machinga, Zomba and Mulanje.

- Constructed 112 improved sanitation facilities in 13 Primary Schools, 7 Market Centres and 2 Health Centres with financial assistances from AusAID under NWDP. This benefitted 89,150 people in the districts of Lilongwe, Machinga, Zomba and Mulanje.

- Enabled 153,008 people live in Open Defecation Free environments, triggered 1,156 communities on Community Led Total Sanitation, facilitated construction of 125,304 improved sanitation facilities, and reached 821,498 with Hygiene messages with fundingfrom the Global Sanitation Fund. In terms of capacity building, the programme has so far trained 1,230 Extension Service Workers and 6 District Coordinating Teams. These programmes were targeted in Rumphi, Nkhotakota, Ntchisi, Balaka, Phalombe and Chikhwawa

In order to replicate the initiatives under these programme in the rest of the districts in Malawi; the sector developed and adopted an “Open Defecation Free, Malawi; 2015 Strategy”, a Social or Sanitation Marketing and Hygiene Promotion Strategy (for peri-urban and rural areas) and a “Hand Washing Concept” which will enable the country implement a National Hand Washing Campaign.

The sector has, in line with the National Sanitation Policy (2008), developed a National 10 Year Sanitation Investment Plan and Strategy in order to provide a framework for managing and disposal of both liquid and solid waste Nationwide.

12.3.2 Sanitation and Hygiene Promotion Services

In order to support the rolling out of the National Sanitation Policy, 2008 and further support implementation of the initiatives and programmes currently underway in many areas of Malawi; the sector, with financial support from the World Bank under the National Water Development Programme, will facilitate the process of preparing a draft bill for the enactment of a Nation Sanitation Legislation and Regulations to guide the management and disposal of both Solid and Liquid waste. This will enable the Nation enforce some of the stipulations laid out in the National Sanitation Policy (2008).

With funding from the DfID; through UNICEF, there will also be an implementation of a WASH project in 15 of the 28 Districts which, among others, aims at providing adequate improved sanitation facilities, urinals, and hand washing facilities to 50 primary schools targeting at least 30,000 pupils.

12.4 Nutrition

To date, malnutrition has consistently remained one of the major underlying causes of under-development, with major indicators like stunting, wasting and underweight being among the highest in the world. Malnutrition, therefore, contributes to about 38 per cent of all infant deaths. Between the 1960s and early 2000s, stunting has been on average around 46 percent, 22 percent were under weight and wasting was over 5 percent. In an effort to reduce malnutrition, the sub-sector implemented activities with the focus on the following areas:

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

12.4.1 Major Development in Nutrition

The nutrition section has made the following achievements in the 2012/2013 financial year:—

- Over 80,000 acutely malnourished, under-five, children were diagnosed and treated in nutrition rehabilitation units across the country;
- Iodine deficiency has declined to 12.5 percent from 87 percent in under five children;
- Over 98 percent of children aged 12-59 months were de-wormed.
- Anaemia declined to less than 54 percent from 80 percent in under five children;

- Over 400,000 adults and children attending Community Based Child Care Centres received vita-meal across the country;
- Over 1,200,000 school children in over 1,000 public schools continue to benefit from school meals programme;
- Over 70,000 individuals with severe acute malnutrition received Community Therapeutic Care services in all the districts. The cure rate for malnourished children has increased to over 86 percent.
- Over 3,500,000 pupils received micronutrient supplementation in 5,300 public schools;
- Intensified implementation of the Nutrition Services Delivery through the Scaling Up of Nutrition and 1,000 special days initiative in all the 28 districts

12.5 HIV and AIDS

Since the discovery of the first HIV case reported in Malawi, the Government has put in place policies and strategies meant to guide the effective implementation of the response to the epidemic. A multi-sectoral response to the epidemic has largely been based on a set of agreed priorities, strategies and actions that have been spelt out in various documents.

12.5.1 HIV and AIDS Communication Media

Various communication products were developed and distributed in the period under review including printing Information, Education and Communication (IEC) materials, disseminating information via TV and radio, audio-visual shows in communities, schools and places of entertainment and public lectures. These messages focused on various thematic areas such as sex and sexuality, HIV Testing and Counselling, Anti Retroviral Therapy /Prevention of Mother to Child Transmission, harmful cultural practices, condom use, voluntary medical male circumcision (VMMC), and multiple and concurrent partnerships.

12.5.2 Youth Focused Interventions

During the period, a total of 124,085 out-of school youths were taught Life Skills Education (LSE) including HIV and AIDS communication and safe sex negotiation skills. Moreover LSE is mandatory and examinable in primary school from standard five to eight and all classes in secondary school.

During the period, a total of 2,943,552 visits by young people, who accessed youth friendly sexual and reproductive health and HIV services, were registered. This is almost double the target for the year. This was on the back of an increased number of sites providing Youth Friendly Health Services (YFHS), which by the end of the period were 1,652. A total of 49,890 (25,982 male; 17,710 female) youths were tested for HIV and 725,352 (648,001 male: 77,351 female) condoms were distributed to youths.

12.5.3 Creating a Supportive Environment for HIV Prevention

In order to promote gender sensitivity in all program interventions, 1,030 frontline service providers were sensitized on gender, Gender Based Violence, rights and responsibilities of People Living with HIV (PLHIVs). A total of 480 community mobilization and school level sessions on gender equality, human rights, prevention of harmful cultural practices, stigma and discrimination were conducted.

In the year under review, the HIV Policy and National Strategic Plan for the HIV and AIDS response were finalized. The development of the HIV Bill had also reached advanced levels. The Legal and Policy Environment Assesement for the National HIV and AIDS response was validated and disseminated to various stakeholders.

12.5.4 Condom Programming

TABLE 1: TOTAL CONDOM DISTRIBUTION, 2011 TO 2013.

Year	2011	2012	2013
Free Distribution	7,035,661	13,122,698	29,876,224
Socially marketed	6,634,472	13,338,381	9,979,361
Total	**13,670,133**	**26,461,079**	**39,855,585**

A total of 39,855,585 condoms were distributed during the reporting period. Out of these, 29,876,224 condoms were distributed freely through the Ministry of Health (MoH) and Community Based Organisations (CBOs), among others. Out of the total number of condoms distributed, 9,979,361 socially marketed condoms were distributed by Banja La Mtsogolo and Population Services International (PSI) through various outlets.

Thas been an improvement in female condom uptake, but. Innovative approaches need to be devised to increase uptake of female condoms and ensure empowerment of women to negotiate for use of female condoms.

During the period, 902 Community Based Condom Distribution Agents (CBDAs), peer educators, counsellors and youth club leaders were trained in promotion and use of condoms.

12.5.2 Biomedical Prevention Interventions

12.5.2.1 Sexually Transmitted Infections

As HIV infects a person through breaks in the surface of the skin or mucus membrane, the presence of Sexually Transmitted Infections (STIs) usually makes it easier for HIV to be transmitted. So it is important to effectively treat Sexually Transmitted Infections as soon as infection is detected. In the period under review, 34,915 STI clients were managed at health facilities, representing 35 percent of the 98,600 expected quarterly STI cases in the population.

12.5.2.2 Male Circumcision Interventions

Voluntary Male Medical Circumcision (VMMC) provides partial protection for men against HIV infection and reduces their likelihood of genital ulcers that increase the chances of HIV infection during sex with an infected partner. Standard operating procedures for neonatal circumcision were developed during the period and the VMMC Policy for Malawi was launched. Zonal dissemination of the VMMC policy was conducted in all the five zones. Currently, the programme is being rolled out in the country.

By the end of the period, a total of 111 health facilities were offering VMMC and neonatal circumcision services. A total 4,606 medical male circumcisions were reported during the period.

12.5.2.3 HIV Testing and Counselling

In the period under review, HIV Testing and Counselling (HTC) was conducted in 810 static and 322 outreach sites. A total of 887,499 people were counselled and tested and received their results.

By September 2012, a total of 4,839 HTC counsellors were refreshed in HTC and 270 counsellors were trained in couple counselling.

12.5.2.4 Prevention of Mother to Child Transmission of HIV

During the period, 85 percent of pregnant women attending antenatal care (ANC) were counselled, tested for HIV and received results. A total of 7,974 (75 percent) of HIV positive pregnant women attending ANC were initiated on ART, to reduce the risk of mother to child transmission. Sites providing PMTCT/ART services also increased to 573, from 534 in the previous reporting period

12.5.3 Treatment, Care and Support

Improved treatment facilities for people living with HIV were introduced through DREAM centres in four regions of the country: Dowa, Balaka, Mzimba and Balaka.

During this fiscal year, Malawi rolled out the new ART regimen, known as B+, to all HIV pregnant women and children to prevent transmission of HIV. Option B+ has fewer side effects than the previous ART regime. Over 5,913 HIV positive women were register on the new regimen.

A total of 450,000 people are being treated with ART in Malawi, which is estimated to represent 45 percent of PLHIV

12.5.4 Impact Mitigation Interventions

Interventions under this pillar were aimed at mitigating the economic and psychosocial effects of HIV and AIDS and improving the quality of life of PLHIV, OVC and other affected individuals and households.

12.5.4.1 Access to Impact Mitigation Interventions by PLHIV and other Vulnerable Groups

Between July and December 2012, 8,876 (4,988 male and 3,888 female) orphans and other vulnerable children were provided with education bursaries for them to attain secondary school education. Furthermore, 961 vulnerable young people were trained in vocational skills.

A total of 47,395 orphans and other vulnerable children were provided with various forms of support including medical, material, financial and psychosocial support.

12.5.4.2 Empowerment of People Living with HIV

The engagement and empowerment of PLHIV is critical as the country scales up the national HIV and AIDS response to achieve the goal of universal access to prevention, treatment, care and support services.

A total of 125 opinion and traditional leaders were oriented to facilitate modification of harmful cultural practices, stigma and discrimination reduction and promotion of gender equality. 17 organizations were trained in the Greater Involvement of People Living with HIV concept.

12.5.5 Sustaining HIV and AIDS Research Agenda

Research is essential for planning and implementing evidence-based interventions. During the period, Johns Hopkins University Project commenced data collection on a study assessing HIV incidence in STI pateients at Queen Elizabeth Central Hospital, Mulanje and Mwanza Districts. This study will establish levels of new HIV infections among STI clients in high prevalence settings.

The National AIDS Commission (NAC) coordinated dissemination of findings from research and best practices. The disseminated papers were selected from a list of papers presented during the International AIDS Conference in Washington, in July 2012.

Furthermore, data collection for an evaluation of the public sector HIV and AIDS work place programme commenced.

Finally, the department concluded a study in Demographic and Economic Modelling for Long Term Sustainability of HIV and AIDS Response in Malawi mainly to present the impacts of HIV and AIDS in demographic, macro-and micro-economic factors in Malawi.

12.5.6 Mainstreaming and Linkages

By ensuring the integration of planning, resource and programming issues, mainstreaming enables a multi-sectoral and multi-stakeholder response. By

December 2012, 20 mainstreaming orientation and advocacy sessions with leadership in the public sector, private sector, civil society and Local Councils were conducted.

A total of 9 Small and Medium Enterprises (SMEs) and the informal sector organizations were supported in HIV and AIDS mainstreaming initiatives. Furthermore, 35 new work place committees were established and trained. NAC also conducted technical and monitoring support visits for HIV and AIDS mainstreaming and capacity building to all sectors, including monitoring implementation and effectiveness of workplace programmes.

A total of 26 Local Councils were trained in mainstreaming planning framework guidelines.

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

A National HIV Strategy was finalized, translated, and launched. Moreover, The National Monitoring and Evaluation Plan has been developed and the Phase 2 operational plan for the National HIV Prevention Strategy was also finalized in the year under review.

12.5.8 Resource Utilization

By December 2012, disbursements amounting to MWK 15.18 billion were made to 238 institutions, including local councils, community based organizations, NGOs and public sector institutions.

The Global Fund Single Stream Funding Grant, covering the period April 2012 to June 2014 was signed in July 2012. The first Disbursement Request for health products was submitted and was honoured.

The World Bank funded Nutrition, HIV and AIDS Project became effective in October 2012 after meeting the last effectiveness condition. DFID also worked on finalization of the Business Case, which will detail the mode and extent of support to the national response to HIV and AIDS.

During the same period, the expired Government of Malawi-Pool Pool Partners Memorandum of Understanding (MoU) was revised leading to the development of a draft Joint Partnership Memorandum (JPM) whose signatories are the GOM and all those donors that finance HIV and AIDS programmes through NAC. In order to facilitate coordination and reporting by other partners that do not channel their resources through NAC, a draft MOU and Operational Guidelines were developed.

A total of 24 public sector organizations were oriented on resource mobilization to diversify the resource base, following the world economic melt-down that has also affected funding commitments to the national response to HIV and AIDS in Malawi. Furthermore, an Options Paper towards development of the Sustainable HIV and AIDS Financing Strategy was finalized. The development of an addendum to the options paper report is underway. This will inform the resource mobilization strategy by exploring additional ways in which the financing should be increased to cover the gap.

12.5.9 Challenges

If Malawi is to achieve the 3 zeros of: Zero New Infections, Zero AIDS Mortality and Zero Discrimination, there is need to: intensify prevention work; improve service delivery at the grass root level; reach the elite; improve the coordination of community level service delivery; develop sustainable financing mechanics; and produce local ARVs and pharmaceuticals products to meet the demands of over 1 million people for treatment. More specifically, the following challenges need to be addressed:—

- Stock outs of medical supplies and drugs.
- Delayed and erratic reporting by facilities on some activities, including VMMC and Blood safety.
- Inadequate services to follow up on exposed children.
- Limited initiatives to diversify resource base for HIV and AIDS.
- Lack of consistency in utilization and efficient monitoring of the 2% Other Recurring Transactions guidelines.
- Inadequate resources for comprehensive implementation of some interventions (i.e. provision of financial support to vulnerable households, distribution of therapeutic food, education bursaries).
- Inadequate sectoral coordination by the coordinating bodies.
- Inadequate reporting of the private sector contribution to the national response.
- Inadequate specialized nutritionists, dieticians and HIV specialists.
- Problems managing the interaction between drugs and nutrition.
- Tracking and Accountability for the resources and equipment allocated to Public Sectors and other organizations through NAC and other development partners remains a challenge.

12.6 Future Plans

The Nutrition and HIV and AIDS sub-sector has the following plans for the future:—

- To facilitate the creation of the positions of Nutrition, HIV and AIDS officers for the remaining public sector coordination units.
- To rollout the SUN -1000 Special Days to reduce stunting by 50.
- To intensify service delivery to achieve the Three Zeros in HIV by 2016.

- To facilitate the building of the multi-purpose building by 2014.
- To recruit, train and deploy 8,000 Community workers by 2016.
- To conduct intensive training for 20,000 frontline and middle level managers from all the sectors.

Chapter 13

YOUTH DEVELOPMENT AND EMPOWERMENT

13.1 Overview

The Youth and Sports sector contributes to national development through the promotion of youth empowerment and sporting programmes. 40 per cent of the population is aged between 10-29 years according to the Population and Housing Census of 2008. The sector focuses on ensuring that Malawi's youth are educated, healthy, well-trained, vibrant and productive. Specifically, Youth Development and Empowerment is among the pillars that the Government is implementing through the Malawi Growth and Development Strategy II (MGDS II) in order to empower the youth socially, economically and politically. In order to implement these programmes, Government, through the Ministry of Youth and Sports, focused on five strategic programme areas during the 2012/2013 financial year. These included improvement of youth livelihoods; improvement in literacy and numeracy levels among the youth; increasing youth participation in development initiatives; improvement in youth health and productivity; and improvement in coordination and effective delivery of youth empowerment and development programmes.

13.2 Major Developments during the Financial Year 2012/13

The following are highlights of the developments:—

13.2.1 Youth Livelihood and Economic Empowerment

In order to reduce the high unemployment rate amongst young people in the country, Government is implementing the Youth Economic Empowerment Programme which seeks to enhance capacity of the youth of Malawi to be job creators in order to uplift their income earning capacity. Over 7,435 young people were equipped with vocational and entrepreneurial skills and provided with start-up tools in various vocational and technical skills development centres, including Masache and Bangula in Chikhwawa, Katuli in Mangochi, Mpherembe in Mzimba, DAPP Mikolongwe in Chiladzulu, Livingstonia Technical College in Rumphi and Area 25 in Lilongwe.

A national internship programme has also been introduced which aims at attaching 500 young people in various institutions and companies to enable them gain work experience and skills. During the 2012/2013 financial year, a total of 100 young people were attached in various institutions.

13.2.2 Youth Participation and Development Programmes

In this programme, the youth are encouraged to form groups, establish development centres to enable them to be easily captured and trained in life planning skills and peer education initiatives. The youth club members are also equipped with leadership, management and decision-making skills. During the

2012/2013 financial year, Government established and strengthened 300 youth structures (Youth Clubs, Networks, NGOs) in all districts by providing leadership skills trainings and operational manuals.

To further foster youth participation, Government is working with other stakeholders in organising the youth parliament, a forum which has proved during the previous parliament sittings that it is not only the most effective and efficient way of soliciting young people's views but also the most strategic method of achieving youth participation and engagement in critical decision making. The plan is to continue organising this forum to sustain the gains that have already been registered.

13.2.3 Healthy and Productive Youth

Various programmes are being implemented in the area of Health, Guidance and Counselling aimed at improving the reproductive health status of young people. The programme recognises the importance of a healthy population especially for the youth. To this effect, the Ministry of Youth and Sports, in collaboration with various stakeholders, is reaching out to more than 20,000 youth with various messages and life skills aimed at addressing early marriages, teen pregnancies, sexually transmitted infection, HIV and AIDS and substance abuse.

Furthermore, during the year under review, 200 youth counsellors and peer educators were trained to serve their fellow youth in youth centres and clubs.

13.2.4 Youth Literacy and Numeracy

Recent developments point to an ever-increasing burden of illiteracy for the sub-sector of Youth Development and Sports in relation to out of school youths. In view of this, the Ministry is committed to complement the efforts by Ministry of Education, Science and Technology by providing Non Formal Education (NFE) services to out of school youth. During the 2012/2013 fiscal year, the Ministry completed developing the NFE programme document, which provides the roadmap for implementing NFE in the years to come.

