Country Reports

Malawi: The Erratic Pulse of the Warm Heart of Africa

Country Report No. 5

The South African Institute of International Affairs
Established 1934
Malawi: The Erratic Pulse of the Warm Heart of Africa

Tim Hughes
Malawi: The Erratic Pulse of the Warm Heart of Africa

Tim Hughes

The Malawian National Assembly now fits comfortably into the banqueting hall of former President Dr Kamuzu Hastings Banda’s state palace. Even whilst accommodating parliamentary officers, the Hansard printing press and support staff, Parliament is still dwarfed by the opulence of the late life president’s home. Acres of walled parklands, as well as the strategically positioned houses of military officers, surround the former palace. The parliamentary compound is located miles from other government buildings, and further still from the rank-and-file populace of Lilongwe. This white elephant speaks volumes about Malawi and the country’s recent efforts to free itself from the shadow of Kamuzu Banda. When asked how much the palace cost to build, a senior government figure replied wryly, ‘Nobody really knows, but its contribution to development and redistribution in Malawi was that bricks stolen from the building site helped construct many other official homes in Lilongwe!’

For Malawians there is no escaping the shadow cast by the former life president, who finally lost office in 1994 in the wash of the democratic wave that swept through Southern Africa in the last decade of the millennium. Banda was 98 when voted out of office, having ruled the country as leader of a one-party state for 30 years after independence was granted in 1964. He died three years after losing power. Such is his enduring legacy that plans for the
construction of a R20 million mausoleum in his memory are at an advanced stage. What at first sight appears as a perverse genuflection to an African dictator is more easily understood when seen in the light of the efforts of the present United Democratic Front-led government to unite the sometimes fractious relations between the southern and central (formerly Banda-supporting) regions of Malawi.

Since South Africa’s political transition, Malawi has, to some extent, dropped off Pretoria’s (and Southern Africa’s) political map. Under Banda it was white South Africa’s closest political ally in Africa, establishing full diplomatic relations in 1967. Until the advent of the 1990s, this remained the country’s first and only formal link with a black state. Malawi was a popular destination for South African tourists, denied the opportunity to explore much of the rest of the continent. Since 1994, whilst South Africa and Malawi share the same democratic birth date, there has been a marked contrast in their respective fortunes and the quantum of their ‘democratic dividends’. Indeed the new Malawian democratic state continues to struggle as a heavily indebted, land-locked and agriculturally dependent country, blighted by high levels of illiteracy, low levels of development and an alarmingly high rate of HIV/AIDS infection. Unlike its other SADC neighbours, Malawi lacks clear competitive advantages such as rich natural resources, access to ports or a developed infrastructure. But despite all this, the government has made very notable efforts to tackle the crippling problems that beset the country, and the independent observer can sympathise with the former Malawian deputy foreign minister, who recently lamented, ‘We have done exactly what we were asked to do in terms of economic reform and other reforms, yet we still haven’t attracted any meaningful investment.’

---

Historical overview

The name Malawi is derived from the word maravi meaning 'reflected light', referring to the brilliant light that reflects from the surface of Africa's third largest lake, Lake Malawi. The area now known as Malawi was home to hominids some 2 million years ago. Settlements of humanoids dating back 100,000 years have been found on the shores of Lake Malawi. These boskopoids were the ancestors of both the central African Pygmies and the Southern African San people. Some 2,000 years ago these people were confronted by the southern migrating Bantu who, with their superior iron-working skills, enjoyed an advantage in agriculture and warfare. These migrations were supplemented by others from the Congo and Tanzanian regions. The most significant migrations took place in the early 19th century, which saw both an influx of Yao from western Mozambique and the northward migration of Zulu people from what is now South Africa. The earliest Europeans to reach Malawi were Portuguese explorers from present-day Mozambique. But it was the 1850s before the most famous European explorer, David Livingstone, arrived in Malawi. He paved the way for the establishment of the Livingstone Central African Mission Company. This, together with the influence of Cecil John Rhodes, had the effect of encouraging Britain to declare the Shire Highlands a protectorate in 1889. This area was later expanded to include vast tracts of land to the west of Lake Malawi, which were later consolidated into the colony of Nyasaland.

Save for a small-scale rebellion in 1915, little resistance to British rule is recorded before the 1950s, even though the establishment in 1944 of the Nyasaland African Congress sowed the seeds of organised political resistance. In 1949 the first Africans were admitted to the legislative council. Domestic opposition increased in 1953, when Britain joined Nyasaland to Northern and Southern Rhodesia to form the Central African Federation. Fearful of the replication of Southern Rhodesia's white-dominated policies in their own country, the Nyasaland African Congress (now renamed the Malawi Congress Party—MCP), under the leadership of Dr Hastings Kamuzu Banda, stridently opposed Nyasaland's inclusion in the federation. This upsurge of political opposition finally led to the declaration of a state of emergency, under which Banda and other leaders were imprisoned. In 1961 Banda was invited to a constitutional conference, the outcome of which was the Federation's dissolution in 1963. Nyasaland became self-governing for a year before
achieving full independence in 1964.

Thus in 1964, Dr Hastings Kamuzu Banda, a former medical practitioner and leader of the MCP, became Malawi’s first prime minister. Two years later Banda declared Malawi a republic within the Commonwealth and a one-party state, becoming its first president. In 1971 Banda was declared president-for-life. Thus began a long reign of political intolerance and dictatorship. Banda’s domestically unpopular policies acquired a foreign affairs counterpart when Banda cemented diplomatic ties with white South Africa, establishing an embassy in Pretoria and encouraging South African state visits, as well as supporting South African-backed guerrillas in Mozambique.

In 1978 Malawi held its first putative general election since independence. Banda personally vetted all candidates, who were required to pass an English examination, which had the effect of excluding some 90% of the population. Despite his increasing physical frailty during the 1980s (resulting in John Tembo acting as a virtual prime minister), Banda’s dictatorial rule took an even firmer grip of a wide range of organs of state and society. Perhaps the crudest example of Banda’s omnipresence was his control and ultimate ownership of the country’s largest company, Press Trust Corporation. At its peak, Press Corporation employed 10% of the country’s paid labour force, and its turnover represented 36% of the country’s GDP. In addition, Press dominated 70% of the wholesale market for basic foodstuffs.

Apart from his political and economic dominance, Banda’s intolerance of political opposition and at times brutal repression also intensified over the years. One newspaper has estimated that 250,000 Malawians lost their lives or ‘disappeared’ during Banda’s rule.
Transition to democracy

Democracy did not emerge pristine and beautiful anywhere in the world. Anywhere you look you find a very nasty, utilitarian, ugly, corrupt, top-down clientelistic process. The question is how did it get from this to a higher quality democracy?  

Political scientist Larry Diamond’s sobering observation has been used before to highlight the political challenges facing Malawi and speaks directly to the Malawian case. The transition to democracy in Malawi was brought about through a confluence of forces. The Malawian economy is highly dependent on agricultural exports, and in 1992 the country suffered its worst drought of the century, resulting in widespread economic and social disruption. In addition, Malawi was far from hermetically sealed from the forces that hastened the end of the Cold War, and with it the retrenchment of the patronage previously enjoyed by third world client states.

Against this backdrop, the wave of democratisation sweeping areas of the globe in the late 1980s and early 1990s found expression in Malawi through sharply increased levels of protest at Banda’s dictatorship. In addition to internal protests, external opposition parties, including the Dar es Salaam-based Malawi Freedom Movement and the Harare-based Socialist League of Malawi, mobilised international opposition to the Banda regime. Intensified opposition and outrage at governmental excess finally led to the publishing of the Catholic bishops’ letter of condemnation in 1992. The government, in turn, denounced the pastoral letter and made threats to the lives of the bishops. This galvanised political opponents, who met in Zambia to chart a way forward. Upon his return to Malawi from the Zambia meeting, leading trade unionist Chakufwa Chihana was arrested, but subsequently released after intense public protest. These riots left some 30 people dead and resulted in Western donor countries cutting off all non-humanitarian aid in an effort to force Banda to step down. An increasingly beleaguered Banda finally acceded to the holding of a referendum in 1993, the result of which was an overwhelming vote (63%) in favour of the establishment of a multiparty democracy.

---
The referendum result paved the way for the first democratic election, which was held on 17 May 1994. Bakili Muluzi, a Banda political protégé and former cabinet minister, won 47% of the presidential vote in 1994, with Banda gaining 33% and Chakufwa Chihana of the Alliance for Democracy (AFORD) some 19%. Muluzi’s United Democratic Front (UDF) won 86 of the 177-member National Assembly seats, with Banda’s Malawi Congress Party (MCP) gaining 56 and AFORD the remaining 35. The substantial support from a host of donor countries in cash and kind towards the infrastructural costs of both democratic elections played an important part in their relatively smooth operation.

