



Population | 19.6 million

GDP per capita | 642.7 USD

Annual GDP growth | 2.8%

Govt. debt, % of GDP | 34.3%

HDI | .483/1

Capital | Lilongwe

Government | Unitary presidential republic

# MALAWI

## ISE Country Stocktaking

Key Findings, Future Scenarios and Critical Tasks for State Transformation  
June 2022

ISE's country stocktakings present a view of a country to evaluate opportunities for reform during pivotal periods in its development trajectory. Stocktakings diagnose countries' "open moments" and pathways for reform by assessing the performance and capability of various state functions and citizens' view of the state while mapping the various international partners operating in the country and the alignment of key stakeholders around a potential reform agenda. Based on this assessment, ISE lays out the key medium-term issues facing the country, outlines potential scenarios for the future of the country and presents critical tasks that could bring about the best-case scenario.

### The Current Reform Context: A Potential Open Moment

Malawi faces several challenges and constraints, but the country, which has experienced peace and relative political stability since 1994, has the potential for transformation when binding constraints are addressed. The key contextual elements to any future agenda for transformation in Malawi include a weak social compact between the state and citizens built around nutrition programming and maize subsidies; the country's landlocked location and low stock of transport infrastructure; an economic structure built on shock-exposed subsistence agriculture; and a pervasive system of patronage and corruption that hampers attempts at structural reform.

In the near term, the government is tasked with beginning implementation of the first five- and ten-year implementation strategies under Vision 2063, replacing the MGDS III, which expires in 2022—all in the context of the ongoing COVID-19 pandemic, increased effects of climate change and quickly rising levels of public debt. Setting clear priorities for resourcing, program development and implementation within these new plans will be key markers for the government to show it can effectively pursue its new long-term vision. Underpinning the success of this endeavor is the critical "enabler" of reducing patronage and corruption: strong leadership from President Lazarus Chakwera (a former pastor who entered politics only in 2014) to mitigate the effects of existing patronage networks and build a coalition for reform will be key elements that allow the country to seize this potential open moment. However, allegations of nepotism and corruption after assuming office have hampered the government's reform agenda and anti-corruption campaign.

### Performance of Core State Functions in Malawi

The following section provides an assessment of core state functions in Malawi, considering the assets, constraints and opportunities for reform to reach the goals set out in Vision 2063 and meet the current moment for reform.

#### Governance

Malawi's governance system is at a low-state equilibrium: stable but mired in informal rulesets and networks that limit opportunities for reform to improve efficiency and accountability. Despite shifting political structures, the government has remained stable and has been viewed as legitimate since 1994 (and, in most

ways, since independence). Yet, this stability is characterized by competitive clientelism that has been systemic since the rule of Hastings Banda and leads to the domination of informal rulesets and networks within both leadership and the civil service. The government's formal structure is characterized by a strong presidential system that allocates most real decision-making power to the executive ahead of a weak legislature. While there are examples of opposition-dominated parliaments resisting the president, parliamentary opposition weakened under Malawi's first democratically elected administration as opponents were bought off or switched sides. Today, the legislature, which often sits for only 75-100 days each year, has limited power over Cabinet approvals and is rushed through debate over budget approval. The combination of clientelism underpinned by a strong executive and inadequate oversight impedes the uptake of reform that could improve government efficiency, reduce corruption and increase opportunities for feedback and accountability.

Overall governance capacity is largely donor-dependent, and assessments suggest that performance may have worsened in recent years—but a young, technocratic civil service could demonstrate increased future capacity with proper incentives and capacity development. Despite signs that institutional capacity was increasing during the 2000s, the "Cashgate" scandal illustrated underlying weaknesses, including low strategic capacity from government leadership to guide reform plans to completion. The current generation of civil servants is fairly young, increasingly urban-based and often without tertiary education. A relative wage premium in the public sector—in addition to informal payment opportunities—might bring more skilled, young Malawians into the bureaucracy, but the country's wage bill (which is much lower than the regional average of 40 percent of expenditures) may need to be increased to prevent continued donor dependence, which has increasingly fractured the civil service between donor-funded "enclave" ministries aimed at implementing governance reform and other line ministries. The result of this inconsistent governance capacity is a notable implementation gap. While the government has succeeded in developing key strategies and plans, such as Vision 2063, these have largely not translated into programs and policies to deliver on their goals. Key governance issues for Malawi include:

- » Weak (but improving) reformist institutions such as the Anti-Corruption Bureau and Ombudsman and limited capacity in core institutions such as the Ministry of Finance
- » Incentive structures that encourage malfeasance in the

civil service—where actors are faced with a complicated web of debilitating norms that incentivize rent-seeking and patronage network reinforcement

- » Unclear governance roles and structures, especially for the National Assembly, local government actors and civil society, which allows for private and public sector elites to wield outsized influence