The Ministry of Youth and Sports facilitated the process of introducing Diploma Course in Youth Development Work with Bunda College Campus under the Lilongwe University of Agriculture and Natural Resources to locally administer and manage the Commonwealth Youth Diploma in Youth in Development which was previously co-ordinated and run by the Zimbabwe Open University. So far 92 students have been offered places to pursue the course for 2012-2013 intake.

13.2.5 Youth Infrastructures Development

Construction works at Neno under the integrated youth development programme have been completed where two hostels, a kitchen and the centre manager's house have been constructed. There are also production units for crop and animal husbandry such as piggery, poultry, bee keeping and fish farming which are being developed at the moment. This project is a self sustaining model where young people are taught various agricultural disciplines, which they in turn use in their villages.

13.2.6 Sports Capacity Building

Government is currently putting up blocks upon which sports can thrive in this country. In this respect, the Ministry of Youth and Sports, through the Malawi National Council of Sports, is training sports persons in the Certificate and the Advanced Certificate in Sports Business Management through University of Pretoria. Currently, 20 people are pursuing the Certificate in Sports Business Management Course while another 20 people are pursuing the Advanced Certificate in Sports Business Management. Upon completion, it is envisaged that there will be improved delivery and management of sports programmes in the country. Further to this, officials from the Ministry and Malawi National Council of Sports have undergone high level training in leadership and sports management.

13.2.7 Mass Participation in Sports

With regards to mass participation in sports, Government is carrying out a number of programmes that inform the general public on the importance of sports. Sports are important to the social and economic development of individuals and the nation as well as to the individuals' general health and physical fitness and also as a source of entertainment. This programme has started in the southern region and will be proceeding to the central and northern regions of the country. Currently, District Sports Officers have been recruited in order to effectively and efficiently coordinate and implement sports programmes at district level. The District Sports Officers will also ensure that more local and minor sport disciplines are introduced to widen participation of the masses in the rural areas.

13.2.8 Construction and Rehabilitation of Sports Facilities

Under construction and rehabilitation of sports facilities, Government embarked on the following projects most of which are on-going:—

- Renovation of the football pitch at Kamuzu Institute for Sports to make it playable. The main building at the institution is also being renovated.
- The ground breaking ceremony at Area 48, where the National Stadium will be located, was carried out. The contractor is now on site to commence construction of the stadium. A loan agreement amounting to MK22 billion was signed in October, 2012 for the People's Republic of China to provide funding for the project. The lifespan of the project is estimated at 24 months; and
- Installation of floodlights at Kamuzu Stadium. Testing will be done shortly

13.2.9 Other Achievements

The national football team, netball team and boxers participated in international competitions:

- The Senior Football Team participated in the 2012/13 Africa Cup of Nations Championship Qualifiers. The team is also participating in the 2014 World Cup Qualifiers, which will take place in Brazil.
- The Under 17 Football Team participated in the Confederation of African Football Competition Qualifiers.
- The Senior Netball Team participated in international competitions such as Diamond Netball challenge in South Africa, 2012 African Netball Championship in Tanzania and the Fast 5 World Netball Series that took place in New Zealand. The team emerged number 2 in Diamond Challenge, emerged champions in 2012 Africa Netball Championship and emerged number 5 in Fast 5 World Netball Series; and
- Malawian boxers also played international non-title bouts with their counterparts from Zimbabwe and Tanzania

13.3 Major Plans for the 2013/14 Financial Year

13.3.1 Establishment of the Gender, Children, Youth Development and Sports Sector Working Group

The Government of Malawi launched the Sector Working Groups (SWGs) as a means of implementing the Malawi Growth and Development Strategy (MGDS) and the Development Assistance Strategy (DAS). Therefore, a Sector Working Group comprising of Gender, Children, Youth Development and Sports is being formed as one way of improving coordination and service delivery on issues affecting women, men, youth and children. The Gender, Children, Youth Development and Sports Sector Working Group will eventually evolve into a Sector Wide Approach (SWAp) which will provide an institutional framework for planning, coordinating and budgeting for Gender, Children, Youth Development and Sports programmes in the country.

Currently, a Joint Sector Strategic Plan (JSSP) for the Gender, Children, Youth Development and Sports SWG has been developed and costing of the same is in the process.

13.3.2 Devolution of Some Youth and Sports Sector Functions

The Ministry of Youth and Sports, in collaboration with Ministry of Local Government and Rural Development, initiated the process of transferring some of its functions from the Ministry Headquarters to the Local Authorities. During the period under review, a devolution plan was developed and has since been approved, implying that during the 2013/2014 fiscal year, some sector functions will be managed by the City and District Councils.

13.3.3 Establishment of the National Youth Service

The plan is to establish a National Youth Service of Malawi (NYSMA) which will envelop all youth related programmes so as to: inculcate patriotism and nationalism; provide young people with experience; improve youth employability; achieve certain social objectives, such as helping poor people or the environment; and allow students to fund their education. The National Youth Service is not a new concept on the globe, it is partly inspired by examples from other parts of the world especially Kenya, Nigeria, Liberia, Ghana, Jamaica and closer to home South Africa. The proposed scheme is imagined as a complement to other initiatives broadly geared towards manpower training and skills acquisition, improving social intercourse among young people from different parts of the country, training personnel for rural development, and forging a sense of national consciousness. Through the National Youth Service, the intention is to revive the youth week initiative, start the volunteerism programme and upscale the internship and apprenticeship programmes.

13.3.4 Construction and Rehabilitation of Sports Facilities

- Finalisation of installation of floodlights at Kamuzu Stadium will proceed during the 2013/2014.
- Continuation of construction of National Stadium is expected to continue during the 2013/2014.

13.3.5 Other Programmes

In addition, the plan is to train 5,500 youths in entrepreneurial, livelihood and business management skills. Further, the plan is to establish and strengthen 300 youth participation structures at national, district and community levels. It also plans to train 1,000 youths in basic literacy and numeracy at club level. Finally, the Department will continue to rehabilitate 3 existing youth development centres of Ntonda in Ntcheu, Kamwanjiwa in Mzimba and Chipunga in Nkhatabay along with provision of standard package to other already established Traditional Authority based youth development centres.

13.4 Constraints and Challenges

The usage of public private partnership (PPP) in the sector is under-developed. Development of PPP offers the potential to increase the funding for development of sporting talent in the country, whilst simultaneously providing private firms with a powerful tool for marketing and message dissemination.

Chapter 14

CLIMATE CHANGE AND ENVIRONMENT

14.1 Introduction

This chapter outlines the performance of environment and climate change programmes in the 2012/2013 financial year. In the period under review, Malawi experienced fair to good rains with intermittent dry spells in some parts of the country and during critical stages of crop development. Heavy rains were experienced in some parts of the country in the early and late part of the season where flooding occurred in districts like Phalombe, Mangochi, Salima and Karonga. Both phenomena were climate induced. The cost to society in economic terms of these climate change eventualities are very high with respect to rehabilitation of affected areas, provision of infrastructure, relief provisions, lost crop production and peoples' property. In order to address these climate challenges the country is facing, Government is developing the National Climate Change Policy (NCCP) and other initiatives to provide adaptive and mitigation measures against climate change impacts.

In the cases of environment and natural resources management, efforts were made to enforce environmental legislation to ensure compliance through Environmental Impact Assessments (EIA) of development projects such as infrastructural development, mining, agriculture and settlements; pollution monitoring and auditing of industrial wastes and effluents and residential waste; monitoring radiation sources for safe and security of human health and the environment; biodiversity conservation, sustainable use and the fair sharing of benefits arising from the use of biological and genetic resources, regulating the application of genetically modified crops in the country; and conducting trainings for District State of Environment Reports, environmental education and public awareness. However, adequate financial resources are required if environment and climate change sector could significantly contribute to the country's economy through reduced climate induced phenomena and environmental degradation.

14.2 Climate Change

Climate change remains one of the major challenges of the world in our times. Malawi, and many other African countries that depend on agro based economy, is most vulnerable to the impacts of climate changes as a result of global warming. While global warming that is caused by the increased concentration of Green House Gases (i.e. carbon dioxide, methane, nitrogen dioxide etc) in the atmosphere is a global issue, its resultant effect of climate change has caused serious impacts on African countries in the form of drought, dry spells, heavy storms causing flooding and other catastrophes.

In order for Malawi to address these climate change impacts, the Government is engaged in the international negotiations in the conference of parties of the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto

Protocol to stabilize the greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. For example, Government was represented at the 18th Conference of Parties (COP) meeting hosted by the Government of Qatar from 26th November to 7th December, 2012. The specific objectives of COP 18 meeting were to:—

(*a*) Agree on the length of the second commitment period of the Kyoto Protocol;

(*b*) Agree on an effective international response to climate change through a fair, ambitious, and legally-binding outcome for post 2012 climate change regime that will achieve a full, sustained and effective implementation of the Convention beyond 2012; and

(*c*) Agree on sources and scale of long term finance from 2013 and beyond, and also on the operation of the Green Climate Fund that was established at Doha in 2010.

The key COP meeting decisions that were agreed upon included the formal adoption of the Kyoto Protocol's second commitment period for 8 years, 2013-2020 and long term climate finance as well as the Green Climate Fund (GCF) which is expected to start its work in Sondgo, Republic of South Korea in the second half of 2013. The COP18 was significantly important for Malawi because the decisions would assist the country in the preparation and implementation of climate change programmes and activities.

Under the National Climate Change Project and the African Adaptation Project both executed through the United Nations Development Programme, Government has implemented a number of activities to address climate change impacts including Climate Change Policy preparation, development of a Climate Change Investment Plan (NCCIP) and the Climate Action Intelligence among others.

Development of the the National Climate Change Policy that started in the previous financial year is in its final draft form awaiting stakeholder consultation before it is completed in readiness for government approval. The Policy shall guide implementation and management of climate change programmes to adapt and mitigate climate change impacts in the country.

On the other hand, the National Climate Change Investment Plan (NCCIP) has been finalised and is waiting for the development of bankable project proposals that the Government of Malawi shall sell to different development partners for support in addressing climate change issues in the country.

Climate Action Intelligence, a database on climate change actions (programmes and projects) being implemented in the country, was launched in December, 2012. It was developed by collecting, classifying and analyzing existing datasets nationwide on ongoing climate change programmes in the country. The database was classified and analyzed to generate information that is useful in decision making and project implementation. A repository for the data was developed in Microsoft Access hence the Climate Action Intelligence Database. The database is expected to be disseminated in the next financial year.

Furthermore, Government has promoted the implementation of various adaptation projects in the pilot districts of Nsanje, Chikhwawa, Mulanje, Zomba, Salima, Kasungu, Blantyre and Karonga under the African Adaptation Project. The projects that are being implemented include irrigation weir construction, irrigation cropping, planting of alternative drought tolerant food crops, afforestation, capacity building, river-line and stream rehabilitation, construction of fish ponds and fish smoking kilns, water infiltration improvement, local production and use of energy saving stoves. The adaptation projects objective is to promote resilience to climate change impacts through implementation of measurable and demonstrative adaptation measures that will improve community livelihoods and reduce their poverty.

The other component of climate change management that Government is promoting is the implementation of cleaner technologies under the Clean Development Mechanism (CDM). To date, there are over 20 potential CDM project activities that have been appraised for their contribution towards sustainable development of Malawi.

Four Project Design Documents were reviewed and issued Letters of Approval, pending registration by the CDM Executive Board. The projects are Promotion of Efficient Cookstoves in Malawi submitted by SADC Regional Carbon Facility and MUREA; Carbon Soft Open Source Programme Activity, LED lighting distribution: Pan-Africa submitted by Carbon Soft Corporation United Kingdom and Solar Solutions Malawi; Programme of Activity for the Reduction of Emissions from Non-renewable fuel from cooking at household level submitted by Green development AS; and Improved Cookstoves Programme for Malawi and Cross-Border regions of Mozambique submitted by C-Quest Capital and Total Land Care. Once these projects are successfully registered by the CDM Executive Board, project implementation would commence.

Government has further developed a project proposal for funding from the Global Environment Facility (GEF) through the United Nations Environment Programme (UNEP) to prepare its Third National Communication to the United Nations Framework Convention on Climate Change. This is an obligation for all Parties to the Climate Change Convention to prepare national communication on the status of their carbon emissions, as stipulated in Article 12 of the Convention. Government is expected to prepare the report by end of the 2013/2014 fiscal year. The Second National Communication to the United Nations Framework Convention on Climate Change was prepared in October, 2011.

During the 2012/2013 fiscal year, Government started implementing the Climate Adaptation for Rural Livelihoods and Agriculture (CARLA) Project supported by the Global Environmental Facility and executed by the African Development Bank. The project was launched in all the three districts of Karonga, Dedza and Chikhwawa where it is being implemented.

A baseline survey for the project was conducted in November 2012 in order to establish a basis on which project impact would be measured. In addition, a

Training Needs Assessment was also conducted in January 2013 to establish the capacity that is available for effective implementation of project activities and the available gaps so as to design effective training modules.

Government also continued to implement activities under the Montreal Protocol on the protection of the ozone layer. The capacity of the refrigeration technicians were strengthened through training and provision of the necessary tool kits such as vacuum pumps and gas recovery units. A total of forty four (44) refrigeration technicians were trained on good refrigeration practices that will minimize emission of refrigerants into the atmosphere. Furthermore, twenty (20) customs officers were trained on monitoring and enforcement of the Ozone Depleting Substances (ODS) in the country. Monitoring of the phase-out process of the ODS continued in the country to ensure compliance to the ODS regulations.

14.3 Environment and Natural Resources Management

As was the case in the previous year, environment and natural resources management this year was addressed through a number of areas. This include the enforcement of compliance of industries to discharge effluents into natural water courses in accordance with the acceptable environmental standards, and that city, municipal, town and district council management complied with acceptable standards of effluents discharges and waste disposal.

14.3.1 Pollution Control

In the period under review, a total of 16 sites were inspected in industries and local authorities. The sites that were inspected included Mudi River, Blantyre Sports Club, Mzedi Waste Disposal Site, Darling Hair Products, Presscane, Mapeto David Whitehead and Sons, Agro Industries, Chituko Links, Dairy Board, S & A Cold Storage, Chibuku Products Limited, Carlsberg Malawi Limited, Lilongwe Dairy Industries, Toyota Malawi Limited, Afrol Lubricants and Dulux Limited.

In many of these places inspected, industries followed remedial actions they were advised to undertake on previous inspections. However, in a few circumstances, some failed to adhere to the recommended sanitary measures such as not allowing effluent with biochemical oxygen demand (BOD) of more than 20mg/liter into water courses. Those industries that failed to comply with legislation were penalized and ordered to rectify the problems.

In addition to the inspections that were conducted, a Stakeholder Consultative meeting on Ban of Thin Plastics in Malawi was held in Blantyre. The purpose of the meeting was to sensitize stakeholders on Government's rationale and implementation modalities of the Ban. Views solicited from the meeting were integrated into the implementation strategy.

14.3.2 Enforcement of Environmental Impact Assessment

Under the Environmental Management Act, 1996, sections 24, 25 and 26 Government requires that any developer should prepare Environmental Impact Assessment for their development to ensure environmental sustainability. In this aspect, Government processed various applications for Environmental Impact Assessment and monitored implementation of their environmental management plans for approved development projects, plans, programmes and policies to ensure sustainable development. In the year, the Technical Committee on Environment and the National Council of the Environment reviewed and approved the following projects for implementation after being satisfied that the measures presented in the Environmental Impact Assessment (EIA) reports and Environmental Management Plans provided adequate environmental protection and sustainable utilization of natural resources; Kangankunde Monazite Project in Balaka, JTI Waste Water Facility Project in Lilongwe at an estimated cost of MK242 million, East Paper Manufacturing Project in Lilongwe at an estimated cost of MK 300 million, Liwonde Coal Transshipment Terminal Project in Machinga at an estimated cost of MK900 million, Ighembe Quarry Project in Karonga at an estimated cost of MK5 million, Chikala Hill Quarry Project in Zomba, Chiringa - Muloza Road Project in Phalombe at an estimated cost of MK 3.63 Billion, Mzuzu - Nkhatabay Road Project in Mzuzu at an estimated cost of MK5.7 billion, Dwangwa Hydro Power Project in Nkhotakota at an estimated cost of MK8.4 billion, Blantyre Water Project in Blantyre at an estimated cost of MK62.7 billion, Nsambo Sugarcane Plantation in Nsanje at an estimated cost of MK140 million, Akulenje Leisure Centre Project in Lilongwe at an estimated cost of MK100 million, Skyview Holiday Resort in Mangochi at an estimated cost of MK 500million, Final Environmental and Social Management Framework Report For Shire River Basin Management Project, Malawi National Stadium in Lilongwe at an estimated cost of MK22 billion, Kanyama Lime Project in Nsanje at an estimated cost of MK800 million, Chimera Breweries Plant In Chikhwawa District at an estimated cost of MK60 million, Malawi Bureau of Standards and New Office Facilities and Laboratories in Blantyre at an estimated cost of MK 3.5 billion. Government conducted environmental monitoring and audits to developers that have started implementing activities at their sites to ensure that they are compliant to the requirements stated in the Environmental Management Plans.

Furthermore, Government undertook environmental compliance monitoring to previously approved projects of Ngala Farm in Dowa, DAPP Teacher Training College in Dowa, Malawi Mangoes in Salima, Capital Oil Industries in Blantyre, Dairybord Malawi Limited in Blantyre and S & A Cold Storage in Blantyre. Following the monitoring visits, the project developers are required to address all environmental issues identified during the monitoring to ensure that they are in compliance with the approved Environmental Management Plans for the respective projects.

In order to ensure that communities address environmental safe guards in community implemented projects with financial support from the Local Development Fund - Technical Support Team (LDF-TST), Government has been monitoring all the district councils throughout the country on the progress of the implementation of the Environment and Social Management Plans (ESMPs). The monitoring reports gave recommendations on measures that communities should be undertaking to ensure that the environmental safe guards are incorporated in their projects to ensue sustainable development. Generally, the finding of the monitoring visits was that there is a considerable improvement in the implementation of the safeguards in all the districts.