The regional nature of Malawi’s voting is highlighted below:

| 1994 Malawi parliamentary election results by party and region (seats)³ |
|-----------------|-----------------|-----------------|
|                 | MCP             | UDF             | AFORD           |
| North           | -               | -               | 33              |
| Central         | 51              | 14              | 3               |
| South           | 5               | 71              | -               |
| National        | 56              | 85              | 36              |

From the above it is clear that no single party had broad national support, and that one of the major challenges facing any Malawian government is to address the divisions that threaten national unity. Politically, Malawi still reflects the three regional divisions created under British administration, with the northern Tumbuka-Henga speaking people enjoying higher educational levels, yet experiencing political marginalisation. It is no coincidence that incidents of civil and political unrest against UDF rule have arisen principally in the northern regions of the country.

The 1994 election heralded widespread political reform. The new 1995 Malawian constitution held that the executive president could serve for a

---

maximum of two five-year terms. Provision was also made for two vice-presidents. The seat of legislative power, the National Assembly, provided for 177 elected representatives on a five-year term, constituency-based electoral system. The country was divided into three regions for local administration namely: northern, central and southern. These were further subdivided into 27 districts and 802 wards for local elections.

Of further significance was the launching in 1995 of the National Plan of Action, which sought to lay the legal groundwork for enhancing human rights. Further nominal improvements in governance have subsequently come about through the creation of the Anti-Corruption Bureau, the Office of the Ombudsman, the Public Affairs Committee and a strengthening of the office of the auditor-general. Significantly, whilst Malawi has not abolished the death penalty and an alarming 53 people were sentenced to death in 2000 alone, President Muluzi has commuted all death sentences to date.\(^7\)

Having achieved victory, however, Muluzi was faced with immense developmental challenges, exacerbated by the absence of a parliamentary majority and his refusal to co-operate with the MCP. Attempts to liberalise the economy were made difficult by an environment of overwhelming poverty, the domination of Banda’s Press Trust Corporation business empire, high illiteracy, the lowest life expectancy in Southern Africa, poor sanitation, high transport costs, a heavy reliance on agriculture and widespread corruption. The government’s immediate focus was on poverty alleviation and privatisation, along with the combating of corruption and mismanagement of resources. Added to the problems of underdevelopment, the Muluzi government has been faced with increasing levels of crime. One report argues that, ‘Malawi has been suffering from a low and persistent level of armed violence mainly perpetrated by younger men’.\(^8\) Whilst this may be expected as a consequence of an emergence from a repressive state, the problem has been exacerbated by an influx of small arms from Mozambique and South

\(^6\) Claims have recently been made and denied (in March 2001), that President Muluzi would seek to hold a referendum to amend the constitution to permit him to run for a third term of office.

\(^7\) See Amnesty International Report 2001.

Africa. Whilst the improved reporting of crime may account for some of the statistical shift, this cannot account by itself for the 40% increase in armed robberies between 1997 and 1999.

The Muluzi government, nonetheless, made significant progress in its aims to enshrine democratic values and improve Malawi’s human rights record, which had suffered under Banda’s authoritarian regime. The former president was among those tried for the murder of Dick Matenje, the former secretary-general of the MCP, and three associates in May 1983. In the event the 101-year-old Banda was acquitted and politically rehabilitated, being accorded a state funeral after his death on 27 November 1997.

Against this backdrop the second democratic elections were held in June 1999. Even prior to the polls, there were fears that the process would not be free and fair. The opposition MCP was concerned at the way in which President Muluzi’s ruling UDF had allegedly ‘manipulated and dominated’ the radio broadcasts by the country’s broadcasting corporation, MBC. The table below provides an overview of MCP dominance of the media during the election campaign:

<table>
<thead>
<tr>
<th>Party</th>
<th>Number of adverts</th>
<th>% of total adverts</th>
</tr>
</thead>
<tbody>
<tr>
<td>UDF</td>
<td>295</td>
<td>78</td>
</tr>
<tr>
<td>Electoral alliance</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>MCP</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>AFORD</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>United Party</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Others</td>
<td>48</td>
<td>13</td>
</tr>
</tbody>
</table>

The most comprehensive report of media manipulation and disinformation is that of the watchdog group Article 19. See for example, ‘At the Crossroads: freedom of expression in Malawi’, or go to www.article19.org. See also 2000, 1999 and 1997 World Press Freedom Review at: http://www.freemedia.at/wpfr/malawi.htm

Patel N in Ott M et al, op. cit., p.179
There were also allegations of UDF-sponsored violence against the MCP, and reports by non-governmental organisations (NGOs) that more than 160,000 potential voters were denied the right to register, particularly in the northern and central regions. This called into question the official election voter turnout rate of 92%.

The party campaigns were notable in their failure to address 'bread and butter' issues, with character assassinations and personality differences occupying centre-stage instead. The parties were vague on their plans to tackle illiteracy and poverty, for example. Malawi has a literacy rate of 35%, while nearly 60% of the population live below the poverty datum line. Nearly 90% of Malawians live in rural areas, and only about 20% of the population have access to running water.

Following the announcement of presidential election results, in which Muluzi won 51% of the vote over MCP/AFORD candidate Gwanda Chakuamba’s 44%, the northern town of Mzuzu was the focus of clashes between supporters of the re-elected president and those of the opposition MCP/AFORD coalition. In the words of one church official following the election, 'Regionalism and tribalism rules in Malawi. The Christian north supports AFORD, the centre the MCP, and the Muslim south, Muluzi.' But this is not just a simple religious regional divide. The MCP is supported by the Christian Nkhoma (Dutch Reform) synod and the Anglican diocese; AFORD by the Livingstone synod and the Anglicans; and the UDF by the Blantyre synod and Muslims.11

Regional and religious divisions are further reinforced by ethnic cleavages. Muluzi’s UDF principally draws on the support of the most populous Yao-speaking southerners, whilst AFORD relies almost entirely on the Tumbuka-Henga speaking northerners for its popular vote. Whilst MCP leader Gwanda Chakuamba hails from the south, his support base reflects the traditional dominance of the MCP in the central region.12

---

11 Some 55% of the population is Protestant, 20% are Roman Catholic, 20% are Muslim, and the balance follow traditional religious beliefs.

12 Sixty percent of the population are Maravi, 18% are Lomwe, 13% are Yao and 9% are Ngoni.
The regional pattern of voting was largely entrenched in the 1999 election:

| 1999 parliamentary results by party and region (seats)¹³ |
|--------------|---|---|---|---|
|                | MCP | UDF | AFORD | Independent |
| North         | 4   | 1   | 28    | -            |
| Central       | 54  | 16  | 1     | 1            |
| South         | 8   | 76  | -     | 3            |
| National      | 66  | 93  | 29    | 4            |

Muluzi was sworn in for a second five-year term, despite a planned court injunction by the opposition to declare the presidential results null and void. In the event, the MCP and AFORD returned to parliament after boycotting the president's opening address.

The appointment of a new cabinet by Muluzi in November 2000, five days after he had dismissed the old one because of allegations of ministerial corruption in the Ministry for Education, has resulted neither in prosecutions, nor any disruption to the government. Only three members of the old cabinet were not reinstated, and key ministers retained their posts. The ruling UDF's overwhelming local government election victory in November 2000 (610 of 860 wards) provided a stable platform for policy reform, though the low turnout (14% compared to the reported 92% in the 1999 general election) reflected political unease and voter disappointment.

Ideological and programmatic distinctions between the three major parties are difficult to discern. All espouse policies that seek to 'eradicate poverty and develop the economy', but are shallow on detail and substance. In reality it is only the UDF that has had the opportunity to develop and implement its policies, in particular the 1995 Poverty Alleviation Programme (PAP). Given the legacy from which the country has emerged, it is unsurprising that a strong emphasis on liberal principles such as human rights and democratic governance is cardinal to all three parties. But given the incestuous nature of Malawian politics, all three suffer from problems of credibility; none more so than the previously Banda-dominated MCP. Recent tensions within the MCP led to a split in the party and the holding of separate congresses in 2001 which

---

¹³ Ott, et al, op. cit.
elected separate leaders. Both AFORD and the UDF are accused by critics of adhering too closely to a Western liberal democratic ethos. Whilst not an official member, the UDF has enjoyed observer status at the Liberal International organisation and hosted a meeting of the Organisation of African Liberal parties in 1995. Despite AFORD leader Chihana’s trade union background, and AFORD’s reputation as a working class party, there is no official relationship between the party and the Socialist International. Indeed its manifesto evinces an uneasy tension between adherence to market-orientated policies and those more consistent with social democratic programmes. The avowedly conservative MCP on the other hand maintains a close relationship with the International Democratic Union and the Christian Democratic International.