## Security

**Malawi has experienced lasting peace, which is a testament to a capable security sector and advantageous location.** Malawi's largely apolitical, professional and civilian-led security sector is an outlier in the region and has successfully prevented conflict while playing a key role in the country's transition to democracy. During key moments in Malawi's history, the military has shown a willingness to protect pro-democracy protestors and, in 2012, prevented a group of cabinet ministers from usurping the presidency. Participation in peacekeeping operations has allowed Malawi to leverage defense relationships with other states. Over 900 Malawian police and military personnel serve in multiple United Nations African missions, including MONUSCO's Force Intervention Brigade (Democratic Republic of Congo), UNMISS (South Sudan) and MINURSO (Western Sahara). In addition, Malawi regularly participates in and hosts trainings with the U.S. and U.K. and was part of the original contingent of troop-contributing countries for the African Union's Mission in Somalia. Despite its experience in peacekeeping, the military's capacity for domestic defense is questionable due to its outdated equipment and small size, which could pose a risk if regional conflicts spill over across Malawi's borders.

**Compared to its African neighbors, citizens in Malawi hold relatively favorable views on their personal security and security institutions, but there is still room for improvement.** This includes further addressing the abuses committed during the Hastings Banda regime to improve citizen trust in institutions and establishing stronger oversight mechanisms for the security services. This includes reforms to the highly centralized police service, which has struggled to meet international use of force and accountability standards after being used as the primary tool of political repression under the authoritarian regime.

Key security issues for Malawi include:

- » A border dispute with Tanzania along Lake Malawi
- » An untested security sector with largely unknown mobilization capacity
- » The risk of spillover conflict from the Democratic Republic of Congo and Mozambique
- » The rising threat of citizen discontent with slow economic development and limited livelihood opportunities.

## Rule of Law

**Malawi's rule of law outperforms its income-group average, and while deficits remain, its reform trajectory presents opportunities for continued strengthening.** International indices score Malawi's rule of law just above the sub-Saharan African average, and it performs well in the areas of human rights protection and judicial independence. The country's judicial independence in particular is an asset, underpinned by a constitution that explicitly grants a right to judicial review and offers citizens a basis to bring suit against the government. While this independence has left the judiciary largely free from perceptions of corruption, jurisprudence and customary

law are often poorly reported or diverge from written law, posing a challenge to establishing precedent and legal clarity. The executive's ability to unilaterally appoint members of the Supreme Court of Appeals and High Court without parliamentary approval (besides the chief justice) and widespread public corruption also illustrate key rule of law weak points. Other than the ballot box, governmental accountability functions and current anti-corruption measures are insufficient. This gap is compensated by civil society and religious organizations playing an important independent oversight role.

**The most significant constraint to the rule of law in Malawi is access to the formal legal system, which often forces citizens to seek justice through traditional tribunals, government ombudsman (where available), and NGO-initiated mediation.** Though mostly seen as trustworthy and legitimate, there are many barriers to access to courts, including prohibitive transportation and lodging costs in rural areas, a lack of translators for proceedings mandated to occur in English, and significant bureaucratic delays. While informal and traditional legal mechanisms offer the promises of swifter justice compared to the courts, they are susceptible to interference, particularly from local elites. Attempts by the government to address these issues through the establishment of local courts have been met with resistance, as many local officials are unwilling to cede power and draw comparisons to the Banda regime's infamous local courts which were used as a tool of oppression. Extrajudicial killings also remain a concern in the country, perhaps driven by concerns regarding the timeliness of formal justice mechanisms, as well as the traditional standard of evidence, which eschews a presumption of innocence. There have been reports that mob violence against perceived instances of witchcraft is on the rise, sometimes endorsed by traditional leaders.

Key rule of law issues for Malawi include:

- » A centralized executive and weak anti-corruption and legal frameworks that undermine improved judicial independence.
- » Significant barriers to access to the formal legal system, with insufficient alternative local and traditional options
- » Legal clarity remains a significant issue, as jurisprudence is generally not effectively communicated and customary legal system practices diverge from formal law
- » Continued extrajudicial killings, despite relatively low levels of crime

**National Accountability Systems: Public Finance** Malawi's accountability, public financial management and anti-corruption systems have shown limited improvement since 1994 and are still in recovery and transition under a period of intense scrutiny after the 2013 "Cashgate" scandal. Frequent reform programs—including the Public Finance and Economic Management Reform Program (2011-2018) and PFM Rolling Plan (2018-2021)—target technical improvements to public financial management but often ignore the "human factors" that underpin accountability constraints within the public sector. However, President Chakwera's administration has overseen several corruption-related firings, investigations and arrests of members of his own cabinet. The appointment of respected anti-corruption lawyer and former Ombudsman Martha Chizuma as the head of the Anti-Corruption Bureau (ACB) has also bolstered the capacity of the central anti-corruption reform organization.