In the Sustainable Land Management project coordinated by the Ministry of Environment and Climate Change Management, Government has monitored the implementation of community based activities of sound land use management and soil conservation programmes in the four districts of Blantyre, Balaka, Mwanza and Neno. Generally, it has been observed that considerable progress is being made in all the districts with Balaka generating many lessons. Communities have started constructing check dams, gabions and weirs as a measure to reclaim gullies; they have also constructed contour bunds to check on excessive run off in their gardens; planted vetiver grass to increase infiltration of rain water and introduced 10 meter buffer strips of trees on both the district rivers and streams to reduce soil erosion.

14.3.3 Biodiversity Conservation

In a move to streamline the access and export of biological and genetic resources as enshrined in the Nagoya Protocol for Access and Benefit Sharing of Genetic resources resulting from the use of these resources, Government conducted a stakeholder consultative workshop to develop the guidelines for access and export requirements. The workshop supported by GIZ drew participants from government, the private sector and the civil society involved in biological diversity. These guidelines are enforced using the Environmental Management Act, 1996, section 35 and 36.

Utilizing the specified guidelines and section 35 and section 36 of the Environmental Management Act, 1996, Government processed applications for access and export of Colombo roots (*Xanthrorrhiza capifolia*) for Transglobe Produce Export Limited and *Strophanthus kombe* for Tree Crops Limited to Germany and Italy for pharmaceutical production of medicine used for heart and malaria treatment. Government is collecting revenue from access and export fees.

In enforcing that the collection of genetic materials is conducted in a sustainable and transparent manner at the community level, monitoring visits were made to Nsanje district where the district environmental committee members were sensitized on the guidelines and the requirements of the Environmental Management Act and the Nagoya Protocol in exploiting genetic resources for export. The communities were also briefed on the bio-trade of the genetic and biological resources to ensure that sustainable use is achieved and to ensure that mutually agreed terms are in favour of the communities for access of the genetic resources and the indigenous knowledge.

Furthermore, Government has initiated the process of reviewing the National Biodiversity Strategy and Action Plan (NBSAP) by establishing targets based on the global Aichi Targets. The exercise for the review was started with a consultative workshop to define the targets by the different thematic areas that Malawi is concerned in the biodiversity sector; followed by specific technical training at UNEP on the preparation of the NBSAP.

14.3.4 Environmental Legislation

Government gazetted the Atomic Energy Regulations that were finalized in 2011 in August, 2012. These Regulations contain comprehensive provisions to enable Malawi to regulate activities involving the use of atomic energy in various sectors including; mining, health, agriculture, energy and water sectors. The Regulation of these activities will contribute to the economic growth of the country and will ensure the protection of human health and the environment.

Utilizing the gazetted Atomic Energy Regulations, Government has established the Atomic Energy Regulatory Authority (AERA) that will strengthen the regulatory infrastructure for radioactive and nuclear materials in Malawi. It shall start recruiting the Authority staff and appointment of Board Members in the financial year of 2013/2014 when operations to implement the activities for Regulatory Authority will commence.

Government continued to build the capacity of Malawians in the atomic energy field through training in the areas of mining, water, health, radiation monitoring and project management. In this aspect, Government in liaison with the International Atomic Energy Agency (IAEA) conducted a Regional Training Course on State Systems of Accounting for and Control of Nuclear Material where twenty five (25) Malawian participants attended the course. The purpose of the training course was to provide training in establishing and maintaining a state system of accounting for and control of Nuclear Material at state and facility level. The training focused on the implementation of Comprehensive Safeguards Agreements in countries with limited nuclear material and activities.

Furthermore, Government with assistance from International Atomic Energy Agency (IAEA) conducted a National Training Course on Authorization, Inspection, and Enforcement in which eighteen (18) participants attended. The purpose of the Training Course was to build up the capacity needed for the establishment and operation of an adequate regulatory programme for the safety and security of radiation sources in radiology, nuclear medicine, radiotherapy, industrial radiography, industrial irradiators, nuclear gauges and well logging. This is in accordance with IAEA requirements, recommendations and guidance of international standards, the Code of Conduct on the Safety and Security of Radioactive Sources and its associated Guidance on the Import and Export of Radioactive Sources.

In the area of regulation of application and use of genetically modified organisms for food, feed or processing, Government facilitated and participated in training on strengthening the regulatory capacity of inspectors for confined field trials inspections, monitoring and compliance in Malawi. Prior to planting of Bt.cotton on the confined field trials at Bunda College of the Lilongwe University of Agriculture and Natural Resources, Government conducted inspections of the site for the confined field trials of genetically modified cotton in order to assess the licensees' compliance with the Biosafety Act of 2002 and the Biosafety (Genetically Modified Organisms) Regulations of 2007 as well as the conditions of the licence granted for that activity. Thereafter, periodic inspections were made to ensure that the client was in compliance with the legal requirements befitting the license granted for confined field trials at all stages of the crop growth.

Government also drafted Environment Management (Plastics) Regulations, 2013 to give effect to the ban of the importation, production and use of thin plastics (with a thickness of less than 60 micronmeters) in Malawi and contribute towards the protection of the environment. Once the Regulations have been gazzetted they will be used for effectively implementing the ban and to monitor compliance of manufacturers, industries and consumers. Ultimately these Regulations will reduce and control the negative impacts associated with indiscriminate use and disposal of the thin plastics and encourage reuse and use of alternative environmentally friendly bags.

To meet legal requirements of clients in the waste management, including hazardous and chemicals, Government issued a number of licenses and permits to regulate the use, transportation, storage and disposal of waste, hazardous waste and chemicals. The schedule of fees for issuing licenses and permits for these activities was finalized. Government also issued licences to regulate the importation, transportation, possession, use and storage of radioactive sources in Malawi. The fees charged for processing and issuing licences contribute to the Environmental Management Fund that is used for improved protection and management of the environment and sustainable utilization of natural resources thereby contributing to the sustainable economic growth of Malawi.

14.3.5 Environmental Information, Education and Public Awareness

Government has produced videos on major highlights of the National State of Environment and Outlook Report in the thematic areas of; Environment and Economic Development; Population and Human Settlements; Energy; Industry and Mining; Health and Environment; Environmental Education and Public Awareness; Land and Agriculture; Biodiversity; Forest and Woodlands; Water Resources; Atmosphere and Climate Change; and Policy Analysis and Options for Action. The materials shall be used for environmental education and public awareness through electronic media.

Furthermore, Government has developed policy briefs in all the thematic areas of the published State of Environment and Outlook Report. These briefs shall be used to facilitate awareness to policy decision makers.

Chapter 15

EMPLOYMENT, GENDER, CHILDREN AND SOCIAL WELFARE

15.1 Overview

15.2 Gender, Children and Social Welfare

This section reviews the performance of Gender, Children and Social Welfare in its five main functional areas of Gender Affairs, Child Development, Community Development, Adult Literacy and Social Welfare. Through these functional pillars, the government seeks to promote gender parity where women, men, girls and boys are equal participants and beneficiaries of the national development agenda.

15.2.1 Gender Affairs

15.2.1.1 Gender Mainstreaming

As the National Gender Machinery, the Ministry of Gender, Children and Social Welfare continues to provide guidance and technical services to ensure effective gender responsive policies, programs and projects to enable the country achieve gender equality. In 2012/13 financial year, the Ministry launched the European Union funded Gender Equality and Women Empowerment Programme. EU has committed 12 million Euros to the programme. The Ministry also compiled and submitted a report on the African Union Solemn Declaration on Gender Equality in Africa. The ministry also accomplished the following activities under gender mainstreaming:

- Developed a training manual for building capacity of district staff in Gender responsive budgeting, planning, monitoring and evaluation.
- Developed a gender training manual and policy for Faith Based Organizations.
- Facilitated the establishment of district based technical sub committees on gender to assist in planning, implementation and monitoring of gender transformative activities.
- Trained 21 planners from the Ministries of Health, Agriculture, Transport and Education on gender responsive budgeting.
- Developed and launched the Millennium Development Goals (MDGs) Acceleration Framework (MAF) to accelerate towards achieving the lagging gender related MDGs and a White Paper for strengthening the National Gender Machinery on 22nd March, 2013.

15.2.1.2. Gender Related Laws and Legislatives

The promotion of gender equality requires supportive institutional and legal structures. As such, the Ministry finalized the review of the National Gender Policy and the Prevention of Domestic Violence Act. The revised policy which incorporated the current emerging issues related to gender has since been submitted to the Office of the President and Cabinet for comments and advice.

The Gender Equality Act was approved by Parliament on the 27th of February, 2013. The President of the Republic of Malawi accented on 12th April, 2013. The Ministry also compiled the seventh Report on the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW). The report has not yet been submitted.

15.2.1.3 Gender Based Violence

Gender Based Violence (GBV), especially violence against women, has been recognized as a severe impediment to poverty reduction. To reduce cases of GBV, the outputs were achieved in the 12/13 Fiscal Year:—

- 4 One Stop Centres were established and operationalized .
- Trained 65 focal persons of One Stop Centres on the management of GBV cases.
- In collaboration with the Police and UNICEF, the Ministry has established 300 Community Victim Support Units (CVSUs).
- Trained 96 law enforcers in all the regions on gender related laws and rights.

15.2.2 Community Development

15.2.2.1 Economic Empowerment

The Ministry of Gender is committed to enhancing the economic empowerment of the grassroots with primary focus on women as key beneficiaries. It has been engaging the target beneficiaries in various aspects of entrepreneurship development through formation of business groups and training them in business management and productions skills in various enterprises of their choice. During the 2012/2013 Financial Year the Ministry has achieved the following:

- 2,129 business groups were formed. Besides, 1,200 COMSIP Cooperative Groups were also formed which are operational.
- Trained 1,859 business groups in business and Credit Management, Marketing and Group Dynamics. 240 women business groups were linked to viable markets

15.2.2.2 Community Mobilization and Capacity Building

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

Financial Year, the Ministry achieved the following:—

- Trained 310 Project Committees to undertake LDF funded projects
- Initiated the commencement of 2,519 community projects.
- Facilitated the completion of 1,260 community projects.
- Trained 70 youth clubs in leadership and constitutional development.
- Trained 6 school management committees in infrastructure maintenance.
- Supervised 2,500 community construction projects.
- Trained 67 Water Point Committees in community based management of boreholes.
- Trained 24 borehole committees in community based management of boreholes
- Trained 107 Parent-Teacher Associations.

Under the Home Management Program, the ministry has facilitated the formation of 87 groups who are participating in baking, tailoring, basketry and pottery through the skills acquired from home management courses run by CDAs. It has also facilitated the formation of Community Home Management centers in Dedza, Mangochi, Ntchisi, Ntcheu, Mulanje, and Chiradzulu to show case elements of good housing and food utilization and dietary diversification.

Under the Adult Literacy Program, the Ministry opened 7,200 adult literacy classes which have an enrolment of 216,000 learners. The Ministry also facilitated the commemoration of Adult Literacy Day in Nkhatabay District.

15.2.3 Child Development

Under the Child Development functional area, the Ministry promotes the development, care, protection and justice of children. The Ministry strengthens the capacity of families and communities to provide support, care and protection to vulnerable children, the aged, marginalized families and those affected by HIV/AIDS. Further more it promotes access to Early Learning and Stimulation to Children.

15.2.3.1 Orphans and other Vulnerable Children

To allow children to grow and achieve their potential, the Ministry supports orphans and other vulnerable children (OVC) in various ways across the country. During the 2012/13 Financial Year the Ministry implemented the following activities:—

- Impact evaluation of the National Plan of Action (NPA) for OVCs. The results will inform the development of the new NPA.
- Conducted piloting of Quality Improvement Standards for OVC care in Blantyre, Karonga, Lilongwe and Mangochi.

- Conducted orientation workshops with 34 orphanages on the Child Care and Protection Justice Act.

15.2.3.2 Early Childhood Development

The Ministry recognizes that the first eight years of life of a person are crucial for optimal development. Early Childhood Development (ECD) program is therefore very pertinent as it gives chance to children to grow up in an environment conducive for physical and mental development while also building advantageous social relations. During the 2012/13 financial year, the following were achieved:—

- Established 400 new CBCCs
- Rehabilitated 7 ECD Centres
- Upgraded 64 CBCCs
- Trained 37 Trainer of Trainers for parenting education and support for all the districts
- Trained 1,365 members of ECD Centres Management Committees
- Trained 1,732 Caregivers.
- Mobilized and distributed food items for 75 CBCC Centres
- Supported Mtandire CBCC Centre with 700 blankets donated by Her Excellency, Dr. Joyce Banda.
- Procured and distributed 240 sets of learning and playing materials.

15.2.3.3 Child Protection

Malawian children are highly vulnerable to abuse, violence, exploitation, discrimination and neglect. Currently, there are 2.4 million[1] children that have grown-up in violent homes, witnessed domestic violence or experience its negative effects. As such, the Ministry is implementing a coordinated mechanism for the identification, assessment and referral and provision of appropriate support services for vulnerable and risk children through the use of an innovative case management system. The approach has been mainstreamed into various rehabilitative and remedial services like One Stop Centres, Community Victim Support Units and Police Victim Support Units. During the 2012/13 financial year, the following achievements were made:—

- Developed draft rules and regulations for the implementation of Child Care Protection and Justice Act 2010
- Trained 240 members of the District Child Protection Committees from 16 districts in emergency response in the provision of services to vulnerable groups such as the elderly and children.
- Commissioned a study on violence against children and young women. All study protocol was finalized and preliminary qualitative findings have been established.

[1] Government of Malawi (2010), *Malawi Demographic Health Survey*

- Introduced a Community Victim Support Unit Mobile Technology in Ntcheu, Lilongwe, Kasungu and Machinga to facilitate reporting of cases and follow up from national, district and traditional authority levels.

15.2.3 Social Cash Transfer

Over 4 million Malawian children live in poverty that is characterised by low income, low literacy, food insecurity and child malnutrition which is at 48%. Additionally children are orphaned due to HIV; 50% of under-5s are stunted; and 15% of children of primary school age have not enrolled due to poverty, hunger and cultural barriers[2]. The Social Cash Transfer Programme is a poverty alleviation programme targeting 10% of the ultra poor and labour constrained households. Currently the project is being implemented in seven districts namely Mangochi, Machinga, Phalombe, Salima, Chitipa, Likoma and Mchinji. The programme is expected to scale up to 8 additional districts within the 2013/14 Financial Year. During the 2012/13 Financial Year, the Ministry provided cash transfers to 28,864 Households (110,345 individual beneficiaries). The project also made the following achievements during the 2012//13 Financial Year:

- Developed an on-line (web-based) Management Information System.
- 12 officers from both the district and central level attended a short course on designing and implementing cash transfers.
- Developed a draft case management manual.
- Commenced with the retargeting process in all the twenty seven districts.
- Developed a new payment system and its manual.
- Provided reformatory services to 131 children in conflict with the law at Chilwa Reformatory Centre and Mpemba Boys Home. 38 children were discharged at the Reformatory Centres.
- Trained 189 Child Protection Workers in Case Management and the Journey of Life at Magomero College.
- Completed the detailed designs and produced Bills of Quantities for the construction of Girls Hostels at Chilwa and Mpemba Reformatory Centres.

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

Chapter 16

SOCIAL SUPPORT AND POVERTY REDUCTION PROGRAMMES

16.1 Overview

Malawi's economic and development agenda is guided by the medium term development strategy known as the Malawi Growth and Development Strategy II (MGDS II) for the period 2011-2016. The main objective of the MGDS II is poverty reduction through sustainable economic growth and infrastructure development.

The first year of the implementation of the MGDS II encountered challenges against the backdrop of an unstable macroeconomic environment, particularly, in the second half of 2011 and the first half of 2012. This led to a significant contraction in economic activity. To forestall these problems, Government formulated an Economic Recovery Plan (ERP) with an intention to improve the country's prospects for social-economic growth and development with a focus on quick wins for economic recovery.

This chapter outlines selected Government efforts in reducing poverty and improving the welfare of its citizens as well as the attainment of the Millennium Development Goals (MDGs). It discusses social support interventions designed to meet the needs of vulnerable households and selected achievements towards poverty reduction in some social sectors.

16.2 Social Support

The Malawi Government is implementing National Social Support Programmes (NSSP) based on the National Social Support Policy. The programme has prioritized six main intervention areas, namely: Public Works Programme, School Meals Programme, Social Cash Transfer Programme, Village Savings and Loans, Microfinance and Farm Input Subsidy Programme (FISP).

16.2.1 Farm Input Subsidy Programme

The Farm Input Subsidy Programme is being implemented through the Ministry of Agriculture and Food Security. In the 2012/13 agriculture season, the programme targeted a total of 1.5 million beneficiaries (from 1.4 million beneficiaries in the preceding season) with 154,400 mt of subsidized fertilizer which led to production of maize surplus of 358,804 mt.

16.2.2 Social Cash Transfer Programme

The Social Cash Transfer Programme is being implemented by the Ministry of Gender, Children and Social Welfare, with funding from UNICEF, Irish Aid, KfW, EU and Government of Malawi. Currently, the programme is reaching out to 28,864 households across the country in seven districts. The Government will be scaling up to Balaka district, which will be the eighth district with support from

Irish Aid. By the end of 2013, the programme will be rolling out to an additional seven districts, with funding from KfW, the European Union and the Government of Malawi. The Government of Malawi plans to upscale the programme to all the 28 districts in the country thereby reaching out to 319,000 households by the year 2016. During the 2012/13 Financial Year, the EU contributed an equivalent of MK3.75 billion, KfW MK 1.5 billion, UNICEF MK 187.5 million, Irish Aid MK 375 million and the Government of Malawi MK 100 million.

16.2.3 School Meals Programme

Implementation of the School Meals Programme is being coordinated by the Ministry of Education, Science and Technology. Other major implementing partners include the World Food Programme and Mary Meals. At the moment, a total of 1.6 million learners are being targeted in 1,642 schools with fortified porridge. Among others, the programme is aimed at improving pupil enrollment rate in the targeted schools. In the meantime, the Government is planning to upscale activities of the programme to all the 28 districts reaching out to 2,858 vulnerable schools and approximately 2.8 million learners.