Since the 1999 and 2000 elections, political disputes, although seldom violent, have been a constant feature of Malawian life. However, widespread accusations of high level corruption and political intolerance have intensified. In March 2001, Malawi’s seven Roman Catholic bishops criticised the Muluzi government over allegations of enrichment, corruption and fraud. The letter lamented the acute poverty endured by Malawians, contrasted with the luxury of lifestyle enjoyed by those elected to public office. Possibly the most scathing attack on governmental corruption outside of the formal political opposition came in the form of a public letter issued in June 2001 by the Sunni Muslim Supreme Council of Malawi against President Muluzi himself. Besides condemnation of Muluzi for infidelity to Islam, the Muslim clerics provided a list of corruption charges aimed directly at the president.14 After its publication a leading Muslim cleric and author of the letter was hospitalised after being taken from his home and severely beaten by a group of unidentified individuals.

Claims and counter-claims of coup plotting and coup attempts are rife, the most recent occurring in March 2001. The policy of forming an electoral ‘grand alliance’ between the MCP, AFORD and the National Democratic Alliance (NDA) is still far from concrete. Indeed differences between the contending parties coalesce far more around the politics of personality, regionalism and ethnicity, than any of the concrete programmes and policies.

14 The full text of the letter is available at: http://afrol.com/Countries/Malawi/documents/sunni_council_muluzi.htm
Quite apart from the robust cut and thrust that characterises Malawian party politics, recent developments not only tarnish Malawian democracy, but indeed threaten its very essence. The most significant of these include the following:

- the abolition of the Senate with its constitutional powers of impeachment and political recall;
- the parliamentary proposal to reduce the House quorum from 50% to one third;
- the introduction of a bill preventing MPs crossing the floor;
- the suspension of MCP leader Gwanda Chakuamba from Parliament for a year, for showing 'disrespect to the head of state';
- an increase in acts of executive fiat, such as the establishment of the National Intelligence Bureau without prior notification of the legislature;
- attempts to curtail the political activities and funding of NGOs; and
- attacks on elements of the free press.

Widespread accusations of corruption and rampant nepotism at the very highest levels of government are hard to verify. This task is perversely made more difficult by the abject failure of the Anti-Corruption Bureau to prosecute successfully those cases that have been brought before it.\textsuperscript{15}

<table>
<thead>
<tr>
<th>Key issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>The most urgent tasks facing the Malawian government are:</td>
</tr>
<tr>
<td>• the challenge of deepening and strengthening the institutions and organs of democracy;</td>
</tr>
<tr>
<td>• the challenge of deepening and broadening the ethos of democracy; and</td>
</tr>
<tr>
<td>• the challenge of adhering to constitutionality, good governance (including tackling corruption), transparency and a willingness to tolerate political opposition.</td>
</tr>
</tbody>
</table>

\textsuperscript{15} The Malawi Institute of Democratic and Economic Affairs, \textit{The Malawi Digest}, July 2001 provides a full and considered account of the contemporary threats to good governance.
Social, health and education policy

Malawi ranks 163rd of the 174 states on the UN’s 2000 Human Development Index, which measures quality of life. A number of the key population indicators are given below:

<table>
<thead>
<tr>
<th>Age structure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0-14 years</td>
<td>45%</td>
</tr>
<tr>
<td>15-64 years</td>
<td>52%</td>
</tr>
<tr>
<td>65 years and over</td>
<td>3%</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>1.61%</td>
</tr>
<tr>
<td>Population birth rate</td>
<td>38.49 birth/1,000</td>
</tr>
<tr>
<td>Death rate</td>
<td>22.44 deaths/1,000 population</td>
</tr>
<tr>
<td>Infant mortality rate</td>
<td>122.28 deaths/1,000 live births</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td></td>
</tr>
<tr>
<td>Total population</td>
<td>37.59 years</td>
</tr>
<tr>
<td>Male</td>
<td>37.20 years</td>
</tr>
<tr>
<td>Female</td>
<td>37.98 years</td>
</tr>
<tr>
<td>Total fertility rate</td>
<td>5.33 children born/woman</td>
</tr>
</tbody>
</table>

Some 30% of Malawian children under five years are underweight and 48.3% are stunted. About 14% of mothers have short stature (obstetrically at risk), and nine percent suffer from chronic protein energy malnutrition. In a long-term programme to tackle this crisis, governmental food fortification guidelines are being drafted; these are to be harmonised with SADC guidelines.

The dangers posed by low developmental standing are compounded by the high rate of HIV infection. As a result of Aids, given current rates of infection, life expectancy in Malawi is expected to drop from the current 37.59 to 35 by 2010. Around 14% of the population is estimated to be HIV-positive, though the figure may be higher. In 1996, around 30% of women tested in antenatal clinics were HIV-positive. These figures are regarded as being underreported, as large numbers of Malawian women decline HIV testing due to the stigma and social alienation caused by a positive result. The prevalence of Aids is
likely to have a dramatic social impact: for example, already two to three teachers die each week. Aids counsellors say that the high rate of infection is directly related to conditions of extreme poverty. The HIV/Aids pandemic has also touched the highest echelons of state: some 29 MPs died of Aids-related illnesses between 1994 and 1999.\(^\text{16}\)

The government has been far from passive on matters of health, however. It has developed an integrated and strategic plan for health care that focuses not only on the provision of healthcare and free basic drugs, but also seeks to reinforce its programmes with strategies for improved water sanitation and community-based feeding programmes. National Control Programmes to tackle HIV/Aids, tuberculosis, leprosy, bilharzia and malnutrition are all receiving attention. In the case of leprosy and to a lesser extent TB these programmes have already had some degree of success. To date there is no clear indication as to whether the HIV/Aids National Control Programme is making an impact.\(^\text{17}\)

Malawi is regarded as a conservative, male-dominated society, partly because of Banda's paternalistic rule.\(^\text{18}\) The figures for illiteracy among women are twice as high as for men. Spousal abuse by husbands is widespread, according to a *Human Rights Report* by the US State Department.\(^\text{19}\) A limited number of programmes have been launched to address this phenomenon, including gender advocacy training at the Malawi Management Institute, the Danida Gender Project and other projects funded by UNICEF.

Against the backdrop of a literacy rate of 35%, one of the most significant developments in Malawian social policy was the decision in 1994 to declare primary education free. The result was a dramatic increase in children attending school, from 1.9 million in 1994 to 2.9 million pupils in 2000. Some

\(^{16}\) *Business Day*, 11 August 2000.

\(^{17}\) Vice-President Malewezi has taken personal charge of this programme, but during an interview in May 2001 expressed his frustration at the cultural and gender prejudices that make such an educational programme difficult in Malawi.

\(^{18}\) In a disturbing intervention by the Muslim clerics, President Muluzi was chastised for encouraging gender equality.

\(^{19}\) United States Department of State, *Human Rights Report for 1999 – Malawi*. 

15
25% of all Malawians now attend primary school. Whilst this development is to be commended, it has, and will continue to have, wide-ranging and long-term consequences. In the short term, the initiative has resulted in class numbers rising to an average of 150, with pupil to teacher ratios standing at 75:1. These pupil to teacher ratios are clearly unmanageable for effective learning. In addition, only 54% of the 46,000 primary school teachers are qualified. This has led to concern that increasing numbers of ‘illiterate scholars’ are being produced by the educational system. There is an urgent need for training and skills upgrading of primary school teachers, and the parallel training of increased numbers of secondary school teachers. Another area that requires attention is the provision of teaching aids, such as television, video and closed circuit broadcasting.

Whilst the benefits of increased literacy and numeracy cannot be underestimated, the production of vast numbers of educated yet unemployed young people holds considerable dangers. A further long-term consequence of this policy will be increased urbanisation (already 6.1% per annum), and a resultant demand for jobs. Failure to meet this demand will result in considerable social dislocation.

The Malawi army recruited women into its ranks for the first time in 1999. There are 9,400 uniformed personnel in the forces, including the police. Malawi spends about 0.8% percent of its GDP on defence, down from 1.3% in 1990. It is the only SADC country which has chosen to accept peacekeeping assistance under the US African Crisis Response Initiative (ACRI).

### Key issues

The following are the most urgent priorities in the social welfare sector, particularly as regards health and education:

- the need to sustain and intensify the HIV/Aids awareness campaign;
- the need to take decisive measures to eradicate malaria;
- the need to provide rapid and effective training for educators to meet the needs of the burgeoning scholar/student population; and
- the need for ongoing educational programmes to tackle pervasive gender prejudice.

---

20] NEC Economic Review 2000, p. 75
Economic overview

Despite Malawi undergoing structural adjustment programmes from the early 1980s onwards, a 1998 IMF report noted: 'A major source of the Government's concern is that no appreciable progress has been made on the social indicators during the past 30 years.'

Indeed the challenge is monumental. For example, from 1979 to 1994 the trend in per capita income was negative. More broadly, there has been no structural change and diversification of the economy over the past 25 years. In 1995 inflation was measured at 95%. By 1996 this had been brought down temporarily to 10%, but recent high inflation (up to 44.9%) and government's targeted inflation rate of 10% by the end of 2001, bear testimony to the episodic and unsustained impact of its financial management.