**Despite these commitments and strategies, public finance systems and processes have been slowed by inconsistent donor financing, limited implementation capacity and misalignment with broader government priorities.** Reforms have also suffered from weak institutional arrangements and limited incentives for compliance. Specific areas of concern are the misalignment of fiscal policy with national service delivery and development commitments, lack of public access to financial data and reporting, and an ineffective cash management system that is prone to error and corruption. Malawi's National Audit Office could also be bolstered through improved capacity and separation from executive purview to serve as a stronger pillar of independent oversight.

Key public financial management issues for Malawi include:

- » Disconnect between public finance, fiscal, and anticorruption strategies and larger national development, economic and service delivery priorities
- » Limited implementation capacity to make good on accountability promises, despite strong anti-corruption messaging from the government
- » Limited reporting on and public access to key budget and financial information, which constrains the monitoring and evaluation of public decision-making
- » A poor cash management system that is prone to corruption (exemplified by the "Cashgate" scandal), which leads to poor accounting and mismanagement of arrears

## Asset Management

**Malawi has a substantial stock of assets, but it has not yet been able to harness these to generate investment and significant economic growth.** Mismanagement during various periods has also further reduced this stock. Improving overall governance and strategic decision-making around asset use is a key priority for the country's development, especially strategies that explore regional synergies for harnessing assets in sectors like tourism, transportation and hospitality.

**Recent reforms around environmental protection and land tenure provide a break from a past.** This includes land reforms in 2016 that boost tenure security and investment in land stewardship, a National Charcoal Strategy that promotes alternative fuel sources to reduce forest degradation and the 2017 Environmental Management Act that seeks to improve inter-ministerial coordination of asset management. Improved management structures are critical to Malawi's long-term prosperity as it faces increasing environmental degradation. Driven by rampant population growth and the effects of climate change land degradation is widespread, the country has lost over half of its forests and woodlands in the last 40 years and its biodiversity is severely endangered. Land reform, which was a central driver of the referendum for multi-party rule in 1994, is of particular concern in Malawi, where over 80 percent of households are reliant on agriculture for their income. Access to land via customary tenure is impeded by large "estates" first acquired through the alienation of customary land by Europeans during the colonial era and later by the political elite under the Banda regime. New laws that convert customary land ownership to private ownership could prove transformational for Malawi, but high fees required for formal land titles and limited protections against government expropriation remain barriers to progress.

**Malawi has significant internationally recognized cultural assets**

**that could be further defined, protected and promoted.** Malawi exhibits a rich and diverse cultural heritage, exemplified by national monuments, museums and cultural celebrations including music, arts and traditional dancing. Its cultural assets are deeply tied to the Bantu people, yet, Malawi has been hesitant to actively promote tribal history and culture for fear of encouraging inter-tribal conflict. Generally, the development of tangible and intangible cultural links has been poorly maintained by the government until the last two decades. However, recent improvements to cultural asset management and several UNESCO site designations have bolstered Malawi's tourism sector, which represents 24 percent of its GDP and, since 1996, has grown twice as fast as the overall economy.

Key public asset management issues for Malawi include:

- » Identifying, harnessing and sustainably managing natural and cultural assets
- » Implementing critical environmental reforms to prevent further land degradation and ecological damage
- » Continuing to leverage and market a diverse cultural asset base, building on success in the tourism sector
- » Taking a regional approach to asset management to encourage easier cross-border regional tourism, infrastructure, transit and hospitality markets in southern Africa

## Market Engagement

**Malawi's market building approach centers on agricultural commercialization, industrialization and growth of the mining sector through private investment.** The country's most recent development plans prioritize increasing agricultural productivity, mechanization and diversification as well as the industrialization of mining through public-private partnerships (PPPs). Underpinning these overarching goals are strategies that include climate insurance schemes for smallholder farmers, improving the land tenure system, increasing land under irrigation, establishing tax incentives (and guarantees) for investors, developing export processing and special economic zones, and rail development along the Nacala and Beira Corridors to ports in Mozambique. Since taking office in 2020, the Chakwera administration has moved fast to build relationships with Southern Africa Development Community (SADC) and African neighbors by joining the African Continental Free Trade Agreement (ACFTA) and developing economic memorandums of understanding with South Africa and Mozambique. Before the pandemic, Malawi's relative stability underpinned some modest economic growth and development, with an average GDP growth of 4.2 percent between 2010 and 2019. However, lockdowns during the pandemic led to a decline in overall production and employment, even though most Malawians rely on subsistence agriculture for income. Malawi's landlocked geographic nature and high domestic transportation costs also impede economic development, as the country is highly reliant on imports and most firms are poorly integrated into regional value chains.