16.2.4 Public Works Programme

The Public Works Programme is currently being implemented by two major stakeholders; the Local Development Fund (LDF) with funding from the World Bank, and the Rural Infrastructure Development Programme (RIDP) with support from the European Union.

During the year 2012/2013, with the support of the World Bank, Government provided additional resources to LDF amounting to US$50 million as part of the Rapid Response Programme. This aimed to cushion poor households against the adverse effects of the economic reforms the country has been undergoing. A total of MK2.6 billion was transferred to Local Authorities for implementation of the 2012/2013 Public Works Programme. The Programme has reached out to 593,750 beneficiary households with cash transfers representing a 98.1 per cent achievement rate. In addition, a total of 6,010 community subprojects were implemented across the country mostly roads, forestation and irrigation subprojects.

During the financial year, the Government has spent MK1,285,816 on the Rural Infrastructure Development Programme and Small Scale Irrigation Infrastructure activities and has paid out a total of MK37,615,299.00 in wages to 3,267 individuals.

16.2.5 Village Savings Loans

The Village Savings and Loans is now targeting over 200,000 individuals and it is the aim of Government to increase its coverage to reach out to a total of 700,000 individuals by the year 2016, across the country.

16.2.6 Micro Finance Programme

The Micro Finance programme is being supported by the World Bank, USAID, DfID and EU. Current coverage is at 500,000 individuals and the target for 2016 is to reach out to a total of 1 million individuals.

16.3 Selected Achievements towards Poverty Reduction in 2012/2013

16.3.1 Agriculture

The agriculture sector remains the main driver of economic growth in the country. The sector is key to ensuring national and household food security. During the period under review, Government continued to implement the FISP for the eighth season. This included 154,400 metric tonnes of fertilizers, 8,000 metric tonnes of maize and 3,000 metric tonnes of legume seeds (groundnuts, beans, soybeans and pigeon peas). As a result, in the 2012/13 agriculture season, maize production is estimated to increase to 3,680,263 metric tonnes from 3, 623,924 metric tonnes in the 2011/12 season representing a 1.6 per cent increase. Consequently, Malawi is expected to continue to register a food surplus with an estimated 0.56 metric tonnes in 2012/13.

The Government of Malawi is also implementing the Farm Income Diversification Programme (FIDP) - Phase II with financial support from the European Union under a grant financing agreement. Its overall objective is to contribute to the reduction of poverty in Malawi. FIDP continues to operate in 12 districts which are distributed across the three regions of the country (3 in Southern, 4 in Central and 5 in Northern). The progress with regard to specific programme purpose is as follows:

To *manage natural resources sustainably*, 2,487 hectares were applied with compost manure and 787 hectares were covered with crop residues. This gives a cumulative coverage of 3,935 hectares (111 per cent on target) and 4,872 hectares (72 per cent on target). A total of 273 hectares involving 3,335 farmers were put under conservation farming giving rise to cumulative achievements of 59 per cent and 82 per cent, respectively, against the targets. 10,579 metres of swales were constructed during the second quarter making a total of 23,563 metres representing 121 per cent against the set target. 122 farmer-based woodlots were established involving 3,614 farmers. Overall achievements of these indicators are 69 per cent and 50 per cent on target, respectively. There has been an increased adoption of all soil and water conversation interventions to 58 per cent of farmers adopting contour ridge alignment, 29 per cent adopting vetiver hedgerows and 72 per cent adopting the use of compost/manure.

To *improve post-harvest storage and processing* the project continued to provide support in the form of staff and farmer training on the construction of modern crop storage structures and provision of construction materials as a means of minimizing post-harvest losses. Rice farmers in Karonga processed 18 tonnes (increasing overall achievement to 175 per cent) and realised MK5, 435,000 from the sales (overall achievement 87 per cent).

To *increase and diversify smallholder agriculture productivity*, 270 hectares were put under irrigation farming for the various horticultural and other dimba crops, 81 hectares were planted with fruits and 237 new bee hives were colonised making.

To *promote agri-business*, the programme continued to support agri-business groups through provision of technical advice on general management and linking them to markets. Farmers from some thriving agri-business groups were already reaping benefits from the sale of their commodities such as milk, eggs, broilers, pigs and meat.

16.3.2 Integrated Rural Development

Government recognizes that Malawi's population is rural based with the majority depending on rain fed agriculture and lacking access to basic amenities. It has, therefore, adopted the implementation of Rural Growth Centres (RGCs) and Market Development Programmes both in the rural and semi-urban centres as critical development components within the realm of Integrated Rural Development. One the one hand, construction of the basic social infrastructure in two (Neno in Neno and Nthalire in Chitipa) of the three RGCs has been completed. The remaining one (Nambuma in Dowa) should be through by August 2013. On the other hand, the construction of four markets, namely, Matawale, Dwangwa, Bvumbwe and Ekwendeni is complete. Construction of Enukweni, Nkhamenya and Limbuli markets are expected to be completed within the 2012/13 financial year.

16.3.3 Status of Millennium Development Goals

As the end-line of the MDGs draws closer in 2015, Malawi is stepping up efforts to accelerate the attainment of MDGs. The Government is highly committed to achieving all the MDGs through the implementation of the MGDS II, and has hence aligned the strategies with the MDG outcomes. Of the eight MDGs, only four are likely to be met while the other four will require extra effort if they are to be met. The four that are likely to be met are : Reduce Child Mortality; Combat HIV and AIDS, Malaria and other diseases; Ensure Environmental Sustainability; and Develop Global Partnership for Development while the other four that are unlikely to be met include: Eradicate Extreme Poverty and Hunger; Achieve Universal Primary Education; Promote Gender Equality and Empower Women; and Improve Maternal Health.

Chapter 17

PUBLIC ENTERPRISES

17.1 Overview

This chapter covers the financial year 2011/12 and reviews the financial performance of selected commercially oriented parastatals institutions and organizations under Government of Malawi.

From the period under review, most of the parastatals show improved performance with a few parastatals showing poor performance and signs of financial stress such as ADMARC and Malawi Post Corporation. MACRA and ESCOM continue to show strong performance. The Water Boards show an improving trend though liquidity challenges need to be overcome. The move to gradually increase tariffs to cost reflective levels in the utility institutions will result in improved performance over time. It is important that applicable tariffs are at levels that will enable recovery of costs but also realization of a margin to adequately maintain operating infrastructure. The Malawi Housing Corporation's structural challenges with respect to the low levels of rentals need to be addressed if the Corporation is to provide decent accommodation in future. Most parastatals except MACRA and Malawi Accountants Board were not able to pay dividends during the year under review.

17.2 Water Utility Portfolio

17.2.1 Southern Region Water Board

In 2011/12 financial year, Southern Region Water Board's (SRWB) surplus almost doubled to K137.0 million from K72.0 million in previous year. This is on account of 17 per cent increase in revenues due to new connections (over 3,000) during the year and tariff adjustment. There were tight controls over expenditures resulting in 12 per cent increase in expenses on previous year. Although as a return on equity, this surplus position translates into only 3 per cent return, it signals better future performance should management continue to attend to key areas of the business. The growth in expenses is largely on account of general price increases due to inflationary pressures.

As is the case with the other water utility institutions, the major challenge with SRWB is the struggle for an unaccounted for water which is currently at 26.9%. This is expected to reduce as the Board continues to rehabilitate its equipment and also employ preventative maintenance strategies. It is expected that the tariff adjustments will help realize the needed cash resources for such activities.

Considering the Statement of Financial position, there was investment in equipment during the year under review resulting in growth in noncurrent assets by 22 per cent. (K786.5 million). This covers rehabilitation works as well as expansion activities that the board continues to undertake on a regular basis. SRWB's liquidity position does not show signs of stress as at end of year. Gearing ratio for the Board was nil. However, the debtor levels grew in the year and there is need to improve on collection. Average debtor days increased from 177 to 194 signaling collection challenges. The opportunity cost of such high collection days is high in a highly inflationary environment but also where interest rates are currently high. Management continues to focus its energies in this area.

The outlook is positive despite the high cost environment. Increase in tariff combined with cost control strategies expect to yield surplus results in 2012/13 financial year. Efficient revenue management strategies will need to be employed to ensure revenues are maximized but also collected timely. The Board should continue rehabilitating its infrastructure.

TABLE 17.1 FINANCIAL PERFORMANCE FOR SRWB

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2012 MWK	2011 MWK
Turnover	million	million
Core business	1,174	1,006
Other	122	99
Total	**1,296**	**1,105**
Expenses	(1,158)	(1,032)
Financing costs	-	-
	137	72
Taxation	-	-
Surplus	137	72
Revaluation surplus	-	-
Total comprehensive income	137	72

ABRIDGED STATEMENT OF FINANCIAL POSITION

	2012 MWK	2011 MWK
ASSETS	million	million
Non Current assets	4,502	3,888
Current Assets	847	802
Total	**5,349**	**4,690**
FUNDS AND LIABILITIES		
Capital reserve	4,349	3,935
Revaluation reserve	372	409
General reserve	83	(55)
Other reserves	177	143
Total	4,980	4,432
Long term borrowings	-	-
Non Current Liabilities	130	131
Current Liabilities	239	127
Total	**5,349**	**4,690**

17.2.2 Blantyre Water Board (BWB)

BWB registered over a 100 per cent growth in net surplus in the year under review from K59.0 million in 2011 to K207.0 million. This represents a 4 per cent return on equity. Revenues grew by 23 per cent largely on account of increase in tariffs. There is a general move to gradually increase tariffs to a level where they become cost reflective to ensure that the Board's operations are self sustaining and also enable it to deliver its service effectively. There were more new connections done that enhanced growth in income. Expenses grew by 17 per cent from K2.5 billion to K2.9 billion. The increase in electricity tariff as well as increase in plant maintenance expenses accounts for most the increase in costs. Management continued to implement stringent cost control measures during the year.

The Board continues to face a serious challenge that of high levels of water losses. During the period under review, water losses were above 40 per cent of total water pumped. This continues to eat into the margins, resulting in constrained cash flows. To reduce this level to acceptable levels, the Board under the National Water Development Program, has accessed loan and grant funding to rehabilitate, upgrade and also expand water supply systems. Works are at advanced stages and it is hoped that once completed, this should help reduce losses and positively impact on the Board's delivery of services.

During the year, frequent breakdown of equipment resulting in dry spells proved to be a challenge. Most equipment is old and requires rehabilitation or replacement. This is a historical challenge partly due to the low tariff which could not allow adequate equipment replacement and maintenance. With Government's resolve to gradually increase the tariffs, eventually the Board should have resources to routinely maintain its equipment and also replace it with modern equipment. The recent tariff adjustment is now showing results in that the cash flows are slowly improving.

The Statement of Financial position shows a growth in noncurrent assets. This is largely from current work in progress funded under the National Water Development Programme. Debtors continue to be a challenge. There was a 25 per cent growth in debtors. Collection continues to be a challenge which management is focusing on. There are initiatives currently underway to explore possibility of installing prepaid meters. This will help reduce cash flow pressures. Gearing rose to 32 per cent on account of the borrowings through Government for the rehabilitation of the water systems.

The need to rehabilitate equipment and reduce water losses will have to be the focus in the coming year. Blantyre Water Board has to continue to strive for high levels of efficiency and thereby reducing dry spells. Efficient cost and working management strategies will have to be employed. As in the other Water Boards, it needs to ensure there is reduced latency between change in cost parameters and tariff adjustment to ensure no major losses are incurred on account of time differences.

TABLE 17.2 FINANCIAL PERFORMANCE FOR BWB

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	**ASSETS**	2012 MWK million	2011 MWK million
Turnover			Non Current assets	7,770	6,421
Core business	2,657	2,154	Current Assets	1,369	813
Other	600	501	**Total**	**9,139**	**7,234**
Total	**3,257**	**2,655**	FUNDS AND LIABILITIES		
Expenses	(2,939)	(2,517)	Capital reserve	1,434	1,434
Financing costs	(42)	(37)	Revaluation reserve	3,524	3,524

	276	101	General reserve	(238)	(446)
Taxation	(69)	(42)	Other reserves	-	-
Surplus	207	59	Total	4,720	4,512
Revaluation surplus	-	2,303	Long term borrowings	1,491	399
Profit for the year	207	2,362	Non Current Liabilities	1,952	1,524
			Current Liabilities	976	799
			Total	**9,139**	**7,234**

17.2.3 Central Region Water Board

Turnover for Central Region Water Board (CRWB) grew by 43 per cent in 2011/12 against growth of 31 per cent in expenses. The Board registered a surplus of K176.0 million representing over 100 per cent growth on previous year. This level of profits translates to 10 per cent return on equity. Increase in tariffs as well as new connections helped to boost revenues. Tariff adjustments over time aim at ensuring that the Board's plant and equipment is adequately maintained and thereby it can improve in its service delivery to the public. Expenses over the same period grew by 31 per cent from K0.656 million to K0.850 billion largely on the increase in the electricity tariff as well as general price increases.

During the period under review, water losses averaged 26 per cent of total water pumped. Although this is lower than the other Boards, it nevertheless is high as it continues to eat into margins, resulting into constrained cash flows. The Board continues to focus on reducing this level of losses by rehabilitating its equipment and also reducing levels of water theft.

The Statement of Financial Position show noncurrent assets grew by over 40 per cent on account of the re-equipment program under the National Water Development Program (NWDP). The Board is replacing and rehabilitating equipment to improve water delivery services. Debt collection remains a challenge and management continues to focus on it. Average debtor collection days remain at 95 days. In a high interest and inflation environment, this needs to be reduced substantially. Management is looking at ways of cost effectively reducing collection days and this includes possibility of installing prepaid meters. At 1:0.62 liquidity ratio is not impressive. The liabilities have a total of K653.0 million as differed income which will later be released into income over time. Adjusted for this; the liquidity ratio changes to 1:2.1. Gearing at 14 per cent is not a cause for concern.

With recent tariff adjustments, the Board is expected to maximize its revenues and focus on rehabilitation of its equipment. The continued funding under the NWDP will help improve the equipment capabilities. The Board is expected to continue improving its financial and operational resources. The 2012/13 budget expects to realize a surplus. The high cost environment will present a challenge requiring constant attention to management of costs.

TABLE 17.3 FINANCIAL PERFORMANCE FOR CRWB

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	**ASSETS**	2012 MWK million	2011 MWK million
Turnover			Non Current assets	2,314	1,711
Core business	857	722	Current Assets	572	441
Other	203	17	**Total**	**2,886**	**2,152**
Total	**1,060**	**739**	FUNDS AND LIABILITIES		
Expenses	(860)	(656)	Capital reserve	159	106
Financing costs	(7)	(4)	Revaluation reserve	86	92
	193	79	General reserve	(1,252)	(1,253)
Taxation	(17)	-	Other reserves	2,732	2,551
Surplus	176	79	**Total**	**1,725**	**1,496**
Revaluation surplus	-		Long term borrowings	238	-
Profit for the year	176	79	Non Current Liabilities	-	-
			Current Liabilities	923	656
			Total	**2,886**	**2,152**

17.2.4 NORTHERN REGION WATER BOARD (NRWB)

NRWB registered over 100 per cent growth in net profit for the year 2011/12 from K50.7 million in the previous year to K205.5 million in the current year. This translates to a very low return on equity of 5 per cent.

The growth is on account of 36 per cent increase in revenue and a lower growth in total expenses. During the year under review tariffs were increased in addition to new connections aimed at ensuring the Board's operations are self sustaining and enable it deliver its service effectively.

Expenses grew by 20 per cent from K1.0 billion to K1.2 billion. A number of costs increased due to general price increases during the period. Management continued to apply cost control measures with a view to containing costs. Following the refinancing of the Rand denominated DBSA loan, the Board averted exchange losses which could have been incurred had this prudent move not been taken. The impact of the increased interest rates on the kwacha loan will be felt in the 2012/13 financial year. This will nevertheless be less than the exchange loss that could have been suffered had the refinancing not been done. The Board continued to exercise cost control measures throughout the reporting period.

One challenge facing the Board is that of high levels of water losses. In 2011/12 water losses were at 35.5 per cent of total water pumped. This quite high number represents real loss on revenue. To reduce this level to acceptable levels, the Board under the National Water Development Program, has accessed loan and grant funding to rehabilitate, upgrade and also expand water supply systems. The

Board also continues to replace stuck meters which are also a cause for water losses. It is hoped that these efforts including enforcement measures will help reduce water loss levels.

The Statement of Financial position shows a growth in equity due to revaluation of fixed assets and the profit earned in the year. However, the Board continues to carry negative revenue reserves of K3.3 billion. This is largely from historical losses over the past years. The low tariffs in the past resulted in perpetual losses thereby accumulating large amounts of losses. Government's resolve to gradually raise the tariffs to cost reflective levels will over help to clear these losses and turn to positive reserves.

Borrowings have relatively been at same level as previous year. Gearing ratio was at 18 per cent. The Board is able to service its loan obligations satisfactorily. The current ratio stood at 1: 1.36. Trade receivables grew by 28 per cent.This largely due to increased customer base and also increase in tariffs. Management is considering installing prepaid meters as one way of reducing debt levels and improves the cash flow.

Debt collection, cost control measures and efficient working capital management will be key in the 2012/13 financial year. There is need to develop an automatic tariff adjustment formula based on changes of economic parameters that will help reduce the latency between change in economic parameters and tariff adjustment. Efforts to reduce water losses should continue to be employed as this will have a significant positive impact on the performance of the Board.