Malawi is one of 22 countries that stand to benefit from the World Bank-IMF Heavily Indebted Poor Countries (HIPC) initiative. This allows for total relief on debt service of $1 billion, saving an estimated $50 million in interest payments annually. The 1999 debt service cost was $105 million. Malawi has to meet certain HIPC conditions, however. These include adoption of a Poverty Reduction Strategy Paper; making improvements in public expenditure management and governance; strengthening land and credit markets; and obtaining the participation of other creditors in the debt relief scheme.

The country is in a difficult economic position. The kwacha has declined in value against the dollar by more than 300% since 1998. In 2000, it lost 42% of its value against the dollar, mainly due to negative terms of trade caused by a decline in the export value of tobacco and tea, the two principal exports. This pressure was intensified by a depreciation of the South African rand and Zimbabwean dollar, the currencies of two of Malawi’s main trading partners, and by the rising global oil price.

To a great extent, Malawi’s stability is dependent on donor inflows, totalling $433.7 million in 1998, or 27% of GNP. This has declined from $570 million in 1992, or 31.5% of GNP. External debt has risen, however, from $1 billion in

---

1985 (95% of GNP) to $2.5 billion in 1998 (138% of GNP).

A summary of Malawi's core economic indicators is given below:

<table>
<thead>
<tr>
<th>Basic indicators</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>11 million</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>38 (45 in 1990)</td>
</tr>
<tr>
<td>Annual population growth</td>
<td>1.7%</td>
</tr>
<tr>
<td>GNP per capita PPP $</td>
<td>700 (210 actual)</td>
</tr>
<tr>
<td>GNP per capita global ranking</td>
<td>204/210</td>
</tr>
<tr>
<td>Annual GNP growth, 1990-97</td>
<td>0.8%</td>
</tr>
<tr>
<td>Annual inflation, 1990-97</td>
<td>33.8%</td>
</tr>
<tr>
<td>Total external debt $ 1998</td>
<td>2.7 billion ($2.9 billion est. 1999)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency conversion ($)</td>
<td>0.8</td>
<td>2.7</td>
<td>15.3</td>
<td>44.1*</td>
</tr>
<tr>
<td>GDP ($m real 1995 prices)</td>
<td>992</td>
<td>1,234</td>
<td>1,429</td>
<td>1688</td>
</tr>
<tr>
<td>Value added in industry ($m 1995 prices)</td>
<td>185</td>
<td>250</td>
<td>259</td>
<td>288</td>
</tr>
<tr>
<td>Value added in agriculture ($m 1995 prices)</td>
<td>296</td>
<td>340</td>
<td>400</td>
<td>606</td>
</tr>
<tr>
<td>Net FDI flows ($m current prices)</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>39</td>
</tr>
<tr>
<td>Manufactured exports ($m current prices)</td>
<td>n/a</td>
<td>36</td>
<td>79</td>
<td>102</td>
</tr>
<tr>
<td>Manufactured imports ($m current prices)</td>
<td>n/a</td>
<td>43</td>
<td>86</td>
<td>128</td>
</tr>
<tr>
<td>Total external debt ($m current prices)</td>
<td>258</td>
<td>1,051</td>
<td>1897</td>
<td>2475</td>
</tr>
</tbody>
</table>

* The estimate for 2001 is 86.9 kwacha to the dollar.

n/a not available
However, as can be seen from the table below, the overall picture is tentatively positive, when comparing the decade of the 1980s to that of the 1990s.

<table>
<thead>
<tr>
<th>Gross domestic product</th>
<th>1980-90</th>
<th>1990-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2.0%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Industry</td>
<td>2.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.6%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Services</td>
<td>3.6%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Yet, not all subsectors of the economy have had consistent economic performance since the mid-1980s. This, in turn, has hampered the government's attempts to plan, develop and maintain consistent economic and development programmes. Growth in consumption and investment is summarised below:

<table>
<thead>
<tr>
<th>Growth of consumption and investment</th>
<th>1980-90</th>
<th>1990-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>1.5%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Private consumption per capita</td>
<td>-1.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>General government consumption</td>
<td>6.3%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>Gross domestic investment</td>
<td>-2.8%</td>
<td>-9.4%</td>
</tr>
</tbody>
</table>

Whilst private consumption patterns show a marked increase, the decline in gross domestic investment highlights a persistent Achilles' heel in the Malawian economy.

A further critical issue for Malawi is its dependency for income on goods for which there is declining or uncertain demand. Tobacco contributes up to 70%...
of the country's foreign exchange earnings, fetching $250 million in 1997, but falling to $190 million in 1999 and $165 million in 2000. The industry employs 250,000 labourers and 282,000 tenants. The tobacco industry is likely to come under increasing pressure as a result of a global downturn in demand. Although farmers believe that the crop has the potential to generate $600 million annually, the export promotion council is encouraging farmers to produce other crops such as paprika, cut flowers, sunflowers, nuts, pulses, spices, dried fruits and vegetables. The production of macadamia nuts, for example, has risen from 1,000 tonnes at the beginning of the decade to a projected 3,500 tonnes by 2000, making Malawi the sixth largest producer in the world. Paprika, which is used as a spice and food colourant, was introduced only at the start of the decade. Exports reached 2,400 tonnes in 1997.

Tea, the second largest export earner ($39 million in 1999), has fallen in export quantity from a peak of 41,000 tonnes in 1998 to 30,000 tonnes in 1999. Sugar, the third largest export generator ($15 million in 1999), also declined from a peak of 92,000 tonnes exported in 1980 to 30,000 tonnes in 1999.

The fishing industry, which in 1994 employed 243,000 people, and provided 70% of animal protein for the population, is also in decline. Exports fell from 140,000 tonnes in 1988 to 5,000 tonnes just one year later. This is the result of intense fishing pressures, including the use of illegal, smaller nets, poaching and over-fishing. There are plans to introduce much stricter management and controls.

The proposed bauxite mine at Mount Malanje has passed a recent environmental impact study conducted by Met-Cem, a Canadian consultancy, despite earlier concerns that the mine could damage tourist prospects. It is estimated that the mountain contains over 30 million tonnes of bauxite, with an excavation life of 43 years. The government hopes to supply the bauxite to the Mozaal aluminium plant in Mozambique. These plans may be frustrated, however, by the high cost of rail haulage.

**Economic reform strategies**

The Malawian economy has initiated a series of economic reform strategies, many of which pre-date the 1994 period. The period 1980–88 was a time of
pricism and state minimalism, which after its failure to deliver sustained economic growth, was replaced by a number of World Bank Sectoral Adjustment Loans (SECALs). These were granted in combination with a number of supply-side focused programmes driven by the IMF. A third phase of economic reform that had persisted to the present is that of addressing underlying structural constraints and encouraging economic liberalisation. The persistent challenge, however, is to ensure the stabilisation of the macro-economic environment.  

Upon acceding to power, the government established an ambitious reform agenda including investment promotion; external tariff rationalisation; telecommunications, transport, energy and water supply upgrading; employment permit facilitation; land and competition policy improvement; and small and medium enterprise development.

The difficulties posed in trying to reform the economy and simultaneously cut poverty are illustrated by the problems the Muluzi government has faced in its 'cash budget system', whereby each ministry was prevented from spending any more money than had been allocated in the budget. This brought down the budget deficit from double digits to 4.4% of GDP in 1996/97. However, once the finance minister, Aleke Banda, was moved to agriculture and his portfolio taken over by Vice-President Justin Malewezi, the deficit rose steadily to 5.2% in 1997/98, far from its target of 3.8%. Control was once more apparently regained following the appointment of a new finance minister in Dr Cassim Chilumpha in March 1998, though he was replaced in the November 2000 cabinet sacking by Matthews Chikaonda.

As noted, budget stringencies have been made difficult by the rapid depreciation in the value of the kwacha, which has had an upward effect on inflation. Inflation averaged 30% in 2001, which was nevertheless an improvement on the average rate of 44.9% for 2000. The government aims to reach single-digit inflation by 2004.

In December 2000 the IMF announced that it had approved the disbursement

---

of loans totalling $58 million under its Poverty Reduction and Growth Facility (PRGF). These funds are to be disbursed bi-annually over the course of three years, pending the approval of a full Poverty Reduction Strategy Paper (PRSP). Policies to be pursued in 2001 under the IMF initiative include the following commitments:

- not to exceed annual growth in reserve money from 27.6% in June 2001 and 13.8% in December 2001;
- to make free adjustment of interest and exchange rates;
- to maintain fiscal restraints;
- to prioritise spending on the poorest groups in society; and
- to implement ongoing structural reforms more forcefully.

The IMF policies are aimed at generating sustained real GDP growth of 4.5% per annum, keeping inflation down and reducing poverty.