**The state has played and continues to play a major role in the Malawian economy, which has failed to transform structurally from agriculture.** Following independence in 1964, the Malawian government played an active role in supporting large-scale estate farming. While this investment helped spur modest GDP growth from 1964-1979, it led to an undiversified economy heavily reliant on state-supported agriculture and agro-manufacturing. Poorly

sequenced and implemented liberalization reforms, alongside rising population growth, led to a difficult and slow economic transition to the services sector, which now accounts for 50 percent of Malawi's GDP. Compounding this problem is a lack of crop diversification—combined with the limited adoption of modern technology, overreliance on rain-fed agriculture and declining soil fertility—which has led to relatively low levels of agricultural productivity and increased the sector's vulnerability to weather-related shocks. Repeated interventions by the government to address interventions have meant that the state has acted as a major purchaser and seller of agricultural goods and services, distorting prices and constraining incentives for improving productivity or crop diversification. State interventions in the agricultural sector have also created extensive opportunities for political patronage, especially through non-transparent targeting, pricing and procurement.

**Malawi's private sector is defined by small, young businesses, particularly in the informal and agricultural sectors, and is hampered by the outsized influence of state-owned firms.** There are few opportunities for formal, wage- or salary-paying jobs, with an estimated 400,000 Malawians entering the job force each year and the economy not keeping pace with job creation. Productive firm development is hampered in part by the large market presence of inefficient and politically backed state-owned enterprises (SOEs)—which are a clear cog in Malawi's patronage networks. Most SOEs have limited transparency and enjoy de facto advantages (e.g., tax concessions, preferential access to land, etc.) over their private competitors. Mismanagement is frequently pointed out in two of Malawi's most important SOEs: the Agricultural Development and Marketing Corporation, ADMARC, which was bailed out in 2018, and the Electricity Supply Corporation of Malawi Limited, ESCOM. There are no current plans to privatize any SOEs, but the government has begun to offer PPPs for concessions in some market sectors—though it is unclear if this will improve market competition more broadly.

**Another key barrier to a stronger private sector is the lack of consistent foreign investment in Malawi.** In part, this is the result of the country's relatively small domestic market, minimal purchasing power, and historically challenging business environment. However, before the pandemic, there were promising signs that foreign investment was increasing, including Ethiopia's investment in Malawi's national airline and a large joint venture with European development partners to manufacture green building materials.

Key market engagement issues for Malawi include:

- » Continuing to strengthen the basic macroeconomic, fiscal and monetary environment, which is key to bringing regional and foreign investment into the market
- » Determining the proper role of the state in the market and improving the management and performance of SOEs
- » Increasing the size of the formal market through the continued negotiation of free trade agreements, improved technologies and practices to boost agriculture productivity across the value chain, and improving the enabling environment for businesses

## Infrastructure

**Malawi is facing a large infrastructure financing gap that will likely hinder growth in the medium term if not addressed through reforms that attract private and foreign investment.** Despite

the government highlighting infrastructure development as a key element of the Malawi Growth and Development Strategy (MGDS) III, public investment in Malawi (around 4.2 percent since 1998) has been lower than in other low-income countries in the sub-Saharan African region. The level of public investment has also fluctuated considerably from year to year, reaching 8.4 percent of GDP in 2007 before dropping to 3.8 percent of GDP in 2009. The result has been inconsistent service delivery. Access to affordable drinking water remains a key issue even in urban areas and around 12 percent of the population has access to reliable electricity. Catalyzing the long-term finance market for infrastructure and making well-thought-out choices in the use of public finance is even more important now in light of the COVID-19 crisis, as pressure on public resources is at an all-time high.

**The government has placed a large emphasis on private sector-led development in the Vision 2063 plan, including for infrastructure—but it will need to improve the environment for investment as well as the capacity of the government to manage infrastructure investments to meet its long-term goals.** This means that only the most viable and well-managed projects are likely to attract financing. Significant reforms in multiple governance areas will be key to driving investment in Malawi. Unfortunately, the reform agenda currently lacks a clear champion, leading to a fragmented response. There have been green shoots, with several large public-private partnerships (PPPs) across the education, energy and water sectors in the works. This includes the 350-megawatt Mpatamanga Hydropower Project, a new renewable energy strategy and solar generation supported by USAID and the World Bank and rehabilitation of the Nacala Corridor to ports in Mozambique. However, further investments and progress are needed in the energy sector—current generation capacity is at 441 MW while demand is estimated to be 529 MW—and in water and sanitation management, where unclear mandates and ineffective regulation have resulted in highly variable access depending on the season and reliance on donor funding.