TABLE 17.4 FINANCIAL PERFORMANCE FOR NRWB

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	**ASSETS**	2012 MWK million	2011 MWK million
Turnover			Non Current assets	5,993.6	5,726.2
Core business	1167.4	964.1	Current Assets	420.3	455.5
Other	277.5	95.7	**Total**	**6,413.9**	**6,181.7**
Total	**1444.9**	**1059.8**	FUNDS AND LIABILITIES		
Expenses	(1,157.2)	(939.7)	Capital reserve	3,960.6	3,950.6
Financing costs	(57.2)	(69.4)	Revaluation reserve	2,728.6	2,686.2
	230.5	50.7	General reserve	(3,279.1)	(3,484.6)
Taxation	(25.0)	-	Other reserves	817.6	817.8
Surplus	205.5	50.7	**Total**	**4,227.7**	**3,970.0**
Revaluation surplus	0.0	0.0	Long term borrowings	777.5	752.0
Profit for the year	205.5	50.7	Non Current Liabilities	1,100.7	1,127.6
			Current Liabilities	308.0	332.1
			Total	**6,413.9**	**6,181.7**

17.2.5 Lilongwe Water Board (LWB)

The Board barely broke even in 2011/12 financial year posting a surplus of K14.0 million. Revenues grew by 4 per cent whilst expense marginally grew by 3 per cent on previous year. There was negligible return on equity realised due to the low surplus earned. A lot of effort needs to be employed to control costs and also grow revenues. During the year under review, water losses averaged 35 per cent. This is a challenge requiring urgent attention especially with the current year performance. Any reduction in the losses will translate into improved performance. There were supply challenges during the year due to equipment failure and other causes. The infrastructure is now old and with the growth of the city there are supply challenges during peak periods. The Board continues to attend to its infrastructure and is also exploring future additional water supply sources. The on-going National Water Development Programme will also help to improve delivery of service.

The Statement of Financial Position indicates there was not much growth in the financial performance compared to previous year. Liquidity remained tight during the year. The current ratio is at reasonable levels, however, a large part of the current assets comprise debtors who on average have 88 collection days. Management needs to focus on reducing this number to improve cash flow.

In the outlook for 2012/13, the Board has planned to improve its services, manage its working capital optimally and attend to its infrastructure to surpass the year under review performance. It is critical that the Board should indeed move away from bare breakeven result to more robust results. The expected tariff adjustments will help to improve performance. Management should continue focusing on controlling costs but also ensure maintenance services are not compromised.

TABLE 17.5 FINANCIAL PERFORMANCE FOR LWB

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2012 MWK million	2011 MWK million
Turnover		
Core business	2,208	1,940
Other	55	245
Total	**2,263**	**2,185**
Expenses	(2,249)	(2,183)
Financing costs	-	-
	14	2
Taxation	-	-
Surplus	14	2
Revaluation surplus	-	
Profit for the year	14	2

ABRIDGED STATEMENT OF FINANCIAL POSITION

ASSETS	2012 MWK million	2011 MWK million
Non Current assets	14,037	14,142
Current Assets	1,179	1,028
Total	**15,216**	**15,170**
FUNDS AND LIABILITIES		
Capital reserve	640	496
Revaluation reserve	6,683	6,880
Revenue reserve	(880)	(998)
Other reserves	3,860	3,860
Total	**10,303**	**10,238**
Long term borrowings	809	899
Non Current Liabilities	3,475	3,363
Current Liabilities	629	670
Total	**15,216**	**15,170**

7.3 Power Utility Portfolio

7.3.1 ESCOM Limited

In 2011/12 financial year, ESCOM's revenue grew by 17.6 per cent on the previous year. Core business revenue registered 24 per cent growth whilst non-core revenue registered a decline of 26 per cent. The growth in core income is on account of tariff adjustment which took effect during the period under review. The decrease in non-core revenue is on account of a one off amount of K1.26 billion that was with respect to reversal of severance allowance provision following implementation of the new Pensions Act. Expenses (excluding finance costs and exchange loss) in total grew by 16.9 per cent. The continuous depreciation of the Kwacha in 2012, the company experienced an exchange loss of K2.1 billion largely on account of the loan with the Development Bank of South Africa (DBSA) which is South African Rand denominated. ESCOM is currently reviewing options on how best to minimize the Rand currency exposure on this loan.

The profit after tax of K3.9 billion is 11 per cent lower than previous year which translates into a 10.3 per cent return on equity compared to 35 per cent in previous year. There is therefore a decline on return on equity. The exchange losses, as mentioned earlier, and the one off reversal of severance allowance have resulted in this outcome. However, the profit result is a positive outcome. Continued cost control measures complemented with tariff adjustments are yielding positive results. Government's resolve to gradually adjust tariffs to cost reflective levels and also implementation of automaticity in the adjustment to the base tariff is a move in the right direction.

Whilst in the past the company continued to face liquidity challenges this is not the case, as evidenced by the growth in net cash from operations of 55 per cent and K2.8 billion of cash and cash equivalents at end of year. With available cash resources, management continues to prioritize expenditures towards critical backlog maintenance as well as current maintenance requirements. This is key to ensuring that the infrastructure is kept in good state. Technical losses of over 20 per cent are still a challenge. This is largely due to old infrastructure, theft of electricity and in part own usage of power for mining of the machinery. Efforts are continuously employed to reduce such losses.

The statement of financial position is stronger than previous year's. During the year under review, Government decided to strengthen the financial position of ESCOM by converting into equity, loans that it had with ESCOM amounting to K9.8 billion. This resulted in reduction in gearing from 30.7 per cent in previous year to 11 per cent. The current ratio also improved from 1:0.52 in previous year to 1:0.92. With progressive tariff adjustments and efficient working capital management, these ratios should continue to improve. Noncurrent assets grew on account of construction works on Kapichira II which is expected to generate 64 mega watts.

Going forward the resumption of the MCC $350.0 million investment program will result in strengthening of both distribution and transmission systems in ESCOM. This will enable efficient evacuation of power and reduction in losses. ESCOM will continue to use its own resources for needed maintenance activities. The regulator will continue reviewing the tariff with a view to gradually elevate it to cost reflective levels. Cost control, working capital management will play a key role. Management should continue to employ efficient and acceptable procurement methods to reduce wastage and mis-procurement incidences. The nature of ESCOM's business is such that a lot of resources are expended on procurement activities for maintenance and other operational requirements. Any slippages in procurement will lead to losses and flight of cash resources. 2012/13 is expected to produce a profit result.

TABLE 17.6 FINANCIAL PERFORMANCE FOR ESCOM

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	ASSETS	2012 MWK million	2011 MWK million
Turnover			Non Current assets	36,414.90	32,366.00
Core business	17,202.20	13,829.00	Current Assets	9,474.80	6,323.00
Other	1,585.70	2,142.80	**Total**	**45,889.70**	**38,689.00**
Total	**18,787.90**	**15,971.80**			
Expenses	(12,258.50)	(10,485.90)	FUNDS		
Exchange loss	(2,128.40)	(430.10)	Share Capital	26,852.70	14,782.00
Financing costs	(413.50)	(560.40)	General reserves	(3,989.70)	(3,989.70)
Profit before tax	3,987.50	4,495.40	Revaluation Reserve	2,004.00	2,036.00
Taxation	(1,436.70)	1,310.70	**Total**	**24,867.00**	**12,828.30**
Profit after tax	2,550.80	5,806.10	Long term borrowings	2,724.00	3,942.40
Revaluation surplus	-	-	Non Current Liabilities	8,070.00	9,721.10
Total comprehensive income	**2,550.80**	**5,806.10**	Current Liabilities	10,228.70	12,197.30
			Total	**45,889.70**	**38,689.10**

17.4 Property Development and Management

17.4.1 Malawi Housing Corporation (MHC)

Malawi Housing Corporation's performance was not encouraging in the year under review. Although there was growth in revenue and also surplus before asset revaluation, the absolute numbers are low. The trend is however that of profitability and this should be built on. The performance is boosted by a large increase in asset revaluations. The statement of financial position shows growth in noncurrent assets. This is largely the result of the end of year asset revaluations. Liquidity remained tight during the year and management continued to prioritise expenditure towards high impact areas. Further analysis of the current ratio which is at 1:1.52 confirms the tightness of the liquidity position. Excluding some assets which are one off, the position changes to 1:0.52. There is need to continue managing costs but also maximizing revenues.

MHC still faces a structural challenge on its rental account. Historically, rentals for most of the residential properties have not kept pace with increases in costs. Recently there have been adjustments which have helped to improve the performance of the account. However, in view of the increased cost environment there is need to ensure that commensurate rentals are charged that will allow the corporation to maintain its properties and also grow its portfolio.

Prospects for 2013/14 financial year, the Corporation has planned for profit outcome with continued cost controls and working capital management. Commensurate rental reviews will need to be made to ensure sustainability of the corporation's operations. Failure to do so will result in poor delivery of service and degeneration of the properties due to lack of maintenance.

TABLE 17.7 FINANCIAL PERFORMANCE FOR MHC

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	ASSETS	2012 MWK million	2011 MWK million
Turnover					
Core business	1,067.00	977.00	Non Current assets	33,712.00	26,962.00
Other	238.00	261.00	Current Assets	3,661.00	3,351.00
Total	**1,305.00**	**1,238.00**	**Total**	**37,373.00**	**30,313.00**
Expenses	(1,238.00)	(1,205.00)			
Financing costs	-	-	FUNDS AND LIABILITIES		
	67.00	33.00	Share Capital	10.00	10.00
Taxation	(23.00)	(15.00)	General reserves	6,667.00	6,667.00
Surplus	44.00	18.00	Revaluation Reserve	26,182.00	19,315.00
Revaluation surplus	6,822.00	4,372.00	**Total**	**32,859.00**	**25,992.00**
Total comprehensive income	**6,866.00**	**4,390.00**	Long term borrowings	2,100.00	2,213.00
			Non Current Liabilities	-	272.00
			Current Liabilities	2,414.00	1,836.00
			Total	**37,373.00**	**30,313.00**

17.4.2 Airport Development Limited (ADL)

In 2011/12, ADL registered a profit after tax of K97.9 million (2011:K115.0 million) before surplus on revaluation representing a 15 per cent lower than previous year. Revenues grew by 10.9 per cent whilst expenses grew by 19 per cent. At this profit level, return on equity is 1.34 per cent; quite unsatisfactory. Despite the profit position attained in the year, the result is unsatisfactory. One major cause for the lower than previous year profitability is the increase in provision for bad debts - K65.4 million against K42.0 million of previous year. This provision is largely with respect to long overdue rentals from Department of

Civil Aviation employees. Discussions are underway to ensure these amounts are paid. The company is also owed concession fees from the concessionaire. Discussions are also underway to collect these amounts. Adjusted for the bad debt expense, total expenses should have grown by 14 per cent and profit would have marginally grown by 5 per cent. It is therefore important that efforts be made to reduce levels of bad debt provisions.

The Statement of Financial Position shows no major changes on previous year. There was no revaluation of assets in the year and no major capital investments. The company has no substantial long term borrowings except for K66.7 million borrowing with the local banks which the company is able to service satisfactorily. However, the net working capital position is negative. Although the net position shows a marginal improvement on previous year, efforts need to be made to correct this situation. Consequently the current ratio is 1:0.93 signifying a tight working capital position. The carrying figure for debtors is net of K213.5 million provisions for bad debts. Further analysis shows that over 75 per cent of debtors are over 90 days resulting in the high figure in provision for bad debts. It is clear that debt collection is a pressure point and efforts need to be made continuously. Resolving the matter of outstanding rentals and concession fees as mentioned earlier in this report will go a long way in unlocking this position. If not resolved, growth of the company will be minimal.

A profitable result has been planned for the 2012/13 financial year. ADL needs to continue maximizing debt collection efforts to unlock the core long outstanding debt position that will ease the current tight working capital or cash position and enable the company invest further in its properties. Management efforts to identify more funding sources for property development should be encouraged.

TABLE 17.8 FINANCIAL PERFORMANCE FOR ADL

ABRIDGED COMPREHENSIVE INCOME STATEMENT

Turnover	2012 MWK million	2011 MWK million
Core business	515.00	471.60
Other	20.90	11.60
Total	**535.90**	**483.20**
Expenses	(436.50)	(344.20)
Financing costs	(1.50)	(24.00)
	97.90	115.00
Taxation	-	-
Surplus	97.90	115.00
Revaluation surplus	-	2,798.00
Total comprehensive income	97.90	2,913.00
	MWK	MWK
Non Current assets	7,581.80	7,578.00
Current Assets	234.70	192.50
Total	**7,816.50**	**7,770.50**

ABRIDGED STATEMENT OF FINANCIAL POSITION

ASSETS	2012 MWK million	2011 MWK million
Non Current assets	7,581.80	7,578.00
Current Assets	234.70	192.50
Total	**7,816.50**	**7,770.50**
FUNDS AND LIABILITIES		
Share Capital	145.80	147.20
General reserves	6,460.20	6,284.70
Revaluation Reserve	713.00	723.80
Total	7,319.00	7,155.70
Long term borrowings	30.20	51.70
Non Current Liabilities	215.60	282.20
Current Liabilities	251.70	280.90
Total	**7,816.50**	**7,770.50**

17.5 Telecommunication Portfolio

17.5.1 Malawi Communications Regulatory Authority (MACRA)

MACRA has consistently posted profits over the past five years. Year under review achieved 14 per cent growth in turnover against 3 per cent increase in expenses excluding exchange losses. In the year, there was an exchange loss due to the devaluation of the kwacha. Consequently, there was a 6 per cent decline in surplus on previous year's. In spite of this decline, the achieved profit translates to a commendable 34 per cent return on equity. During the year under review, the corporation was unable to earn the anticipated revenues following its inability to commission the revenue management equipment. The equipment could not be used following a court injunction. Overall performance remains strong.

The financial position is strong. The large end of year debtor position is due to timing differences. Most of the debt was collected in the current year. The liquidity position is manageable and the Authority continues to operate with negligible liquidity stress. A total of K700.0 million was paid to Government as dividends in year under review. The outlook for the 2012/13 is bright. Growth in surplus is expected to be more than fifty percent.

TABLE 17.9 FINANCIAL PERFORMANCE FOR MACRA

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2012 MWK million	2011 MWK million
Turnover		
Core business	2,201	1,940
Other	86	74
Total	**2,287**	**2,014**
Expenses	(1,350)	(1,311)
Exchange loss	(274)	-
Surplus	663	703
Taxation	-	-
Loss after tax	663	703
Revaluation surplus	-	
Total Comprehensive income	663	703

ABRIDGED STATEMENT OF FINANCIAL POSITION

ASSETS	2012 MWK million	2011 MWK million
Non Current assets	1,787	1,714
Current Assets	1,469	1,398
Total	**3,256**	**3,112**
FUNDS AND LIABILITIES		
Capital	30	30
Revaluation reserve	327	334
Revenue reserve	1,470	1,528
Other reserves	113	86
Total	**1,940**	**1,978**
Long term borrowings	-	-
Non Current Liabilities	21	68
Current Liabilities	1,295	1,066
Total	**3,256**	**3,112**

17.5.2 Malawi Post Corporation (MPC)

MPC performed poorly in the year under review posting a loss after tax of K87.0 million. Total expenses grew on previous year's by 25 per cent outpacing the growth in revenue of 21 per cent. Finance costs doubled due to lease financing facilities that were accessed to procure operational assets. The corporation operated under tight liquidity during the year ending up with a net current liability position resulting in a current ratio of 1:0.59 at end of year. There is an increase in current liabilities; a sign of stress conditions under which the corporation is operating. The equity base has been eroded resulting in negative equity- total liabilities are more than total assets as at 30th June 2012.

The corporation is facing a number of challenges which include the following;

i. Decline in physical mail for the past year due to advancements in technology. There is less reliance on physical mail for communication.

ii. There is growing stiff competition in alternative businesses that MPC has ventured into. In view of its size, the corporation can reduce its margins up to a point beyond which it may start compromising sustainability.

iii. Due to liquidity constraint, investment in various potential income generating projects is slow.

iv. The corporation continues to operate postal units which are not commercially viable. The volume of business do not justify operating the said units.

Faced with such challenges and declining performance, the corporation is aggressively diversifying its operations venturing into the courier and other communication business in addition to postal business. This will help improve the performance of the corporation. The 2012/13 budget projects a profit position coming from contribution from the new business units.

MPC remains in a challenging financial situation in 2012/13. Management should continue to diversify into technologically driven ventures if the corporation is to survive. The outcome for 2012/13 will be eagerly awaited as it will define the direction the company will take. Management expects to realize operational profits in the year

TABLE 17.9 FINANCIAL PERFORMANCE FOR MPC

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
Turnover	2012 MWK million	2011 MWK million	ASSETS	2012 MWK million	2011 MWK million
Core business	1,324	972	Non Current assets	487	546
Other	207	293	Current Assets	845	610
Total	**1,531**	**1,265**	**Total**	**1,332**	**1,156**
Expenses	(1,565)	(1,254)			
Financing costs	(27)	(10)	FUNDS AND LIABILITIES		
	(61)	1	Capital reserve	463	483
Taxation	-	-	Revaluation reserve	-	-
Surplus	(61)	1	General reserve	(553)	(465)
Revaluation surplus	(26)	-	Other reserves	-	-
Total comprehensive income	(87)	1	**Total**	**(90)**	**18**
			Long term borrowings	-	353
			Non Current Liabilities	-	-
			Current Liabilities	1,422	785
			Total	**1,332**	**1,156**

17.6 Tobacco Control Commission (TCC)

In 2011/12, TCC's results show a marked improvement on previous year results. Total turnover at K960.0 million (96 per cent of which is core business income) is 43 per cent more than previous year. Growth in turnover is on account of better tobacco prices in the 2012 selling season and also the positive effect of the devaluation of the Kwacha. During the same period, expenses grew by 22 per cent from K648 million to K784.8 million. Most cost increases were on account of general price increases experienced in the economy. Net surplus in 2011/12 before property revaluations is K175.5 million compared to K27.9 million in the previous year. This represents growth of over 100 per cent. The previous year was beset by very low tobacco prices compared to year under review and the movements in exchange rate. The increased turnover combined with the lower growth in costs, has had a positive impact on the surplus growth for the year.

TCC's statement of financial position as at 30 June, 2012 is relatively strong coupled with a 30 per cent growth in non-current assets. This is on the back of the Commission's ongoing office complex project which as at year end, had been financed from internally generated resources. The Commission had no loans or overdraft facilities as at year end. Liquidity ratios show reasonable position as at year end. The net current assets position grew by 17 per cent from K134.5 million to K157.3 million. This is in spite of financing of the office complex from own resources which exerted pressure on cash resources. Current ratio is at same level as previous year around 1:1.82. There are no distress signals on liquidity except for the financing requirements of the office complex project in the coming year which could exert pressure on cash resources. The Commission has however obtained a ten year project financing loan from National Bank of Malawi amounting to K600.0 million to financing the office complex project. This will help reduce cash flow pressures in the short term although with the recent rise in interest rates, financing costs will be high in the coming year.