Finally, however, all economic reform programmes would be undermined should the government fail to retain the goodwill and confidence of international donors. A recent Corruption Perception Index released by Transparency International ranked Malawi 12th out of the 18 most corrupt African countries. The widespread accusations of corruption and misallocation of resources place severe strains on relationships with donors. The Malawian government’s purchase of 39 Mercedes ‘S’ class limousines out of the proceeds of a British aid package is but one example of this misuse of scarce resources.25

### Key issues

The following describe the most urgent priorities in Malawi’s economic policy planning:

- the need for fiscal discipline and a sustained reduction in inflation;
- the imperative to move away from episodic ‘boom and bust’ economic policies;
- the need for consistency in macro-economic policies; and
- the implementation of consistent, transparent and effective anti-corruption measures.

---

25 The government subsequently sold these vehicles, although it is unclear who benefited from the sale. See Business in Africa, December 2000/January 2001.
Privatisation

In July 2001, the secretary for privatisation, Charles Msosa, announced that the government had suspended its privatisation programme. Termining the decision a ‘moment of soul searching’, the secretary reflected, ‘We want to look back at what we have done and see whether we are in the right direction.’ This candid announcement comes at the end of a lengthy and convoluted programme that has produced at best mixed results. State-owned enterprises employ some 500,000 people and account for 20% of the country’s total income. Despite a handful of successes to date, the privatisation programme has typically resulted in job losses and indeed the closure of some operations.

Privatisation programmes in Malawi are led by the Malawian Privatisation Commission, which, in turn, is supported and funded by the World Bank. The privatisation programme has been conducted in a relatively transparent and orderly manner, but despite this, the process has been fraught with difficulty. On the one hand there is a government imperative to ease the burden placed on the fiscus by liquidating the debts incurred by parastatals. On the other, there has been some dissatisfaction about the poor return on investment and low profitability of the privatised assets. A third challenge has been the persistent problem of poor corporate governance within parastatals. There have also been accounts of corruption within the state sector. The IMF has expressed deep concern, which has been echoed by British Minister Peter Hain and the British High Commissioner to Malawi. There are reports of civil servants supplementing their incomes through unauthorised activities as well as cases of poor work ethic, ill discipline and lack of productivity. There are a number of reasons for this phenomenon, but perhaps the clearest are poor levels of remuneration and inadequate working conditions. The Anti-Corruption Bureau and the public campaign against corruption and malpractice have both been specific responses to the problem of corruption.

There is also a lack of the managerial skills appropriate to private sector demands within the targeted parastatals. The problem of high levels of debt amongst parastatals is further aggravated by inefficient or ineffective debt collection, resulting in a high level of bad debt. A further impediment to

26 UNIRN as reported in http://allafrica.com/stories/printable/200107280062.
successful privatisation is the lack of capacity amongst parastatals, which in turn, hampers efforts to implement support programmes by donor organisations such as the World Bank.

Of 120 parastatals earmarked for sale, some 32 have been privatised. Privatisation of the parastatals originally proceeded at a steady pace ‘given the not-exactly-frenzied demand for Malawian state assets’. Those privatised include: Sucomna sugar plantation (to South Africa’s Illovo), the National Insurance Company (Old Mutual), and Packaging Industries Limited. Among those being prepared for sale are Air Malawi and the Commercial Bank. Banda’s Press Trust Corporation (PTC), with its 20 subsidiaries and 12 associate companies employing 33,000, and with an annual turnover equivalent to 12% of GDP, is also not immune from the process. In March 1998, 23% of the PTC was floated on the London stock market.

The privatisation of the government telecommunications concern, Malawi Telecoms, has been on hold for some time, although the government has expressed interest in a 30% sale to a strategic investor.

Nevertheless, there are a number of privatisation success stories, most notably that of the railways. To date, privatisation has realised about one billion kwacha for the treasury.27 There is clear evidence that privatisation has slowed recently, owing to a number of factors. First, the most suitable candidates have already undergone privatisation. Second, the remaining entities require further preparation before privatisation, or are more difficult to sell off. The third reason proffered is that there is no ready market, or at best a very limited one for many of the remaining assets. This is particularly the case given the shortage of private capital available locally to purchase equity stakes. Fourth, privatisation has resulted in job losses and consequent social displacement. This is politically and socially sensitive, and highly unpopular. The government has to weigh the benefits of privatisation: it claims that these parastatals are a financial burden to the state, yet the consequent job losses and in some cases closures are strongly opposed and therefore politically costly.

The recent targets for privatisation have been the utility companies. These companies are relatively large and complex organisations which require careful and detailed preparation in order to maximise the value yielded from their sale. There is considerable interest in the Malawian Telecommunications Company from potential private bidders. In a further development, the Malawian Escom has recently concluded a management agreement with South African Eskom, which will help to prepare the former for eventual privatisation. Whilst there has been discussion regarding the privatisation of Malawi Airlines, little progress has been made.

A further target for privatisation is ADMARC. This organisation has extensive involvement in a wide range of parastatal assets and activities, and presents an important challenge for the privatisation programme. Currently the prudence of a partial and selective unbundling of ADMARC as against a full-blown privatisation is being debated. Although no decision has been reached, there is no doubt that the treatment of ADMARC by government will be a litmus test for the whole privatisation programme. Both ADMARC and the Malawian Development Corporation have suffered from financial difficulties and poor management.

The Malawian Investment Privatisation Agency has established a new tax remission scheme, giving relief to investors for 10 years. The criteria set here are the creation of 100 new jobs per investment exceeding $100,000. There is potential for special deals to be structured that fall outside this framework, and this matter is being given attention by both the NEC and the Ministry of Finance.

The Malawian government has also engaged the services of private and professional bodies such as the Malawian Institute of Management and Society of Accountants in order to address matters such as corporate governance and the drafting of mission statements as well as the designing and establishment of performance criteria and charting. Use has been made of international privatisation advisers. Despite these moves, there are reports that there is no market for some of the parastatals earmarked by corporate advisers. This lack of congruence between local market appetite and capacity on the one hand and the companies targeted for privatisation is cause for concern.
Infrastructure

When civil war broke out in Mozambique, the cost of Malawi’s exports and imports was dramatically increased by the interruption of its traditional link to a port through the Nacala rail line connecting Malawi with Mozambique. This forced much traffic to be routed through South Africa and Tanzania, raising insurance and freight costs from 20% in the early 1980s to 40% by the end of the decade. Although this has fallen to 35%, this is still high by international standards. (By comparison, the figure for Brazil is 12%.) The Nacala link was fully operational by 1998, but only 10% of traffic now takes that route, and the Beira line remains closed. Major road construction and rehabilitation is taking place, largely through the support of international donors such as the Japanese government and the European Union (EU), with the African Development Bank providing additional funding.

Other economic development projects are afoot. Malawi’s Posts and Telecommunications Corporation plans to spend $58 million to connect 44,000 new subscribers in the central region’s districts. The corporation plans to replace the analogue exchanges with modern digital equipment, as well as to replace the local cable networks linking customers to exchanges. The corporation is also set to build additional telephone exchanges in the townships of Blantyre, the commercial centre and largest city, with a population of 450,000. Malawi, which has a capacity for 65,000 lines, currently has only 36,000 operational lines, while the rest are reportedly faulty. The country currently requires an estimated 300,000 new lines to overcome problems in its network. The establishment of a second cellular network, Celtel Malawi Ltd, alongside the Malaysian-backed operator Telekom Networks Ltd, will alleviate some of the current congestion in a network, which has 10,000 subscribers. Currently a third cell phone licence is in the offering: this is expected to go to Malawi Telecoms, although a written undertaking has apparently been made to Celtel.

Electricity production by the Malawian Escom is relatively expensive, and stands at three times the cost of power produced by Eskom South Africa. The option of Malawi linking up to the South African and Mozambican grids is being considered. A new Electricity Act allowing for private players in the power sector could also lead to greater power efficiencies, but a shortage of skilled workers in the power generation industry hampers progress.
Malawi has estimated coal reserves of one billion tonnes, of which 20 million tonnes are currently exploitable. The government is investigating the potential of coal in power generation. Renewable energy programmes are also being examined through the National Sustainable and Renewable Energy Programme, but it is not yet clear whether these are likely to produce tangible results.

Although electricity supply is increasing at a steady pace, consumption is extremely low, with only 77,000 domestic consumers. A mere one percent of the rural population has access to electricity. This is being addressed via the Rural Electrification Programme. Whilst a 128 MW hydropower station at Kapichira Fall is under construction in order to meet expected future need, Japanese companies are investigating other hydro-electric sites.

**Foreign and trade relations**

Trade accounts for 74% of GDP. The deficit on the current account balance is $294.6 million, which represents 16.3% of GDP. Total value of exports amounts to $515 million, whilst imports stand at $1,076 million. A summary of major imports and exports is provided below.