**Overall infrastructure management capacity within the government is relatively low.** While public investment management laws and systems are relatively robust, their overall implementation is poor. Capacity building and support are still required across the whole project lifecycle: project preparation, costing, evaluation and risk assessment, project appraisal and selection and project monitoring and evaluation, including data collection. Due to these constraints, private sector projects and PPPs will likely remain reliant on multilaterals donors for co-financing or guarantees in the medium term.

Key infrastructure issues for Malawi include:

- » Improving institutional capacity to identify, finance, implement and manage a pipeline of bankable infrastructure projects
- » Catalyzing a long-term market for infrastructure investment to bridge the current financing gap
- » Expanding access to and improving the reliability of key public services, especially water, sanitation, and electricity, which are vital for economic growth and development

## Human Capital

**Malawi has a young, rapidly growing population, which will have a significant impact on the delivery of services for human capital development.** From 2000 to 2020, the population grew at an

average rate of 2.7 percent, and this rate is projected to double by 2038. The country's youth account for 51 percent of the population and this share is projected to grow to 55 percent by 2030. Experts suggest that Malawi's significant population growth will impact the effective delivery of human capital-related services, particularly with regard to the distribution of resources, the availability of high-quality teaching staff, school capacity to enroll students and access to quality healthcare, particularly in remote rural areas. Despite labor force growth, the country considers unemployment a significant issue, which is linked to limited human capital development to compete in the market. As of 2017, 20.4 percent of the population was unemployed. Drivers of this issue are tied distinctly to gaps in education that hinder individuals from competing successfully for jobs in the non-subsistence agricultural market. For example, the low primary completion rate in 2014 (51 percent) in addition to the modest transition rate to secondary in 2017 (16 percent) suggest that Malawian students are not gaining foundational skills in core subjects, which translates to a lack of opportunities in the labor force. The National Education Sector Investment Plan (NESIP) 2020-2030 is the primary vehicle outlining the pathway to human capital development and strategic change in the education sector, focusing on improvements to both the formal education system as well as vocational training and adult literacy. However, there remains a \$2.1 billion financing gap that Malawi must address to fully fund the plan.

**In the case of health and nutrition, priority policy commitments outlined in the 1994 constitution have translated into key health focus areas over the past two decades—with significant gains.**

There have been gains in nutrition and food security, reducing HIV/AIDS rates, and addressing malaria. Nutrition and hunger-reduction and policy have largely been driven by maize subsidies which, while successful, come at a high cost to the government. Reforms to the wider healthcare system have focused on localizing services, but there are significant regional disparities in access to and investment in healthcare, similar to other public services in Malawi. While spending on health as a percentage of GDP is high (11.4 percent), total spending per person amounts to only \$93, and this will need to be increased (and distributed more equitably) to overcome remaining constraints around health facility readiness and provider training.

Key human capital issues for Malawi include:

- » Aligning school curricula to the skills needed for the labor market to expand employment opportunities beyond subsistence agriculture
- » Building on successes in the public health sector by improving the quality and equity of healthcare service delivery
- » Effectively financing the National Education Sector Investment Plan 2020-2030, in coordination with international partners, while adapting the strategy to changing market needs as the country advances out of low-income status

## Citizenship & Social Policy

**As set out in its constitution, Malawi's primary approach to social policy since the end of the Hastings Banda regime in 1994 has been the provision of nutrition and health services—but this approach has had a limited impact on reducing poverty, improving equity or enhancing civic engagement.** Although Malawi has made strong gains in reducing hunger and improving nutrition, poverty remains high. The share of Malawians who live on less than \$1.90

per day has decreased by only 4 percent since the early 2000s, and Malawi has the second-lowest GDP per capita of all countries. In response to stagnant poverty reduction, recent national planning documents have indicated a shift in Malawian social policy, away from nutrition and food security to agricultural productivity and self-reliance. The government has begun to consider new mechanisms for the delivery of citizenship rights in its Malawi 2063 plan, such as through the promotion of industrialization and agricultural commercialization. The Chakwera administration has paired these overarching economic goals with promised minimum wage increases, funds for small farmers and businesses and better service access for marginalized groups, especially women.

**Malawi has not made gains in its constitutional policy commitments to empower women and reduce discrimination, which offers a further explanation for stagnant poverty reduction.**

The country suffers from persistent gender discrimination in terms of access to employment, property rights and inheritance, nutrition, food security and education. Customary practices inhibit women's ownership of property in rural areas, and female-headed households are more likely to be impoverished and resilient to income shocks. Discrimination extends beyond women to children (42 percent of whom are married before 18 and 40 percent of whom are engaged in labor, both in violation of the law); persons with albinism; non-Christians; and queer individuals.