In 2012/13, TCC is expected to grow its revenue due to good prices on the floors and the market led exchange rate. However management of costs will be key in the year. The general increase in costs due to inflationary pressures and a depreciating currency will exert pressure on costs. This calls for stringent cost control measures and exercise of prudence. There is however expectation that the volumes in 2012/13 will be higher than year under review. Two key factors in 2012/13 will be prudence in expenditures and events on the tobacco market which is a function of the volumes and prices on the floors. With regards to risks, TCC is vulnerable to the tobacco market forces on the local auction floors and also worldwide demand fluctuations. Weather conditions also play a key role as well as availability of farm input especially to the smallholder tobacco growers who account for a large proportion of the tobacco on the floors.

TABLE 17.10 FINANCIAL PERFORMANCE FOR TCC

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	ASSETS	2012 MWK million	2011 MWK million
Turnover			Non Current assets	968.3	741
Core business	931.4	645.4	Current Assets	347.6	293
Other	28.9	24.4	Total	1315.9	1034
Total	**960.3**	**669.8**			
Expenses	(784.8)	(642.5)	FUNDS		
Surplus	175.5	27.3	Capital reserve	904.4	689.7
Revaluation surplus	76.2	54.6	General reserves	150.3	158.4
Total comprehensive income	251.7	81.9	Other reserves	70.9	27.4
			Total	**1125.6**	**875.5**
			Current Liabilities	190.3	158.5
			Total	**1315.9**	**1034**

17.7 Malawi Accountants Board

In 2011/12, the Malawi Accountants Board closed with a profit of K135.7 million (2011: K113.7 million). Revenue grew by 12 per cent on previous year from K303.9 million to K341.4 million. However, this growth rate is less than last year's which was 37 per cent. The main driver of revenues is fees which in the year under review grew by 15 per cent against 36 per cent growth in the previous year. This has dragged down overall growth in turnover in the period under review. Fee income is a function of the number of students sitting for examinations which was lower in the year under review than previous year.

The fee levels in kwacha will become expensive for some students in the current year due to the realignment of the kwacha following market forces. This may result in reduced enrolment for examinations. Expenses under the same period were K205.7 million compared to K190.3 million in previous year translating to 8 per cent growth. This is within average inflation rate over the period under review. Management continues to contain costs through various cost control measures. These measures will continue being employed in the coming year.

The Statement of Financial Position is dominated by liquid funds on the asset side. With total assets of K581.4 million, over K561.2 million is in receivables and cash leaving very little in non-current assets. This has been the case over some years and exposes the Board to reduced purchasing power in an inflationary environment. The Board needs to start investing in productive non-current assets to preserve its resources. Consideration should be given towards construction of the office complex. This is a project that has been on the drawing board for some years. Consequently the institution's liquidity position is very healthy. Current and quick ratios are at 1:5 and 1:5.5 respectively. This is a reflection of holding too much cash. The Board has no borrowings.

The Board declared and paid a dividend of K25.0 million at the end of the year representing a pay-out ratio of 18 per cent compared to 31 per cent of previous year. The lower payout is because of the need to retain resources for possible investment into fixed assets.

For the 2013/14, there is still demand for the institution's services. The increased cost of fees in kwacha may pose a challenge but it is expected that the coming year will still end up with a surplus. Management must continue implementing cost control measures to contain costs.

TABLE 17.11 FINANCIAL PERFORMANCE FOR MALAWI ACCOUNTANTS BOARD

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	ASSETS	2012 MWK million	2011 MWK million
Turnover			Non Current assets	19.6	24.1
Core business	299.8	269.6	Current Assets	561.8	454.2
Other	41.6	34.4	**Total**	**581.4**	**478.3**
Total	**341.4**	**304.0**			
Expenses	(205.7)	(190.3)	FUNDS AND LIABILITIES		
Surplus	135.7	113.7	Capital	0.1	0.1
			General	479.2	368.6
			Total	479.3	368.7
			Current Liabilities	102.1	109.6
			Total	**581.4**	**478.3**

17.8 ADMARC

ADMARC has continued to perform poorly over a number of years. Consequently, the corporation's financial position continues to weaken. Total liabilities exceed total assets as at end of June 2012. Liquidity remains very tight. The current year loss of K1.7 billion is unsustainable. Further analysis of performance shows that during the year, the company was unable to generate critical mass of business volumes to cover all its operational and financing costs. Due to liquidity challenges, access to financing facilities without shareholder support is limited. Financing costs have increased by 34 per cent signaling over reliance on bank facilities. These are facilities that the company has for some time failed to service and they keep increasing due to interest. Overall, the financial position is gloomy.

The situation calls for a complete restructuring of the company to rid it of its heavy overhead structure and financial burden. Shareholder support to restructure the company will be required if it is to play its role in the economy. Any restructuring will have to address all areas of the company's business for it to return onto a sustainably profitable track.

ADMARC remains challenged both financially and operationally; requiring restructuring. 2012/13 will not yield any better results without restructuring.

TABLE 17.11 FINANCIAL PERFORMANCE FOR ADMARC

ABRIDGED COMPREHENSIVE INCOME STATEMENT			ABRIDGED STATEMENT OF FINANCIAL POSITION		
	2012 MWK million	2011 MWK million	ASSETS	2012 MWK million	2011 MWK million
Turnover			Non Current assets	24,929	5,831
Core business	2,924	1,894	Current Assets	1,299	2,118
Other	195	142	**Total**	**26,228**	**7,949**
Total	**3,119**	**2,036**	FUNDS AND LIABILITIES		
Expenses	(4,416)	(2,951)	Capital	1	1
Financing costs	(1,023)	(765)	Revaluation reserve	25,476	6,020
	(2,320)	(1,680)	Revnue reserve	(9,738)	(7,418)
Taxation	-	-	Other reserves	-	-
Loss after tax	(2,320)	(1,680)	**Total**	**15,739**	**(1,397)**
Revaluation surplus	547		Long term borrowings	-	-
Total Comprehensive income	(1,773)	(1,680)	Non Current Liabilities	-	-
	-		Current Liabilities	10,489	9,346
			Total	**26,228**	**7,949**

Chapter 18

BANKING AND FINANCE

18.1 Overview

During the 2012/13 fiscal year, the primary focus of monetary policy was to restore macroeconomic and financial system stability in order to preserve investors' confidence. In a bid to rein in inflationary pressures, the thrust of monetary policy was consistently tight throughout the period. The monetary authorities raised the Bank rate by 500 basis points to 21.00 per cent during the first month of the 2012/13 fiscal year. Mounting inflationary pressures forced authorities to effect another upward adjustment of 400 basis points to 25.00 per cent at the end of the first half of the 2012/13 fiscal year. Courtesy of the tight monetary policy, money supply growth receded sharply from an average year-on-year growth rate of 35.6 per cent during the 2011/12 fiscal year to 25.8 per cent by the end of the third quarter of the 2012/13 fiscal year. Subsequently, inflation, though still high, reversed the accelerating trend observed since July 2011 to 36.4 per cent in March 2013 and 35.8 per cent in April 2013.

18.2 The Banking System

Broad money (M2) grew by K40.7 billion to K397.3 billion in March 2013 from K356.8 billion recorded at the end of the 2011/12 fiscal year. Both net foreign assets and net domestic assets explained this outturn as they recorded increases of K27.4 billion and K13.4 billion, respectively. Annually, M2 growth stood at 25.8 per cent as of end-March 2013 compared to 34.3 per cent recorded as of end-June 2012. This development is reflective of effectiveness of tight monetary policy stance undertaken by the central bank during the review period that was supported by austerity measures by the fiscal authorities.

TABLE 18.1: MONETARY SURVEY (K'MN)

	End month balances				Changes during periods			
	Jun-2010	Jun-2011	Jun-2012	Mar-2013	Jun-2010	Jun-2011	Jun-2012	Mar-2013
A. Net Domestic Credit								
1. Credit to government (i+ii)	82,403.6	107,293.6	169,386.9	153,695.0	-4,816.2	24,890.0	62,093.3	-15,691.9
i. Monetary Authorities ..	61,710.2	85,637.6	136,282.5	116,137.4	2,996.5	23,927.4	50,644.9	-20,145.1
ii. Commercial Banks…..	20,693.4	21,656.0	33,104.4	37,060.6	-7,812.7	962.6	11,448.4	3,956.2
2. Credit to statutory bodies	7,403.2	13,812.2	17,087.6	18,990.5	2,849.1	6,409.0	3,275.4	1,902.9
3. Credit to private sector (gross)	127,024.9	162,733.3	207,900.9	229,050.1	43,823.8	35,708.4	45,167.6	21,149.2
B. Narrow Money (M1)	110,028.4	144,007.6	221,324.6	233,602.3	30,185.9	33,979.1	77,317.0	12,277.7
4. Currency outside banks	31,909.1	37,126.3	61,523.9	50,139.4	2,632.2	5,217.2	24,397.6	-11,384.5
5. Private sector demand deposits	78,119.3	106,881.2	159,800.7	183,462.9	27,553.7	28,761.9	52,919.5	23,662.2
C. Quasi-money	83,798.5	121,582.7	135,262.8	163,717.4	8,276.5	37,784.3	13,680.1	28,454.6
D. Money Supply (M2)1 (B+C).	193,827.0	265,590.3	356,587.4	397,319.7	38,462.4	71,763.3	90,997.1	40,732.3
E. Net Foreign Assets	10,441.1	4,276.4	-3,839.1	23,596.2	6,024.5	-6,164.7	-8,115.5	27,435.3
6. Monetary Authorities….	4,593.5	-5,566.0	-43,071.4	-35,798.6	3,544.8	-10,159.5	-37,505.4	7,272.8
7. Commercial banks………..	5,847.6	9,842.4	39,232.3	59,394.9	2,479.7	3,994.8	29,389.9	20,162.6

Source: Reserve Bank of Malawi

Net domestic assets rose to K373.7 billion in March 2013 from K360.4 billion recorded at the end of June 2012. The K13.3 billion growth was attributed to a K11.5 billion net domestic credit accumulation that was reinforced by a K1.8

billion increase in other items (net). Of the accumulated credit, K21.1 billion represented growth in private sector credit. The adoption of liberalised policies since third quarter of the 2011/12 fiscal year restored investors' confidence to conduct business in the country, hence increasing demand for financing from the banking system. Credit to the state-owned enterprises rose by K1.9 billion during the review period. Conversely, net credit to government declined by K11.6 billion between June 2012 and March 2013 mainly due to accumulation of government deposits upon receipt of donor budgetary support during the first half of the 2012/13 fiscal year.

On the demand side, the K40.7 billion M2 growth reflected aggressive deposit mobilisation by the banking system as well as revaluation gain on foreign currency denominated deposits. These and other developments resulted in demand deposits growing by K23.7 billion followed by foreign currency denominated deposits at K23.1 billion and term (savings and fixed) deposits at K5.4 billion. Meanwhile, currency outside banks declined by K11.4 billion due to intensification of mop up operations undertaken by the central bank during the review period.

18.3 Commercial Banks: Sources and Uses of Funds

Commercial banks' resources increased to K502.1 billion as of end-March 2013 from a closing position of K426.4 billion at the end of the 2011/12 fiscal year. The bulk of the resources amounting to K43.1 billion were private sector deposits which was a result of aggressive deposit mobilisation by the commercial banks. The capital account accounted for K19.1 billion to the accumulated resources, reflecting profitability of investments undertaken by the commercial banks during the review period. Official sector deposits increased by K8.4 billion mainly due to improved administration in revenue collections by the state-owned enterprises. Unsectored liabilities also rose by K5.4 billion. Meanwhile, commercial banks' liabilities to non-residents declined by K337.2 million between June 2012 and March 2013.

In terms of utilisation, domestic credit constituted the main channel of commercial banks' investments as it grew by K31.0 billion between June 2012 and March 2013 compared to foreign investments which rose by K19.0 billion during the same period. Of the domestic investments, K21.1 billion was lent to the private sector notably K15.6 billion to the commercial and industrial sector; K5.2 billion foreign exchange loans extended mainly to tobacco merchants in support of the contract tobacco farming; and K3.3 billion agriculture sector loans which were partly offset by a repayment of K2.5 billion personal loans.

Commercial banks further lent K8.0 billion to the central government in form of Treasury bills issuances which was complemented by K1.9 billion lending to the statutory bodies.

18.4 Reserve Bank: Sources and Uses of Funds

Concurrently, the resource position of the Reserve Bank grew by K33.4 billion to K266.4 billion in March 2013 from K233.0 billion in June 2012. The outturn was explained by a K45.6 billion accumulation of foreign sector liabilities following revaluation gains of IMF liabilities amid continued depreciation of the kwacha. Official sector deposits also increased by K13.8 billion, reflecting largely receipt of donor financing for various projects in the country, whereas deposits of the commercial banks plus till money accounted for K9.9 billion. Unsectored liabilities and, notes and coins in circulation, however, recorded decreases of K24.5 billion and K11.4 billion, respectively.

The Reserve Bank (RBM) used the accumulated resources to boost its investments in the external sector. In particular, a total of K51.4 billion was invested in banks abroad as term deposits and placements which was complemented by a K1.1 billion revaluation gain from the depreciating kwacha. Meanwhile, RBM's investments in the domestic sector declined by K15.7 billion between June 2012 and March 2013. This development was a result of repayment of K16.7 billion discount window borrowings which were partly offset by a K7.0 billion loan by the bankers, and maturity of K7.2 billion Treasury bills that were somewhat counteracted by outright purchase of K1.2 billion Treasury notes by the central government.

18.5 Gross Official Foreign Exchange Reserves

Gross official reserves stood at US$215.4 million as at end-April 2013 compared to US$82.9 million recorded at the end of the previous fiscal year. The improvement in the reserves position owes much to the reforms that the authorities introduced in the course of the current financial year under the Economic Recovery Plan (ERP), which have led to the resumption of donor aid as well as managed demand for foreign exchange. Out of US$715.9 million sourced by the Reserve Bank (RBM) during the period July 2012-April 2013, the bulk of it (about US$428.2 million) was from donors of which US$239.7 million was in form of Balance of Payments support, whilst US$185.8 million were project funds. In addition, foreign exchange purchases from the market amounted to US$224.3 million during the period July 2012-April 2013.

In terms of import cover, the US$215.4 million gross official reserves as at end-April 2013 represented 1.2 months of prospective imports. Gross official reserves as at end-June 2012 corresponded to 0.7 months of import cover. The modest improvement in the import cover reflects an increase in the monthly import requirement from US$129.0 million in June 2012 to US$188.1 million effective July 2012.

Prospects for foreign exchange reserves are very encouraging as the favourable tobacco prices fetched in 2012 have led to increased production in 2013. Auction Prices for tobacco averaged US$2.23 per kilogram in 2012 compared to US$1.24 per kilogram in 2011. Successful implementation of the ERP, coupled with completion of the IMF quarterly reviews, which should galvanize additional support from the donors, will help the country improve its foreign exchange reserves position in 2013.

18.6 Exchange Rate

After its flotation on 7th May 2012, the local currency depreciated against major trading partners' currencies due to high demand of foreign exchange against low supply. Specifically, the kwacha recorded depreciations of 45.7 per cent, 45.5 per cent, 53.3 per cent and 18.4 per cent against the United States (US) dollar, the British pound sterling, the euro and the Japanese yen between end-June 2012 and end-April 2013 to respective middle rates of K396.7 per US dollar, K614.9 per pound sterling, K519.7 per euro, and K4.1 per yen.

TABLE 4: SELECTED FOREIGN EXCHANGE RATES

	British pound		US dollar		Euro		Japanese yen		SA rand		ZMK	
	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
2011												
Jul	245.7	248.2	150.5	151.6	215.1	217.2	1.9	2.0	22.3	22.5	0.031	0.032
Aug	268.7	274.1	163.7	167.0	237.6	242.4	2.1	2.2	23.2	23.7	0.033	0.034
Sep	256.8	262.0	164.3	167.6	223.4	227.9	2.1	2.2	20.6	21.1	0.034	0.035
Oct	267.8	273.2	166.2	169.5	235.0	239.7	2.2	2.2	21.6	22.0	0.034	0.035
Nov	254.0	259.1	162.8	166.1	216.8	221.2	2.1	2.1	19.5	19.9	0.032	0.033
Dec	249.9	255.0	162.1	165.4	210.1	214.4	2.1	2.1	19.8	20.2	0.032	0.032
2012												
Jan	260.4	265.7	165.8	169.1	217.9	222.3	2.1	2.2	21.1	21.6	0.032	0.033
Feb	264.7	270.0	166.5	169.8	224.0	228.5	2.1	2.1	21.1	21.6	0.032	0.032
Mar	263.6	269.0	165.2	168.5	219.7	224.2	2.0	2.0	21.4	21.8	0.031	0.032
Apr	268.8	274.3	165.2	168.5	218.9	223.3	2.1	2.1	21.3	21.7	0.032	0.032
May	412.9	421.3	266.8	269.5	329.9	336.6	3.4	3.4	31.3	31.9	0.050	0.051
June	418.5	427.0	269.7	275.1	335.5	342.3	3.4	3.5	32.1	32.7	0.052	0.053
July	428.1	436.7	272.5	278.0	334.1	340.8	3.5	5.6	33.2	33.9	0.055	0.056
Aug	439.1	448.0	278.2	283.8	347.9	354.9	3.5	3.6	32.8	33.5	0.055	0.057
Sep	480.5	490.2	296.0	302.0	382.2	389.9	3.8	3.9	36.0	36.7	0.058	0.059
Oct	500.2	510.3	311.2	317.5	403.3	411.4	3.9	4.0	36.7	36.3	0.059	0.060
Nov	517.8	528.3	322.8	329.3	419.0	427.4	3.9	4.0	36.7	37.5	0.062	0.063
Dec	536.5	547.4	331.8	338.5	438.5	447.4	3.9	3.9	39.1	39.9	0.064	0.066
2013												
Jan	551.6	562.7	349.1	356.2	473.6	483.2	3.8	3.9	38.6	39.4	65.249	66.57
Feb	578.0	572.4	373.7	381.3	491.0	501.0	4.1	4.1	43.2	42.8	71.738	73.18
Mar	606.9	619.2	401.1	409.2	512.6	523.0	4.2	4.3	43.3	44.2	74.684	76.19
Apr	608.8	621.1	392.8	400.7	514.5	524.9	4.1	4.1	43.7	44.5	74.0	75.5

Source: Reserve Bank of Malawi

Within the region, the kwacha lost 36.1 per cent against the South African rand and closed March 2013 at K44.1 per rand from K32.4 per rand at the end of the 2011/12 fiscal year. It also weakened from K0.0525 per Zambian kwacha as at end-June 2012 to K74.7 per Zambian kwacha as of end-March 2013 mainly following the Zambian Authorities' rebasing of their local currency. During the period to the end of the 2012/13 fiscal year, pressures on the kwacha have eased due to improved supply of foreign exchange following the commencement of the tobacco auction sales. This is expected to contribute towards further deceleration of inflation, which reversed the 20-months period of continuous acceleration in March 2013, thereby enabling the monetary authorities to focus on pro-economic growth policies in the period ahead.