<table>
<thead>
<tr>
<th>Major imports</th>
<th>$ (million)</th>
<th>Major exports</th>
<th>$ (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>208</td>
<td>Tobacco</td>
<td>209</td>
</tr>
<tr>
<td>Plant &amp; equip.</td>
<td>76</td>
<td>Tea</td>
<td>35</td>
</tr>
<tr>
<td>Transport eq.</td>
<td>73</td>
<td>Sugar</td>
<td>19</td>
</tr>
<tr>
<td>Commodities</td>
<td>76</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

South Africa remains Malawi’s principal trading partner, taking 16% of Malawi’s total exports (with Germany, the US, the Netherlands, Japan and the UK being the next largest partners), and supplying 43% of Malawi’s total imports in 1999 (followed by Zimbabwe, the UK and Germany). Malawi runs

---

a considerable trade deficit of some $100 million with the Southern African Development Community (SADC) region as a whole, but a slight surplus with the EU. The balance of trade is most favourable with the US, Germany, the Netherlands and Switzerland. The principal trade deficits are run with South Africa and Zimbabwe.

South Africans formed the bulk of the 215,000 tourists who visited the ‘Warm Heart of Africa’ in 2000. Tourism yields approximately $7 million in receipts annually. The government had set a target of increasing tourism numbers from 180,000 per annum in 1995 to 500,000 by 2000. These targets have not been met, partly due to the lack of internal infrastructure and the cost of accommodation.

The value of the tourist sector has, according to the World Bank, declined from $9 million in 1980 to $7 million in 2000, although the number of air-flight departures remained constant during the 1990s, at 4,000 annually. Tourism has also become more difficult since the political change in South Africa (previously the main source of tourism). During the apartheid era, Malawi benefited from being one of the few African countries to accept South African passport holders.

Malawi is a member of both SADC and the Common Market for Eastern and Southern Africa (Comesa). The government had high expectations of the creation of a regional common market in Comesa in October 2000, when nine of its 20 members, including Malawi, decided to join the Free Trade Area (FTA) and the implementation of the SADC FTA. In 1998, Malawi received 11.1% of imports from Comesa and exported 2.3% of its exports to Comesa states. Some reports have suggested dissatisfaction with the Comesa relationship, however, and there has been some debate regarding whether Malawi should withdraw from the community.

Malawi has enjoyed preferential trade access to the EU through the Lomé Convention and its successor, the 2000 Cotonou Convention. It is also a member of the World Trade Organisation’s (WTO) General Agreement on Tariffs and Trade, as well as the Generalised Systems of Preference.

Reflecting its aid dependency and traditional ties, Malawi enjoys good relations with most Western nations. There has, however, been a shift in
emphasis, occurring as a result of the change in presidents. As Vice-President Malewezi has put it: 'We are trying to bring Malawi out of isolation. We are encouraging contact with as many countries as possible. We don’t have any ideological hiccups which prevent us from having cordial relations.'

Malawi maintains diplomatic relations with Israel and Taiwan, both of which supply financial aid. Taiwan’s amounts to around $20 million annually. Although within Southern Africa only Swaziland and Malawi maintain formal ties with Taiwan, there is, according to Vice-President Malewezi, ‘no plan to change this relationship’. Taiwan could be a source for Malawian textile industries encouraged under the US’ Africa Growth and Opportunity Act (AGOA), as is the case with Lesotho and Swaziland.

The Israeli link previously precluded assistance from the Arab bloc, though this is changing. In June 1995, Kuwait pledged $315 million in aid to upgrade irrigation schemes, roads and telecommunications. Mr Muluzi, a Muslim, has also made state visits to Libya and Egypt. In 1997, Prime Minister Mahathir Mohamad of Malaysia paid a visit to the country in a bid to improve economics. In direct contrast to his conservative-minded predecessor, President Muluzi established full diplomatic relations with Cuba in 1997 and with Libya in 1999.

The opening of the Libyan and Norwegian embassies in 1999 brings to 11 the total number of countries represented in Malawi: South Africa, Egypt, Libya, Zambia, Zimbabwe, Mozambique, Taiwan, Norway, Germany, the UK and the US. Neighbouring Tanzania’s mission is accredited from Zambia, which is a leftover of the poor relationship that existed between Banda and Mwalimu Julius Nyerere.

**Manufacturing and industry**

The government is cognisant of the need to boost the manufacturing sector. In the words of the vice-president, 'It is only the private sector that creates

---

29 Interview between Greg Mills and Vice-President Malewezi, Johannesburg, June 2000.
wealth. We need to create conditions conducive to private investment'. In the same vein, the deputy minister of finance commented, 'Although 85% of Malawians produce their own food, crops will not put Malawi on a healthy footing. We need to produce higher value added products.'

The government has recently placed greater emphasis on small and medium enterprises (SMEs) which now number between 240,000 and 600,000 and employ more than a million people. Government support comes in the form of SME support institutions and access to the Government Preferential Purchase Programme. The government has taken the step of establishing the SME Support Fund as well as an Enterprise Development and Employment Creation Programme. These, it is hoped, will go some way towards addressing the high failure rate of SMEs, with more than 35% ceasing operations within a year. Some progress has also been made in the promotion of co-operatives. This is significant in that under the Banda regime, co-operatives were suppressed and their functions assumed under agencies such as the Agricultural and Development and Marketing Corporation (ADMARC). The passage of the 1998 Co-operatives Bill seeks to reinforce these efforts at increased co-operative production.

The Malawian government is preparing to take full advantage of the terms of AGOA. As a less-developed country, Malawi stands to benefit from its provisions, which allow duty-free imports of locally manufactured garments (with imported fabric) into the US. Manufactured exports accounted for just $102 million in 1999, down from a peak of $138 million in 1998. The value added in industry amounted to $288 million in 1999, rising consistently at 1.6% per annum during the 1990s, 3.7% from 1985–89 and 2.7% from 1975–84. The government believes the potential for cotton production is 400,000 kg per annum.

Despite the government's efforts to create conditions supportive of industrial growth, such as the Integrated Trade and Industry Policy, to date such policies have failed to bear much fruit. By 1996 the textile industry had

30 Interview with Vice-President Malewezi, May 2001.

declined to 44% of its 1990 level.\textsuperscript{32} The poultry industry has also collapsed. In addition, some five construction companies are reported to have folded in November 2000.\textsuperscript{33} Attempts to shift economic production from the agricultural to the manufacturing sectors must be seen as a long-term strategy, and again the indicators are not encouraging. The National Economic Council laments, 'The dismal performance of the manufacturing industry in general can be attributed to the lagged effect of the liberalisation process from which Malawian firms have been unable to recover or are painfully doing so.'\textsuperscript{34}

**Investment environment**

Despite its manifold problems, Malawi provides a relatively secure, open and encouraging investment environment, and is attempting to build on its history of pragmatic policies in an effort to encourage domestic and foreign investment. The Investment Promotion Act of 1981 set this train in motion, and was given greater impetus by the passage of the Repeal of the Forfeiture Act in 1992. The Malawi Investment Promotion Agency is the fulcrum for inward investment. Its board comprises directors from the private sector and the parastatal and government sectors. Since political democratisation, Malawi has made good progress in the rollout of an industrial and trade reform programme. This has been manifested in tax reform, elimination of trade licences and the liberalisation of the foreign exchange regime. The Malawian constitution provides security of property rights and prohibits the expropriation of individual property without appropriate compensation.\textsuperscript{35}

In 1998 the government passed the Competition and Fair Trading Act, which seeks to regulate and monitor monopolistic practices, protect consumers and aid the efficient distribution of goods and resources. There is no screening of,

\textsuperscript{32} The NEC reports a 52% recovery in clothing and textile production for 2000.

\textsuperscript{33} Business Day, 29 November 2000.


\textsuperscript{35} Much of the following data is synthesised from the US & Foreign Commercial Service and Department of State Report, *Malawi Investment Climate Statement*, which forms part of the *International Market Insight* series.
nor discrimination against, foreign investment into Malawi. All foreigners are entitled to participate in the privatisation programme, although Malawians are given limited preferential treatment via mechanisms such as discounts on initial public offerings, as well as subsidised loans for acquiring equity stakes. Once initial Malawi Reserve Bank approval has been given, there are no restrictions on the remittance of foreign investment funds including capital, profits, loan repayments or lease repayments, subject to the availability of foreign exchange.

The banking system in Malawi is fundamentally sound and well regulated by the Malawi Reserve Bank. The government has embarked on a programme to liberalise and modernise the financial system, and this is bearing fruit.

The 1990 Capital Market Development Act served to facilitate the broadening and mobilisation of domestic financial resources. Established in 1994, the Malawi Stock Exchange and its operations fall under the aegis of the Companies Act, the Capital Market Development Act and the Capital Market Development Regulations. The attendant accounting regulatory and accounting systems are transparent, and conform to international standards. Stockbrokers Malawi Limited is the single registered stockbroker and, in addition to providing a secondary market in government securities, also trades the shares of Malawi's seven listed companies.