**Furthermore, despite the constitution's protections of political rights and civic engagement, longstanding distrust of the state and high poverty rates have limited social mobilization and public participation.**

While local government representation is a clear opportunity to solicit citizen feedback, Malawi's decentralization strategy largely frames public participation in terms of in-kind support for development, not discussions on citizens' priorities. Protests are strikingly rare in Malawi, despite significant dissatisfaction with the government. This is likely because of both demand-side issues for public participation (e.g., limited civic education, Banda-era distrust of the state and below-average digital connectivity) as well as supply-side issues like low budget and policy transparency, restrictions on CSO activity and limited protection of political rights during electoral cycles. Engrained cultures of self-censorship and, at times, harassment of active protestors and civil society organizations by the government, also curb opportunities for broadening civic engagement.

Key citizenship and social policy issues for Malawi include:

- » Tackling stagnant poverty reduction via strategies and programs that go beyond basic health and nutrition services
- » Addressing both formal and societal barriers to civic engagement and citizen participation
- » Reducing discriminatory practices, especially against women, and expanding economic, social and political opportunities for vulnerable and minority populations

## Disaster Resilience

**Malawi is susceptible to droughts, flooding, landslides, and earthquakes, which are exacerbated by the effects of climate change.** While the most impacted are the central and southern regions of the country, an average of 1.5 million people are affected by droughts across the country. Malawi's strong dependence on agriculture—with 80 percent of employment linked to the sector—makes the country and economy vulnerable to natural disasters,

particularly flooding and drought, which ruin livelihoods and have contributed to severe food crises in 2005, 2012 and 2016. Vulnerability to natural disasters combined with small farm sizes, volatile rainfall and restricted access to agricultural technologies makes food insecurity caused by disasters a particular challenge in Malawi. Food shortages during flooding or drought are often difficult to offset due to the high import prices caused by a poor road network and landlocked geography. Moreover, Malawi's disaster risk is expected to increase as a large proportion of the population lives in vulnerable areas and climate change continues to exacerbate the frequency and severity of natural disasters. Malawi ranks 163 on the Notre Dame Global Adaptation Initiative (GAIN) matrix indicating medium to high vulnerability and low readiness.

**Disaster preparedness and resilience in Malawi is under the jurisdiction of the Department of Disaster Management Affairs (DODMA) and is guided by the National Resilience Strategy 2018-2030, which focuses on “Breaking the Cycle of Food Insecurity in Malawi.** The pillars supporting these aims include transforming the agricultural sector; scaling up climate-resilient infrastructure and enhancing adaptation; sustainably reducing the number of chronically food-insecure households and stunted children; expanding public, private and community partnerships to safeguard natural assets; strengthening government capacity for disaster response; and empowering women.

Key disaster resilience issues for Malawi include:

- » Investing in improved technologies and systems to increase the resilience of the agriculture sector, which is particularly vulnerable to disaster and climate shocks
- » Understanding the related impacts of human capital, market development and disaster resilience to limit the increasing effects of climate change
- » Developing targeted social protection schemes to address the continued challenge of widespread food insecurity following disasters

## Key Medium-Term Issues for Malawi

**Based on ISE's assessment of the performance and capabilities of core state functions, there is a set of key issues and trends that Malawi and its partners will need to address in the medium term.** Driven by these issues, there are five potential trends that the country will likely face in the coming years. These key issues and trends—provided below—are key to understanding possible futures in Malawi.

- 1. Slow but stabilizing economic gains undermined by global crises.** In recent years, underpinned by a stable political and security environment, Malawi has begun to see some progress in the eradication of extreme poverty and experienced a surge in foreign private investment. Aftereffects of the COVID-19 pandemic and crisis in Ukraine—with their effect on domestic markets, food prices and investment opportunities—could derail this progress, exacerbating the economy's structural inefficiencies and the impact of drought-flood cycles on rainfed agriculture. Going backward at this stage in its development would have a devastating impact on the country.
- 2. Institutional and accountability reform is limited within the context of informal rule sets and networks.** Despite public sector reform programs and presidential campaign promises to stamp out corruption, governance and accountability

reform programs have not succeeded because of the power of Malawi's pervasive patronage networks and informal rule sets in both the public and private sectors—but especially in the civil service. Current institutional arrangements do not limit the power of these networks and rule sets, making the government less effective and accountable to citizens. Taking on reforms to reconfigure governance structures and incentives would be transformative for Malawi, and the Chakwera administration's stated commitment to reform the executive's unmitigated control over the state makes these reforms more likely than ever before.