18.7 Money Market

Treasury Bills subscriptions to auctions conducted during the year amounted to K141.77 billion compared to a volume of K212.82 billion registered in 2011, representing a year-on-year decline of 33.38 per cent. During the year, a total of K191.20 billion worth of Treasury Bills were issued of which K73.83 billion was issued on the primary market and K117.37 billion through conversions of Ways and Means advances. This issuance compares with a sum of K270.82 billion issued in 2011 which consisted of K105.31 billion issued through weekly auctions while K165.51 billion through Ways and Means conversion. In addition, there were maturities worth K213.22 billion during the same period compared to a total maturity of K232.21 billion in the preceding year. Accordingly, in 2012 there was a net maturity of K22.02 billion worth of Treasury bills. Liquidity shortages in the banking system in the post May 2012 period accounted for the reduced subscriptions and issuances. As a result, the stock of Treasury bills stood at K155.03 billion at the end 2012.

18.7.1 Government Securities Market

In the year 2012, average yields rose across all tenors. The 91 and 182 tenors averaged 14.25 and 9.04 per cent, respectively. This compares with respective average yields of 6.59 per cent and 6.81 per cent registered in the previous year. Thus the two tenors gained 7.66 and 2.23 per centage points, respectively. The longest tenor in 2012 was the 364 day tenor following the phasing out of the 273 day tenor at the end of 2011. Therefore, during the year under review, the longest tenor averaged 17.62 per cent while in 2011 the 273 day tenor averaged 7.28 per cent. Overall the all type yield in 2012 averaged 15.19 per cent in comparison to an average of 6.89 per cent in 2011.

18.7.2 Inter-Bank Money Market

The banking system during 2012 was sufficiently liquid during the first quarter and became critically tight during the remainder of the year. This followed the devaluation and subsequent flotation of the local currency against the major foreign currencies that was effected on 07 May 2012. The last quarter, nonetheless, showed moderate improvements. Consequently, banks' recourse to the discount window sharply increased and averaged K10.28 billion per day from K410 million observed in 2011. In tandem with liquidity developments in 2012 and the bank rate adjustments that were implemented in the review year, the interbank market rate gained 19.40 per centage points and closed the review period at 26.45 per cent.

TABLE 5: BANKING SYSTEM LIQUIDITY

(K'bn)	2007	2008	2009	2010	2011	2012
Daily Average Total Reserves	11.39	15.50	21.03	23.49	33.43	40.20
Daily Average Required Reserves	9.33	13.29	18.97	22.64	26.90	33.97
Daily Average Excess Reserves	2.06	2.22	2.06	0.89	6.52	6.24
Daily Average Inter-bank Borrowing	0.79	1.43	2.74	2.48	2.10	2.79
Daily Average Discount Window Trading	1.30	1.49	1.19	2.28	0.41	10.28
Inter-bank Market Rate (End Period)	9.40	8.11	8.45	10.58	7.05	26.45

Source: Reserve Bank of Malawi

18.7.3 Open Market Operations

The bulk of market operations in 2012 were geared towards supporting the market with liquidity following the devaluation and subsequent floatation of the local currency. Net discount window accommodation and repo operations supplemented net government injection of K73 billion by injecting a further K32.2 billion and K3.6 billion respectively. The injections were, nonetheless, partly countered by withdrawals from net foreign exchange operations (K75.3 billion) aimed at supporting the market and net sale of securities (K16.5 billion) that were especially geared at countering inflation pressures. Overall, about K17 billion was injected into the financial system.

18.8 Capital Markets

18.8.1 Primary Share Market

There was no new stock listed on the local bourse during the review period. The number of counters on the Malawi Stock Exchange remained at fourteen (14).

18.8.2 Secondary Share Market

During the year 2012, a total of 667.1 million shares valued at K4, 000.0 million were transacted in 1,004 deals compared to 1,595.0 million shares that exchanged hands for a turnover of K1, 911.8 million in 1,457 deals in the preceding year. The Malawi All Share Index (MASI) closed off 646.09 points higher at 6,015.51 points from 5,369.42 points recorded at the opening of the review period representing a year on year increase of 12.0 per cent. During the same period in the corresponding year, the MASI closed off at 4,953.09 points.

The increase in MASI is attributed to the lift in the Domestic Share Index (DSI) which increased from 4,238.39 to 4,725.51 points representing a year on year increase of 11.5 per cent and the Foreign Share Index (FSI) which registered a 59.6 per cent increase from 535.42 points to 854.67 points during the review period.

The movement in FSI is attributed to a price increase on the foreign listed Old Mutual Plc from K426.00 to K680.00 while the DSI moved on account of share price gains on domestic counters despite share price losses on MPICO Limited, Sunbird Tourism and Telekom Networks Malawi. Market capitalisation registered a year on year increase of 109.7% and closed off at K3, 562.3 billion compared to K2,681.0 billion recorded in the preceding year. This was due to price increases despite a reduction in total number of shares in issue from 23,352.8 million to 22,457.3 million. The reduction in the number of shares in issue is a result of a restructuring process in the Old Mutual Plc group whose float on the MSE dropped from 5.77 million to 4.87 million. In the corresponding year, market capitalisation stood at K1, 278.5 billion.

Chapter 19

PUBLIC FINANCE

19.1 Overview

The following chapter reviews Central Government Budgetary Operations for the 2012/13 fiscal year compared to the 2011/12 fiscal year. It also outlines the Functional and Economic Classification of Expenditures estimates for 2013/14 to 2015/16 fiscal years. It further presents a summary of Central Government Budgetary Operations namely; Total Revenue, Recurrent and Development Expenditure and highlights of the 2013/14 budget and implementation challenges.

19.2 Summary of Central Government Budgetary Operations

The main objective of the 2012/13 budget was to restore fiscal discipline through tight fiscal policies aimed at controlling expenditure overruns to assist in the building of foreign reserves and bringing down inflation. The budget was particularly anchored around a No Net Domestic Financing (NNDF) target representing a complete departure from the 5.5 percent of GDP net domestic borrowing registered in the 2011/12 fiscal year. To show government's commitment to fiscal prudence, the fiscal anchor of NNDF was further strengthened with a domestic debt repayment target equivalent to 0.5 percent of the GDP to reduce stock of domestic debt.

The 2012/13 fiscal year budget was implemented within the framework of an Extended Credit Facility (ECF) programme with the International Monetary Fund (IMF) which was necessary to unlock external budget support during the economic recovery process. Budget support was necessary to help reduce the domestic financing requirement whilst at the same time enhancing domestic revenue generation efforts and controlling expenditures. On the other hand, the Government increased spending towards social sectors including agriculture, health, education and social protection programmes to mitigate the adverse effects of the economic reforms implemented in 2012 on the ultra-poor. In this regard, Government's spending priorities included scaling up of the FISP and intensifying resources for social protection programmes such as cash transfers, school feeding and public works programmes.

However, there were challenges in the fiscal performance of the Central Government Budgetary Operations during the 2012/13 fiscal year as a result of the economic reforms undertaken. Despite this, the fiscal performance for 2012/13 fiscal year was better than 2011/12.

During the fiscal year under review, total expenditures and net lending increased by 5.1 percentage points of GDP, from 34.7 percent in 2011/12 to 39.8 percent in the year 2012/13. This expenditure outturn was against a resource envelope of 38.3 percent of GDP, including grants, resulting in a fiscal deficit of 1.5 percent of GDP recorded in the year. This was entirely financed by external borrowing amounting to 2.2 percent of GDP. During the year under review, Government exceeded the domestic debt repayment target of 0.5 percent of GDP by 1.0 percentage point.

Going forward, total expenditure is estimated to increase to 44.4 percent of GDP in the 2013/14 fiscal year as a result of Government's effort to achieve satisfactory expenditure on key social and economic sectors including agriculture, health and education as outlined in the Economic Recovery Plan. The fiscal deficit, including grants, is estimated at 2.4 percent of GDP and Government expects to make a domestic debt repayment equivalent to 0.5 percent as stipulated in the fiscal anchor.

TABLE 19.1: CENTRAL GOVERNMENT BUDGETARY OPERATIONS 2011/12-2015/16/

	2011/12 Actual	*2012/13 Approved*	*2012/13 Revised*	*2013/14 Estimate*	*2014/15 Projection*	*2015/16 Projection*
Total Revenue and Grants	**257,078**	**394,903**	**460,899**	**603,381**	**562,463**	**584,973**
Domestic Revenue	214,264	270,373	283,488	363,068	413,890	480,400
Grants	42,814	124,530	177,411	240,313	148,573	104,573
Total Expenditure and Net Lending	**338,095**	**408,360**	**479,079**	**638,151**	**587,696**	**588,080**
Recurrent Expenditure	260,530	332,139	378,273	463,102	469,999	493,531
Development Expenditure	77,565	76,221	100,806	175,049	117,697	94,549
Net Lending	-	-				
Deficit						
Excluding Grants 1a	(123,831)	(137,987)	(195,591)	(275,083)	(173,806)	(107,680)
Including Grants 1b	**(81,017)**	**(13,457)**	**(18,180)**	**(34,770)**	**(25,233)**	**(3,107)**
Financing	**81,017**	**13,457**	**18,180**	**34,770**	**25,233**	**3,107**
Foreign Borrowing (Net)	19,623	19,010	26,782	41,957	33,047	11,600
Borrowing	22,369	19,010	32,811	47,986	39,076	17,629
Armotisation	(2,746)	(6,029)	(6,029)	(6,029)	(6,029)	
Domestic Borrowing (Net) 2b	61,394	(5,553)	(18,602)	(7,187)	(7,814)	(8,493)
Privatisation Proceeds						
(*As Percentage of GDP*)						
Revenue (Including Grants)	*26.4*	*32.8*	*38.3*	*42.0*	*36.0*	*34.4*
Revenue (Excluding Grant)	*22.0*	*22.5*	*23.5*	*25.3*	*26.5*	*28.3*
Total Expenditure	*34.7*	*33.9*	*39.8*	*44.4*	*37.6*	*34.6*
Recurrent Expenditure	*26.7*	*27.6*	*31.4*	*32.2*	*30.1*	*29.1*
Development Expenditure	*8.0*	*6.3*	*8.4*	*12.2*	*7.5*	*5.6*
Deficit (Excluding Grants)	*-12.7*	*-11.5*	*-16.2*	*-19.1*	*-11.1*	*-6.3*
Deficit (Including Grants)	*-8.3*	*-1.1*	*-1.5*	*-2.4*	*-1.6*	*-0.2*
Domestic Borrowing (Net)	*6.3*	*-0.5*	*-1.5*	*-0.5*	*-0.5*	*-0.5*
GDP at Current Prices	**974,149**	**1,204,131**	**1,204,131**	**1,437,283**	**1,562,776**	**1,698,738**

Source: Ministry of Finance

19.3 Total Revenues and Grants

As a share of GDP, total revenues and grants increased substantially from 26.4 percent in 2011/12 to 38.3 percent in 2012/13 fiscal year mainly on account of grants which increased from 4.4 percent to 14.7 percent. Performance of grants in the 2012/13 fiscal year benefited from resumption of budget support following the commencement of the Extended Credit Facility (ECF) programme with IMF in June 2012 and exchange rate movements, which increased the Kwacha value of grants. This considerably lessened the pressure on the budget consequently increasing the total revenues for the country. Consequently, there was an improvement in the overall fiscal position in 2012/13 compared to 2011/12, which was characterized by weak performance of the Central Government Budgetary Operations.

19.3.1 Domestic Revenues

The performance of domestic revenue continues to mirror the overall growth of the economy. Overall domestic revenues over-performed in the 2012/13 fiscal year compared to 2011/12 both in absolute and relative terms where 21.8 percent of GDP was registered in 2012/13 compared to 19.8 percent in the previous year. This was mainly on account of resumption of economic activities following the availability of foreign exchange and fuel. However, this over performance was only registered in tax revenues, where actual collections exceeded their targets. This is largely attributed to increased collection from international trade taxes due to exchange rate adjustment. On the other hand, nontax revenue slightly declined to 2.5 percent of GDP in 2012/13 from 2.7 percent, largely due to low collections from fuel levies and Revenue-Collecting Departments.

Going forward, vibrant growth in the economy is expected between 2013/14 and 2015/16 as macroeconomic fundamentals become relatively stable. As such, domestic revenue collections are expected to steadily increase over the period due to an expansion in economic activities in the various sectors of the economy including agriculture, manufacturing, and tourism as the benefits of the economic reforms begin to bear fruit. Furthermore, an improvement in the effectiveness of road tax collection through fuel pump prices, as well as departmental collections, is also expected to boost non tax revenues. Hence domestic revenue is expected to gradually increase over the period.

TABLE 19.2: CENTRAL GOVERNMENT DOMESTIC REVENUE 2011/12 -2015/16

	2011/12 Actual	*2012/13 Approved*	*2012/13 Revised*	*2013/14 Estimate*	*2014/15 Projection*	*2015/16 Projection*
	Actual	Approved	Revised	Estimate	Projections	Projections
A. GROSS TAX REVENUE	193,143.1	245,905.8	262,223.8	338,959.0	380,782.6	437,900.0
1. TAXES ON INCOME & PROFITS	**90,870.1**	**112,512.6**	**122,143.2**	**145,649.0**	**163,936.7**	**188,527.2**
Companies	25,009.1	33,098.0	33,683.4	40,206.0	45,211.9	51,993.7
Individuals	64,496.7	77,647.9	86,090.7	102,480.0	115,556.3	132,889.7
Non Resident Tax	1,124.8	1,512.9	1,651.8	1,652.0	2,217.2	2,549.8
P.A.Y.E	45,099.6	53,155.0	60,007.8	71,627.0	80,546.3	92,628.2
Withholding Tax	16,295.5	20,169.0	21,744.6	25,995.0	29,186.9	33,564.9
Fringe Benefit Tax	1,976.8	2,811.0	2,686.4	3,206.0	3,605.9	4,146.7
Other*	1,364.3	1,766.6	2,369.2	2,963.0	3,168.5	3,643.8
2. TAXES ON GOODS & SERVICES	**83,903.8**	**101,656.0**	**107,171.5**	**145,481.0**	**163,225.1**	**187,708.8**
VAT	61,346.4	72,262.0	77,565.2	105,076.0	117,000.4	134,550.5
Excise Duties	22,557.4	29,394.0	29,606.3	40,405.0	46,224.6	53,158.3

3. INTERNATIONAL TRADE TAXES	**18,369.2**	**31,737.3**	**32,909.1**	**47,829.0**	**53,620.9**	**61,664.0**
Customs Duties	18,369.2	31,737.3	32,909.1	47,829.0	53,620.9	61,664.0
Import Duties	17,980.8	31,296.3	32,335.8	47,111.0	52,730.9	60,640.5
Miscellaneous Duties	388.4	441.0	573.2	718.0	890.0	1,023.5
4. *Less:* TOTAL TAX REFUNDS	5,075.0	9,464.8	8,658.4	10,851.0	12,565.8	14,450.7
5. NET TAX REVENUE	**188,068.1**	**236,441.0**	**253,565.4**	**328,108.0**	**368,216.8**	**423,449.3**
B. NON TAX REVENUE	**26,195.9**	**33,932.2**	**29,922.8**	**34,960.0**	**45,673.0**	**56,950.7**
Stabilization Fund						
Departmental Receipts	9,112.1	11,857.0	8,990.1	11,399.0	13,161.5	15,135.7
Other Revenue (dividends etc)	1,800.0	1,338.0	2,582.7	3,083.0	1,500.0	1,500.0
Receipts from PIL	10,278.5	11,010.0	6,930.3	7,155.0	11,712.2	15,225.8
Rural electrification levy	3,902.6	7,882.2	6,443.8	7,616.0	10,890.1	14,157.1
Storage levy	1,102.8	1,845.0	1,224.5	1,528.0	2,069.3	2,690.1
	-	-	3,751.5	4,179.0	6,340.0	8,242.1
GROSS DOMESTIC REVENUE	**219,339.0**	**279,838.1**	**292,146.6**	**373,919.0**	**426,455.7**	**494,850.8**
NET DOMESTIC REVENUE	**214,264.0**	**270,373.2**	**283,488.2**	**363,068.0**	**413,889.9**	**480,400.1**
Percent of GDP						
GROSS TAX REVENUE	*19.8*	*20.4*	*21.8*	*23.6*	*24.4*	*25.8*
Taxes on Income and Profit	*9.3*	*9.3*	*10.1*	*10.1*	*10.5*	*11.1*
Taxes on Goods and Services	*8.6*	*8.4*	*8.9*	*10.1*	*10.4*	*11.0*
International Trade Taxes	*1.9*	*2.6*	*2.7*	*3.3*	*3.4*	*3.6*
NET TAX REVENUE	*19.3*	*19.6*	*21.1*	*22.8*	*23.6*	*24.9*
NON-TAX REVENUE	*2.7*	*2.8*	*2.5*	*2.4*	*2.9*	*3.4*
GRAND TOTAL	*22.5*	*23.2*	*24.3*	*26.0*	*27.3*	*29.1*
GDP at Current Market Prices	**974,149.0**	**1,204,131**	**1,204,131**	**1,437,283**	**1,562,776.0**	**1,698,737.5**

Source: Ministry of Finance

19.4 Central Government Recurrent Expenditures

In 2012/13 fiscal year, total recurrent expenditure was projected at K322.6 billion and revised upwards to K378.3 billion towards the end of the year. In others words, recurrent expenditures rose from K260.5 billion in 2011/12 fiscal year to K378.3 billion in 2012/13 fiscal year (refer to Table 19.4). Going forward, it is estimated that recurrent expenditures, as a percentage of the nominal GDP, will increase slightly from 31.4 percent in 2012/13 fiscal year to 32.2 percent in 2013/14 and come down to 30.1 and 29.1 percent in 2014/15 and 2015/16, respectively. Tables 19.3 and 19.4 present Functional and Economic Classification of the Recurrent Budget respectively.