Malawi provides a range of incentives to both local and foreign investors, including tax allowances, tax holidays or reduced corporate tax for new investments, export processing zones, and incentives to exporters of manufactured products. Although visa requirements are not restrictive, employment permits can be problematic. Since 1998 the government has applied guidelines that permit expatriate employment in areas where there is a shortage of suitably qualified Malawians, or where the position holds 'strategic importance'.

Labour

More than half the Malawian population is of working age. Whilst unskilled labour is available in abundance, the country suffers from a shortage of skilled labourers and professionals, including engineers, accountants, economists, lawyers, teachers and health personnel.
Labour relations are governed by the Labour Relations Act (1996). This act permits the free operation of trade unions. Once all dispute settlement procedures have been exhausted, the act provides for the right of registered workers to strike; as well as the right of employers to lock out striking workers. An Industrial Relations Court, established in 1998, has jurisdiction to hear all labour cases. A phenomenon that continues to give cause for concern, however, is the practice of child labour. The ILO has indicted Malawi, and the Malawi Congress of Trade has been particularly critical of this practice on tobacco and tea plantations.

Union numbers are low, partly because only 12% of the labour force works in the formal sector. Again, only 13% of employees in the formal sector are unionised, due to resistance from employers and lack of awareness on the part of employees.

A positive development is that, after broad consultation with stakeholders from some nine sectors of economy, the government has now set in motion the establishment of a National Productivity Centre in order to address the demand for a skilled workforce.

Both the World Bank and the government have also targeted civil service reform as an urgent priority. A broad strategy to tackle the challenge has been drafted. It includes:
- rationalisation of staffing;
- addressing the misallocation and mismanagement of resources;
- reforming and improving policies on remuneration;
- development of skills;
- the strengthening of internal audits and controls;
- rationalisation of overlap and duplication between departments; and
- improvement in budgeting, accounting and information systems.

Despite this strategy, employment in the state sector has shown a slight increase rather than decrease in recent years. The major reason given for this is an increase in teachers, recruited to meet the burgeoning numbers of scholars in primary education.
The legal system

Along with a host of governmental reforms, a process of judicial reform was started in 1994 by the UDF government. Amongst other things, these reforms resulted in the abolition of traditional courts. Malawian jurisprudence is based on English common law. The independence of the judiciary is constitutionally protected, resulting in little governmental interference, but this has not prevented governmental criticism of the courts. The justice system still suffers from a range of entrenched problems. There are substantial allegations of bribery in both civil and criminal cases. In addition, the judicial system is regarded as often cumbersome and inefficient, and labours under a chronic shortage of resources, including qualified professionals. The operation of the Anti-Corruption Bureau in particular is hampered by the slow and inefficient judicial system, thus undermining the government’s avowed desire for improved governance.

Agricultural policy

Malawi has experienced creeping agrarian decline, which in recent years has been exacerbated by rapid soil erosion, deforestation and uneconomic land use patterns. The country remains highly vulnerable to external forces such as drought, but (paradoxically) was hard hit by the floods of 2000 and 2001. Agricultural output is both cyclical and erratic. The quantum of the problem is demonstrated by the fact that in 1998 ADMARC imported over 120,000 tonnes of maize, which it resold at a loss. In 2000, however, Malawi enjoyed a bumper harvest of nearly 2.5 million tonnes. Pressure on the land is exacerbated by population growth and the return of exiles, refugees and former migrant workers.

Rural producers are constrained by myriad factors, including a lack of access to credit, transport and storage facilities. Less than 15% of small producers make use of fertilisers, resulting in relatively low crop yields. A dearth of information systems also blocks access to, and usage of, improved maize production technology. The dangers of food insecurity, land conflict and consequential political fall-out are acute and ever present.

Thus a significant focus for the government has been the development and diversification of agricultural policy. This has been driven by a decrease in the
demand for, and price earned by, Malawi's major crop, tobacco. This was brought about by a shift in Western consumption patterns, strong anti-tobacco lobbies, and lawsuits won and pending against cigarette manufacturers. Although demand for tobacco is increasing in China and the Asian markets, the demand there is for a lower grade tobacco than the burley tobacco produced most widely in Malawi. There have been a number of successes, however, in the production of paprika, groundnuts and chillies. The government has identified the need for agricultural diversity, as well as for the beneficiation of products before export. The vice-president mooted the possibility of cigarette manufacturing as one example.\textsuperscript{36} In addition, agricultural starter packs, comprising seeds and fertilizer, have received widespread support and could provide a boost to the small producer. ADMARC, with the assistance of the British government, the EU and World Bank, has distributed the starter packs to 2.9 million families.\textsuperscript{37}

Investigation is being conducted into the possibility of increasing exports to African and contiguous markets, rather than focusing on overseas exports. An example is the sugar industry (now privatised to the South African Illovo Company) which has successfully adjusted its production to meet both increased local demand and Tanzania's sugar needs. Despite this, however, there has been an overall drop in the export demand for Malawian sugar.

Traditional land-ownership and usage patterns present the major challenge to agricultural development. Policy is currently being formulated to restructure and modernise land ownership and usage. Permitting the private ownership of land will encourage capital formation, the granting of loans against security of land title, and consequently more efficient usage of land for agricultural production.

This programme will be contentious for a number of reasons, not least of which is the important role played by traditional village leaders and tribal chiefs. Another obstacle to reform is the accepted patterns of ancestral transfer

\textsuperscript{36} Interview with Vice-President Justin Malewezi, May 2001.

\textsuperscript{37} National Economic Council: Economic Report 2000, p.33. Concern has been raised by some donor agencies about creating dependency on the starter packs. The political opposition has also criticised their use as a tactic to 'buy' voter support.
of land. Successful implementation of reform will require political will, sensitivity and finesse, while the overall benefits of the policy will have to be intelligently marketed in the rural areas in order to ensure that the rural population co-operate.

Other challenges and target areas are the rehabilitation of the Nacala line, the solving of problems experienced with concessionaires, and addressing the poor condition and insufficient capacity of loading and rolling stock.

**Tourism**

Tourism as an industry has been identified as having the long-term potential to overtake tobacco production as the country’s largest single industry. Whilst tourism holds considerable prospects for Malawi given its array of natural attractions, the industry globally and regionally is highly competitive and presents myriad challenges, both external and internal, for Malawi. The most profound challenge to the tourist industry is the need for regional stability, and this applies most clearly to the deterioration in the political economy of Zimbabwe, which has acute implications for Malawi. Indeed, far from tapping into the global boom in tourism, estimated at an annual rate of some 7.5% per annum for the past 15 years, Malawi’s tourism industry has remained static. The table below illustrates the point.

<table>
<thead>
<tr>
<th>International visitors to Malawi, 1993-1999 (thousands)38</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of international visitors</strong></td>
<td><strong>Percentage growth</strong></td>
</tr>
<tr>
<td>1993</td>
<td>152.7</td>
</tr>
<tr>
<td>1994</td>
<td>162.6</td>
</tr>
<tr>
<td>1995</td>
<td>192.2</td>
</tr>
<tr>
<td>1996</td>
<td>193.6</td>
</tr>
<tr>
<td>1997</td>
<td>206.6</td>
</tr>
<tr>
<td>1998</td>
<td>217.9</td>
</tr>
<tr>
<td>1999</td>
<td>150.0</td>
</tr>
</tbody>
</table>

---

38 National Economic Community (NEC) Economic Report 2000, p.63
Malawian infrastructure, whilst superior in some respects to that of other countries in the region, is not of a standard that is generally acceptable to the discerning and increasingly demanding foreign visitor. The quality and facilities of aircraft landing strips close to popular tourist destinations requires attention. Also, tourists generally seek to fly directly to their holiday destination, which is not always possible for visitors to Malawi.

Malawi has suffered from a drop-off in South African tourist numbers since South Africa's return to the international community, which had the consequence of opening the African continent and indeed the globe to the South African traveller. Also, the sharp depreciation in the South African rand has meant that fewer South Africans can afford to travel. Consequently Malawi tourist authorities need to attract tourists from other countries in the region.

The persistent problem of malaria has not been effectively addressed in Malawi. Besides the debilitating effect of malaria on Malawians themselves, the disease acts as an impediment to tourists, and particularly non-African tourists.

A further impediment to tourism is the high cost of hotel rooms. Hotels in Malawi are owned by Sunbird Hotels, which, in turn, is owned by the Malawi Development Corporation. There is no compelling reason for hotels to be owned by a parastatal. By way of comparison, three- and four-star hotels in South Africa are pitched in the price range of $60 to $150 per night. In contrast, hotel room rates at the Capital Hotel in Lilongwe start at $150 and range up to $330. The price and taxation of Malawian hotels serves to exclude the majority of would-be South African tourists. Also, non-African tourists can find better value for money in the hotels of other regional destinations. Until this matter is addressed Malawi can expect little improvement in its relatively low (38%-40%) occupancy rates. The challenge to improve the tourism sector hinges to a considerable degree on political will. The minister of tourism, Dr Lipenga, acknowledges that considerable investment is required before a return can be expected. The government is working on a master

40 Interviews conducted with Minister Lipenga and departmental officials, May 2001.
plan for the rejuvenation of the tourist industry with the assistance of consultants from the UK.