- 3. Weak supply and demand for public participation and oversight.** Social mobilization is strikingly rare in Malawi, despite significant dissatisfaction with the state and limited optimism about the future of the country. Given these public perceptions, it is unclear why there is not greater citizen mobilization or calls for state accountability. Improving citizen access to public decision-making and budgets while building citizen trust through accountable delivery and oversight will be key to the objectives of Vision 2063.
- 4. Challenging location for economic gains, especially at Malawi's stage of development.** Being landlocked and exposed to variable weather causes a multitude of difficulties for Malawi's development: global market access is expensive, and the undiversified agricultural sector is exposed to constant shock—leading to the country's large trade deficits and limited comparative advantages in most product areas. Compounding these challenges is the early stage of the country's infrastructure and human capital development, which does not prepare it to compete regionally or globally and achieve growth. While policy innovations exist to lessen the effect of these constraints for considerable impact (e.g., leaning into regional integration, investing heavily in irrigation, expanding digital access, etc.), commitment to strategic market reform and available financing need to be increased to resolve this issue.
- 5. Inconsistent foreign financing and support despite the real need for investment.** Overcoming Malawi's stagnant market performance requires significant investments in physical and human capital (including, for example, at least \$2.5 billion in energy infrastructure). Because the country has been unable to address these needs through public finance, it will likely need to rely on foreign donors and private financing. However, due to the country's long history of economic mismanagement and economic scandals (notably, the 2013 “Cashgate” scandal), donors have expressed little trust in the state, providing inconsistent financing in recent years; and the government has not proven its capability managing private investments and partnerships.
- 6. Regional and gender disparities in service delivery.** Basic service delivery in Malawi is limited: as indicated by the World Bank's Human Capital Index, a child born in Malawi will only reach 41 percent of their full potential. These returns vary by region, with stark differences in investment in education infrastructure by region, both because of historical trends in investment during the colonial era as well as the effects of regional patronage networks today. Access to services and to market opportunities are worse for women, as gender inequality affects agricultural productivity, opportunities in non-agricultural sectors and access to human capital services. Addressing these inequalities—via political incentives and governance arrangements, reformed legal frameworks and expanded social protection programming—will be a key driver for Malawi's growth.

## Scenarios for the Malawi of the Future

The prevailing issues above and actions taken by local actors drive various potential futures for Malawi, with the potential for sustainable long-term growth or decay of recent gains. The state's performance against the key issues and trends identified above can provide a set of warning signs that trigger the medium-term outlook present in the three following scenarios:

- » **Status Quo:** Slow but stable development, where the state does not have a clear operational strategy reform (despite the purported uptake of Vision 2063), corruption undermines growth and citizens are not invited to take part substantially in public decision-making
- » **Worst Case:** Gains over the past two decades are reversed, as the country is challenged by global crises and the increasing effects of climate change—with the state and its partners unable and unwilling to commit to reforms needed for economic transformation and public participation
- » **Best Case:** Institutional and policy reforms lead to increased and inclusive investment and participation in line with Vision 2063, as new governance structures and incentives right-size the role of the state in the economy and create policies and programs that deliver to citizens and help Malawi position itself as a destination for regional and global investment

## Key Opportunities and Critical Tasks

Malawi's Vision 2063 presents an opportunity for the country to undergo significant transformation in the coming decades but will need to address a set of critical tasks to reach the best-case scenario outlined above. The country will have to tackle the longstanding and compounding effects of poor economic management, vast networks of patronage, a difficult location and exposure to external shocks to diversify the market and create a more resilient, inclusive and fast-growing economy and state that delivers to its people. In addition to the general mission outlined in Vision 2063, critical tasks to take on this challenge are outlined below.

### Strengthening governance structures and incentives through institutional reform

Malawi should embrace the opportunity to transform governance systems by adjusting informal rulesets in the executive while reallocating formal decision rights to actors that can provide further avenues for public participation and accountability. Driven by pervasive patronage networks and informal rule sets in the public and private sectors, Malawi has persistently remained stuck in a political economy trap that creates an environment for weak institutions and endemic corruption. The country's institutions are characterized by a dominant executive, competitive clientelism and ethnic fragmentation. If the Chakwera administration can set out a new public sector reform agenda and align actors around it, it may be able to spur the "mindset change" noted as a key enabler of Vision 2063. Malawi should also develop a unified policy and program architecture for Vision 2063 to underpin the implementation of its plans and minimize the fragmentation in the landscape of aid-driven projects—which tend to be well-coordinated in the health sector (34 percent of donor spending in 2022) but more fragmented across other sectors given limited policy guidance from government—and carefully prioritize and sequence those reform actions over time. Realigning fiscal policy to deliver on an inclusive and participatory social and economic compact

To achieve the goals of Vision 2063, Malawi will need to develop a new social compact built around productive public investment, protection and service delivery to fuel the economy—not only social protection of the extreme poor and populist subsidy programs. The current social compact between the state and citizens in Malawi is built around reducing food insecurity and supporting subsistence agriculture-based livelihoods through maize subsidies. While this approach has led to substantial decreases in the prevalence of extreme poverty in Malawi, it is likely formulated around populist decision-making informed by a political commitment to patronage systems instead of evidence-based and citizen-driven fiscal policy—and will not provide the transformation envisioned in Vision 2063. The state should, in collaboration with citizens, devise a new fiscal policy stance that accountably delivers on the country's long-term objectives. A new, sustainable and inclusive fiscal policy will likely center around right-sizing the role of the state in the market by reducing the influence of parastatals, fiscally irresponsible maize subsidy programs and government price setting that distort the market; freeing fiscal space to improve soil fertility and irrigation; increasing smallhold farmers' access to land; equitably delivering investments for human capital development; and expanding social protection systems that support those exposed to economic shocks.