As shown in table 19.3, despite an increase in recurrent expenditures to 38.8 percent of GDP in 2012/13, allocations within different functional groups varied significantly. Expenditure on General Public Services increased to 19.8 percent of GDP in 2012/13 from 9.2 percent in 2011/12 accounting for the largest share of the recurrent expenditure. Allocations to the economic services increased to 12.4 percent of GDP in 2012/13 from 10.6 percent in 2011/12. However, allocations to Social-Community Services contracted to 6.7 percent of GDP in 2012/13 from 7 percent in 2011/12. This trend is expected to change going forward.

In 2013/14, allocations towards general public services are expected to marginally decline to 18.4 percent of GDP and then increase thereafter. On the other hand, allocations to economic and social and community services are expected to gradually increase over the period. Similarly, a gradual increase is expected in social and community services, signifying Government's commitment to ensuring that sufficient resources are made available to social and community services, in line with the MGDS II. In the medium term, Government will continue to prioritize social and community services, as well as economic services, particularly in the areas of agriculture, health and education, in order to meet aims and objectives of the MGDS II and the MDGs.

TABLE 19.3: FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE 2011/12-2015/16 FY

	2011/12 Actual	*2012/13 Approved*	*2012/13 Revised*	*2013/14 Estimate*	*2014/15 Projection*	*2015/16 Projection*
	Actual	Approved	Revised	Estimate	Projection	Projection
General Public Services	**89,484.1**	**134,170.3**	**192,529.9**	**179,381.0**	**213,784.0**	**218,363.7**
General Administration	70,700.2	112,505.9	156,942.3	153,116.9	186,523.7	189,984.5
Defence Affairs	7,666.9	7,733.8	11,603.0	14,019.6	14,500.3	15,148.4
Public Order and Safety Affairs	11,117.0	13,930.7	23,984.6	12,244.5	12,760.0	13,230.9
Social and Community Services	**67,724.3**	**93,212.4**	**65,420.7**	**148,933.6**	**118,957.4**	**133,562.1**
Education Affairs and Services	34,999.5	45,184.1	52,665.3	60,368.4	59,708.3	66,960.2
Health Affairs and Services	26,550.8	35,879.8		68,474.4	44,959.9	51,633.5
Social Security and Welfare Affairs Services	737.7	902.6	1,145.2	8,898.7	2,708.6	2,656.1
Housing and Cummunity Amenity Services	4,394.7	6,884.6	6,340.4	5,344.2	5,684.6	6,116.3
Recreational, Cultural & Other Social Services	309.7	4,361.2	5,269.8	5,847.9	5,896.0	6,196.0
Broadcasting , Publishing Affairs & Services	731.9	624.7	597.2	657.1	683.4	715.4
Economic Services	**103,321.6**	**104,756.4**	**120,322.4**	**134,787.5**	**137,257.6**	**141,605.0**
Energy and Mining Services	1,923.0	2,490.5	3,173.6	4,056.1	4,240.0	4,370.1
Agriculture and Natural Resources	26,075.1	50,708.6	68,702.9	74,402.4	71,512.7	70,321.5
Tourism Affairs and Services	686.9	793.3	901.2	1,164.5	1,240.1	1,295.7
Physical Planning and Development	16,499.4	18,719.7	19,310.7	24,920.1	22,456.4	22,548.5
Transport and Communication Services	5,921.6	12,407.0	11,530.3	8,918.1	13,453.4	17,047.1
Industry and Commerce	507.6	519.3	560.6	600.5	631.4	661.4
Labour Relations and Employment Services	364.1	375.0	412.0	993.1	1,051.1	1,102.5
Scientific and Technological Services						
Other Economic Services	51,343.9	18,743.0	15,731.0	19,732.7	22,672.5	24,258.3
Total Recurrent Expenditure	**260,530.0**	**332,139.0**	**378,273.0**	**463,102.0**	**469,999.0**	**493,530.9**
GENERAL PUBLIC SERVICES	*9.2*	*13.8*	*19.8*	*18.4*	*21.9*	*22.4*
SOCIAL AND COMMUNITY SERVICES	*7.0*	*9.6*	*6.7*	*15.3*	*12.2*	*13.7*
ECONOMIC SERVICES	*10.6*	*10.8*	*12.4*	*13.8*	*14.1*	*14.5*
TOTAL RECURRENT EXPENDITURE	*26.7*	*34.1*	*38.8*	*47.5*	*48.2*	*50.7*
GDP at Current Market Prices	974,149.1	1,204,131.0	1,204,131.0	1,437,283.0	1,562,776.0	1,698,737.5

Source: Ministry of Finance

Recurrent expenditure in 2012/13 fiscal year is shown in Table 19.4. A large proportion of funds has been allocated to consumption which comprises compensation of employees and use of goods and services. Gross consumption as a share of GDP increased to 22.7 percent in 2012/13 from 17.8 percent in 2011/12 and is expected to decline marginally to 22.5 percent in 2013/14. However, the trend is expected to remain unchanged for the outer years as it is projected that in 2014/15 gross consumption will increase to 23.8 percent and then decline to 20.6

percent of GDP respectively. Going forward, interest on debt is expected to gradually decline in the subsequent years, a reflection of a reduction in levels of domestic debt.

TABLE 19.4: ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT RECURRENT EXPENDITURE 2011/12-2015/16 FY

	2011/12 Actual	*2012/13 Approved*	*2012/13 Revised*	*2013/14 Estimate*	*2014/15 Projection*	*2015/16 Projection*
	Actual	Approved	Revised	Estimate	Projection	Projection
Gross Consumption	**173,883.0**	**215,829.7**	**273,279.4**	**331,237.1**	**301,884.0**	**326,250.9**
Compensation of Employees	83,082.9	86,082.9	96,855.8	140,455.3	136,188.9	148,827.6
Use of Goods and Services	90,800.1	129,746.8	176,423.7	190,781.8	165,695.1	177,423.3
Less: Fees, Sales and Recoveries	0.0	0.0	0.0	0.0	0.0	0.0
Net Consumption	173,883.0	215,829.7	273,279.4	331,237.1	301,884.0	326,250.9
Interest on Debt	31,227.8	28,752.8	32,811.0	35,572.0	43,520.9	40,401.2
Pensions and Gratuities	10,445.5	18,698.4	15,698.4	19,699.5	22,638.4	24,223.1
Grants, Subventions and Transfers	**44,973.7**	**59,365.5**	**56,484.1**	**84,543.4**	**75,472.3**	**78,580.7**
Local Authorities	16,831.4	18,719.7	18,984.9	30,487.0	17,861.3	22,548.5
Public Bodies	15,038.3	17,013.4	22,228.9	30,116.5	30,785.9	30,024.9
Private	9,639.8	17,707.3	7,946.8	13,963.4	16,987.4	15,047.1
Abroad	3,464.2	5,925.1	7,323.5	9,976.6	9,837.6	10,960.3
Loans and Capital Transfers	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total Recurrent Expenditures	**260,530.0**	**322,646.4**	**378,273.0**	**471,052.0**	**443,515.7**	**469,455.9**
Grand Total	**260,530.0**	**322,646.4**	**378,273.0**	**471,052.0**	**443,515.7**	**469,455.9**
				0.0	**0.0**	**0.0**
Gross Consumption	*17.8*	*17.9*	*22.7*	*23.0*	*19.3*	*19.2*
Interest on Debt	*3.2*	*2.4*	*2.7*	*2.5*	*2.8*	*2.4*
Pensions and Gratuities	*1.1*	*1.6*	*1.3*	*1.4*	*1.4*	*1.4*
Grants, Subventions and Transfers	*4.6*	*4.9*	*4.7*	*5.9*	*4.8*	*4.6*
Gross Fixed Capital Formation	*26.7*	*26.8*	*31.4*	*32.8*	*28.4*	*27.6*
Total Recurrent Expenditures	*26.7*	*26.8*	*31.4*	*32.8*	*28.4*	*27.6*
GDP at Current Market Prices	974149.1028	1204131	1204131	1437283	1562776	1698737.5

Source: Ministry of Finance

19.5 Development Expenditure

The 2012/13 development budget reflects the restrictive fiscal policy stance that underpinned government budget for the year. Due to the commencement of projects under the Economic Recovery Plan (ERP) in the second quarter, development expenditure budget in absolute terms increased by 30 percent from K77.6billion in 2011/12 to K100.8billion in 2012/13 fiscal year. However, as a share of GDP, development expenditure budget increased marginally by 0.4 percentage points of GDP to 8.4 percent in 2012/13 fiscal year. As government continues to implement projects and programmes in the ERP, development budget is expected to increase further to K175.1bilion in 2013/14 financial year. The functional and economic classification of development expenditures are presented in Tables 19.5 and 19.6 respectively.

TABLE 19.5: FUNCTIONAL CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE 2011/12-2015/16 FY

	2011/12 Actual	*2012/13 Approved*	*2012/13 Revised*	*2013/14 Estimate*	*2014/15 Projections*	*2015/16 Projections*
General Public Services	**19,657.8**	**16,027.62**	**28,131.96**	**63,999.01**	**32,819.07**	**26,364.43**
General Administration	16,703.3	13,222.04	24,986.1	60,064.0	27,645.1	22,208.1
Defence Affairs	160.4	896.19	984	2,539	3,722	2,990
Public Order and Saftey Affairs	2,794.1	1,909.39	2,161.7	1,395.9	1,452.0	1,166.4
Social and Community Services	**16,176.1**	**28,671.59**	**34,091.07**	**38,067.57**	**28,251.37**	**22,695.07**
Education Affairs and Services	5,848.4	9,557.52	9,891.9	11,859.0	6,215.0	4,992.7
Health Affairs and Services	2,522.6	3,796.02	3,803.7	7,068.8	10,146.4	8,150.8
Social Security and Welfare Affairs and Services	566.8	9,588.30	11,244.4	3,507.1	5,856.0	4,704.3
Housing and Cummunity Amenity Services	7,003.9	5,126.01	8,296.4	14,890.1	4,569.0	3,670.4
Recreational, Cultural and Other Social Services	102.8	100.62	386.3	421.7	0.0	0.0
Broadcasting and Publishing Affairs and Servies	131.5	503.12	468.3	320.8	1,464.9	1,176.8
Economic Services	**41,730.9**	**31,521.79**	**38,583.42**	**72,982.55**	**56,626.56**	**45,489.61**
Energy and Mining Services	183.4	222.98	210.7	783.9	514.2	413.1
Agriculture and Natural Resources	10,147.3	14,402.13	19,955.0	40,582.4	31,025.0	24,923.2
Tourism Affairs and Services	2,239.4	1,947.00	1,621.3	2,356.6	672.4	540.2
Transport and Communication Services	27,941.1	13,414.09	15,413.4	26,451.8	21,325.9	17,131.7
Labour Relations and Employment Services	131.5	201.25	234.1	0.0	0.0	0.0
Scientific and Technological Services	-	-	0.0	0.0	0.0	0.0
Environmental Affairs	-	105.66	257.9	1,896.3	1,396.7	1,122.0
	-	-	0.0	0.0	0.0	0.0
Total Development Expenditure	**77,564.8**	**76,221.00**	**100,806.45**	**175,049.13**	**117,697.00**	**94,549.11**
GENERAL PUBLIC SERVICES	2.0	1.3	2.3	4.5	2.1	1.6
SOCIAL AND COMMUNITY SERVICES	1.7	2.4	2.8	2.6	1.8	1.3
ECONOMIC SERVICES	4.3	2.6	3.2	5.1	3.6	2.7
TOTAL DEVELOPMENT EXPENDITURE	8.0	6.3	8.4	12.2	7.5	5.6
GDP at Current Market Prices	**974,149.0**	**1,202,786.0**	**1,202,786.0**	**1,437,283.0**	**1,562,776.0**	**1,698,737.5**

Source: Ministry of Finance

Under the functional classification, Economic Services as a share of GDP (3.2percent) was still dominant in 2012/13 although it marginally declined from the previous year. Expenditures in the Social and Community Services increased to 2.8 percent in 2012/13 from 1.7 percent in the preceding year reflecting Government's commitment to increase spending to the social sectors of Agriculture, Education and Health in particular, in line with the MGDSII prioritization and the ERP. However, the percentage share of all development expenditures in GDP is expected to increase in 2013/14 such that total development expenditures are projected to increase to 12.2 percent of GDP driven by the Economic Services which are expected to grow from 3.2 percent in 2012/13 to 5.1 percent in 2013/14. This has been mainly attributed to increased spending on the projects under the ERP.

Under the economic classification as shown in Table 19.6 below, dominance of gross consumption in development expenditure in the 2011/12 fiscal year persisted through 2012/13 FY. However, there was a marginal increase in the share of both gross consumption and gross fixed capital formation relative to GDP in 2012/13 to 4.2 and 3.2 percent from 4.0 to 3.0 percent in the 2011/12 fiscal year, respectively. The increase has emanated from increased domestic revenue generation in addition to increased budget support, dedicated as well as projects grants and loans. In the 2013/14 fiscal year, shares of gross consumption and gross fixed capital formation are expected to increase to 6.1 percent and 4.6 percent respectively.

In the medium term, development expenditure is projected to slow down in 2014/15 and 2015/16, largely on account of a decrease in actual outlays to all services including economic services as it is expected most of the projects will be completed.

TABLE 19.6: ECONOMIC CLASSIFICATION OF CENTRAL GOVERNMENT DEVELOPMENT EXPENDITURE 2011/12-2015/16

	2011/12 Actual	2012/13 Approved	2012/13 Revised	2013/14 Estimate	2014/15 Projections	2015/16 Projections
Gross Consumption	**39,082**	**38,405**	**50,792**	**88,200**	**59,303**	**47,639**
Compensation of Employees	2,669.8	2,623.5	3,469.8	6,025.2	4,051.1	3,254.4
Use of Goods and Services	36,412.0	35,781.2	47,322.6	82,175.0	55,251.7	44,385.1
Grants	**9,199.0**	**9,039.6**	**11,955.4**	**20,760.4**	**13,958.6**	**11,213.3**
Gross Fixed Capital Formation	**29,284**	**28,777**	**38,059**	**66,088**	**44,436**	**35,696**
Building	11,737.0	11,533.7	15,253.9	26,488.3	17,809.8	14,307.1
Construction Works	7,132.5	7,008.9	9,269.7	16,096.7	10,822.8	8,694.3
Services	3,961.5	3,892.9	5,148.5	8,940.4	6,011.2	4,828.9
Equipment	6,453.0	6,341.2	8,386.6	14,563.2	9,791.8	7,866.0
Total Development Expenditures	**77,565**	**76,221**	**100,806**	**175,049**	**117,697**	**94,549**
Percent of GDP						
Gross Consumption	4.0	3.2	4.2	6.1	3.8	2.8
Compensation of Employees	0.3	0.2	0.3	0.4	0.3	0.2
Use of Goods and Services	3.7	3.0	3.9	5.7	3.5	2.6
Gross Fixed Capital Formation	3.0	2.4	3.2	4.6	2.8	2.1
Total Development Expenditures	8.0	6.3	8.4	12.2	7.5	5.6
GDP at Current Market Prices	974,149	1,204,131	1,204,131	1,437,283	1,562,776	1,698,738

Source: Ministry of Finance

19.6 Highlights of the 2013/14 Budget

The 2013/14 Budget remains a transitional and recovery budget within the Medium Term Expenditure Framework (MTEF). Its key objective is to restore macro-economic balance and a market-based economy that provides the foundation for sustainable economic growth. It will consolidate the bold economic reforms that the Government embarked on in 2012. Thus the 2013/14 budget remains an austerity budget. Fiscal discipline will be of utmost importance. The fiscal anchor remains the No Net Domestic Financing aimed at preventing the build up of domestic debt with planned domestic debt repayment of 0.5 percent of GDP.

Government anticipates continued donor support in form of grants and concessional loans. Government will also continue its efforts to strengthen domestic revenue administration (through increased audits and use of modern ICT systems) and broaden the tax base to improve revenue collection. These will be coupled with adherence to expenditure controls to ensure that spending is within the budget. Implementation of Public Finance Management reforms will continue through the Multi-Donor Trust Fund to support capacity building and enhance expenditure management to enhance transparency and accountability in the use of public funds. Use of the Integrated Financial Management Information System (IFMIS) will be enhanced to ensure control, timely and accurate reporting of budget implementation.

Government will remain committed to increasing spending to social sectors such as education, health and agriculture – the Farm Input Subsidy Programme (FISP) - as well as social protection programmes in order to mitigate the adverse effects of the 2012 policy reforms. Thus government will prioritise scaling up FISP, social cash transfers to the vulnerable, public works programmes and school feeding programmes to cushion the poor.

19.7 Major Challenges of the 2013/14 Budget

Although the economy has started showing signs of improvement, high inflation and an unstable exchange rate may pose a risk to the successful implementation of the 2013/14 budget. Projections indicate that inflation is going to drastically decline in the 2013/13 fiscal year while at the same time the exchange rate is showing signs of stability. However, in event that inflation does not decline as projected and the exchange rate depreciates then these may have adverse effect by exerting pressure on expenditure.

Considering that a significant proportion of the budget is financed by donors, delays in the disbursement of committed budget support funds poses a great risk to the successful implementation of programmes in the budget.