Key issues

The following are priorities in the tourism industry:

- the need to privatisate hotels, thereby enhancing service and competitiveness;
- the need for integrated infrastructural investment to facilitate tourism; and
- the need for an ambitious, focused, regional and international tourism marketing campaign.

Mining

Malawi is endowed with a range of natural mining resources. Even though the mining sector has shown some encouraging growth in recent years, at present the sector contributes only about one percent of GDP. However, government liberalisation and the repeal of the Forfeiture Act have resulted in a steady increase in mineral exploration. There are extensive (28 million tonnes) deposits of bauxite, some base metals and heavy mineral sands. Coal production stood at 87,000 tonnes in 2001. Cement production has shown a marked increase to 214,000 tonnes from 130,000 tonnes in 1998. This increase can, in part, be ascribed to the privatisation of the Portland Cement Company. Vermiculite, kimberlitic rock and good quality limestone can also be found in Malawi.

Despite these positive indicators, the minister of mining has lamented that potential investors 'make a lot of noise, but fail to deliver'. Whilst there has been extensive mapping of Malawian resources, exploratory mining is expensive and requires private investment. The Malawian government lacks the equipment and indeed the capital to carry out exploratory mining.

The government is currently in the process of drafting the Mining and Minerals Act to make private investment more attractive. Currently licences are granted for 25 years. Whilst royalties are currently negotiable around a benchmark of 10%, there is an acknowledgement that these have to be cut to around one percent.
The key problem confronting the Malawian mining sector is that it is mineral-based and subject to prohibitive freight costs for export. Unlike gold, diamonds and other gem stones, which can be air freighted, minerals can be transported only by rail. Malawi is not competitively positioned relative to other mineral deposits regionally or indeed globally. Prospects for more economic export costs rest on the success of the reconstruction and development of the Nacala corridor rail link.

**Broadcasting and media**

In 1997, Malawi had two televisions per 1,000 people (as compared with the sub-Saharan African average of 196 per 1,000), 256 per 1,000 radios (as against 196 per 1,000 in sub-Saharan Africa), and just 3 per 1,000 telephone mainlines (as against 14 per 1,000 in sub-Saharan Africa). The country established national television in March 1999.

The Malawian Broadcasting Corporation (MBC) is a statutory body that broadcasts in English and Chichewa. Radio set ownership has shown a massive increase from 260,000 in 1980 to 3.3 million in 1998. It is widely reported that the political content of MBC broadcasts is favourable to the ruling party and that access to opposition policy and opinion is curtailed, particularly during election campaigns.

Despite state control of broadcasting, since 1994 there has been a lively Malawian fourth estate (media), which has on occasion expressed criticism of the government. Elements of the Malawian press are notoriously sensationalist, but reported recent crackdowns on the Dispatch newspaper bear testimony both to the independence of some elements of the Malawian press, and the threat to freedom posed by government forces.

**Prospects and challenges**

Vice-President Justin Malewezi in late 1999 highlighted a number of immediate priorities facing his country. In order of importance, these are as follows.

- **Macro-economic stability and poverty alleviation:** through the reduction of the budget deficit, the control of inflation, revenue generation (through more
efficient collection and a broadening of the tax base), and the control of monetary liquidity.

- **Agricultural and food security**: through better marketing, the setting up of credit lines, and 'focused inputs'.
- **Access to healthcare**: through the provision of both 'preventive and promotive' healthcare, with the focus on bringing 'health to the villages not the other way around', and on population control.
- **Infrastructure development**: through strengthening infrastructure, particularly with respect to roads, power generation, water, and telephones.
- **Civic education and democracy**: through the provision of education in civic and political rights to citizens to help change 'the 31 years of one party system which entrenched a culture'.
- **HIV/Aids**: through greater public awareness of the risks and dangers.
- **Internal security**: through a Police Reform Programme to 'change the culture of the police from the MCP-type as an enemy and a threat, to a service'.
- **Tourism and manufacturing development**: through promoting these sectors as a 'second engine of growth'.
- **Transport sector development**: through the involvement of internal and external actors.
- **Privatisation**: through the sale of various parastatals to commercial organisations.

With the exception of the recent suspension of the privatisation programme, Malewezi's policy menu and indeed its ordering, remains the core focus for government policy. The key challenge facing the country, however, is the conversion of these foci into concrete programmes with properly sequenced deliverables.

**Conclusion and considerations**

For Malawi, yesterday is another country, yet its future remains uncertain. The country's political transformation over the past seven years from one of the continent's most authoritarian regimes to that of a constitutional
democracy is remarkable. The Malawian polity now nominally enshrines all the institutional features required for a fully-fledged multiparty democracy. The second democratic election of 1999 saw the country pass a crucial test of its democratic resolve, which was further entrenched by the local government elections of 2000. Whilst severely hampered in their effectiveness, the Malawian courts operate independently. Organs of civil society such as an independent press and trade unions, whilst embryonic, and often sycophantic and effete, nevertheless operate openly. Additionally, both Christian clergy and Islamic clerics have been public and outspoken critics of the government. In terms of social reform, the decision to grant free primary education to all Malawian children was profound, although the unanticipated consequences may be far-reaching.

Despite the avowed commitment to democracy under the Muluzi government, very clear threats to democratic consolidation exist. Indeed, viewed from the perspective of the political opposition, recent events in the country have taken on an uncomfortable resemblance to the strategies and tactics of the Banda regime. In addition, pervasive accusations of high-level financial and political corruption persist. The clearest test of President Muluzi’s commitment to constitutionalism will be whether he makes a clear and unambiguous declaration not to run for a third presidential term.

Thus whilst Malawi is to be encouraged and supported for its tectonic democratic reforms, the country faces deep-rooted challenges, some of which are structural. This has left the Malawian government increasingly perplexed by the fact that the country is yet to see the economic and developmental benefits resulting from its reforms over the past seven years. In addition to the priorities laid out by the vice-president, the following proposals will be crucial to meeting the challenges Malawi faces:

- **Reducing the cost and risk of doing business**, through:
  - removing physical and managerial impediments;
  - creating more efficient transport and infrastructure;
  - reducing the cost of communications and electricity;
  - rooting out corruption and improving transparency; and
  - improving civil service efficiency and financial sector governance.

- **Creating an attractive investment environment**, through:
  - creating a strategic business–government partnership—‘Malawi Inc.’;
removing restrictive practices and deregulation;
• strengthening investment tenure security;
• hastening and deepening privatisation; and
• guaranteeing policy stability and locked-in liberalisation.

• Increasing value-added exports, through:
  • eliminating any anti-export bias;
  • expanding EPZ; and
  • encouraging firms to benefit from AGOA through tax-free incentives, linked issuing of foreign work permits, and free land for factory premises.

• Developing natural resources, through:
  • creating public-private partnerships; and
  • improving agricultural returns.

• Improving skills and human development, through:
  • making concessional educational arrangements;
  • encouraging gender equality and access; and
  • increasing and improving distribution of contraception and access to reproductive health services.

• Stabilising the currency, through:
  • institutionalising a medium-term expenditure framework.

• Reducing the size and increasing the efficiency of the civil service, partly through:
  • Attracting ‘on loan’ foreign expertise.

• Eliminating impediments to tourism, through:
  • improving air links;
  • improving security;
  • relating pricing to the market;
  • improving the efficiency of visa/immigration procedures; and
  • controlling malaria.

• Targeting foreign assistance, through:
  • improving infrastructure;
  • ensuring a stable regional milieu; and
  • encouraging beneficial international relations, particularly from those countries with potential employment-generating investments.
Selected bibliography


About the author

Tim Hughes is the Spanish Government Parliamentary Liaison Officer. He is based in Cape Town and provides a link between SAIIA and the Parliamentary Portfolio Committee on Foreign Affairs. He currently works as a research and training consultant. He has worked on a wide range of research projects and held a number of teaching and lecturing positions.

Mr. Hughes has an MA in Political Studies from the University of Cape Town.
### Select glossary of terms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACRl</td>
<td>African Crisis Response Initiative</td>
</tr>
<tr>
<td>AFORD</td>
<td>Alliance for Democracy</td>
</tr>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
</tr>
<tr>
<td>Comesa</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>EPZ</td>
<td>Export Production Zone</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
</tr>
<tr>
<td>MCP</td>
<td>Malawi Congress Party</td>
</tr>
<tr>
<td>NDA</td>
<td>National Democratic Alliance</td>
</tr>
<tr>
<td>NEC</td>
<td>National Economic Council</td>
</tr>
<tr>
<td>PTC</td>
<td>Press Trust Corporation</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>UDF</td>
<td>United Democratic Front</td>
</tr>
</tbody>
</table>