**Underpinning an inclusive and sustainable fiscal policy, the state should undertake key reforms to improve the performance and capabilities of its national accountability systems to deliver transparently to citizens.** Malawi's development has long been undermined by recurrent corruption scandals stemming from the weakness of public financial management (PFM) systems. To deliver on a new social compact, the country will need to reform the incentive structures within governance institutions while continuing its PFM reform agenda that started after the 2013 "Cashgate" scandal. Key objectives of this agenda should include improving reporting structures and making the budget more accountable to citizens, developing the capacity of the Cash Management Unit and treasury functions and strengthening the independence of oversight institutions (e.g., the National Audit Office, the Ombudsman, etc.).

### Setting a clear economic strategy built on investment, inclusion and integration

As envisioned in its long-term development plan, Malawi's economy of the future will be built on increased public and private investment, inclusion of previously marginalized groups and regional integration. Vision 2063 centers on three pillars for economic development—agricultural productivity and commercialization, industrialization (and mining) and urbanization—but Malawi still needs to develop a robust economic strategy framework to address the country's binding constraints and provide a platform for the alignment of public, private and donor financing. This framework should include an overarching productivity and competition strategy, industrial policy and sub-sector strategies to highlight market clusters with regional and global comparative advantages. All of these strategies and policies should be built around leveraging investment linked to clear national assets; regional integration within the Southern African Development Community (SADC) through cross-border infrastructure, tourism and trade partnerships; and gender-based and regional inclusion driven by continued land reform and targeted investments in human capital infrastructure.

## Preparing Malawi for climate change through social protection and resilience

**Given its significant exposure to natural shocks, Malawi will need to design innovative financing, protection and local governance schemes to protect natural assets and the livelihoods of its people.** The state is aware of the devastating effects that flood-drought cycles and the increasing impacts of climate change have on agricultural and poverty outcomes: Vision 2063 sets out specific objectives for promoting climate-smart and resilient agriculture, introducing targeted crop insurance and enhancing the capacity of the government to finance social protection programming. In addition to these goals, the government should consider how to expand and make more shock-sensitive its largest protection programs (i.e., the Social Cash Transfer Programme, SCTP) to support those most vulnerable to climate change—in addition to those affected by historical inequities. At the same time, the government could consider new strategies to combat increasing soil erosion and deforestation, potentially through further deconcentration of disaster resilience responsibilities and resource management to local governments. Jointly protecting people, environment and economic opportunity is key to building a robust Malawian economy resilient to the increasing effects of a changing climate.

## Accessing new financing models for Vision 2063 by repairing relationships with partners

**To achieve the critical tasks above that call for enhanced investment for climate resilience, social protection and economic growth, Malawi will need to repair its tarnished relationship with development partners.** Years of scandals—from the 2013 “Cashgate” scandal to more recent economic misreporting to the IMF in 2019—and the regionally biased use of development assistance for political and patronage aims have discouraged donors from investing heavily in Malawi or contributing significantly to Vision 2063. Given its small resourcing base and budgeting constraints, the state will not be able to finance the investments necessary to take it to upper-middle income status by 2063 on its own; greater support by international development and private partners is needed. Repaired relationships with key development actors—notably the IMF, which in June 2022 set conditions for a new economic program and Credit Facility—could act as a signal for other donors and private investors that Malawi is again safe for investment. Achieving this task will require that the government take on the above critical tasks to strengthen governance, reduce the influence of existing patronage networks and manage public finances accountably and sustainably, as these are key requirements of development partners.

## Delivering Transformation During Malawi’s Open Moment

**Recent gains before the COVID-19 pandemic point to opportunities for growth in Malawi, and Vision 2063 sets the foundation for a potential open moment of transformation—but the country will still need to address its binding governance and accountability constraints to achieve its goals.** This report sets out the key issues and prevailing trends in Malawi before laying out a range of scenarios that the country could face in the coming years. To reach the best-case scenario as outlined in Vision 2063, Malawi will have to leverage the current moment to deliver on a set of critical tasks. This will require strong political commitment by the Chakwera administration and other key stakeholders within and outside of government—not only to the goals of Vision 2063 but also to the

principles of policy-driven and citizen-centered governance. With a committed and principled approach, the government and its partners can set out well-sequenced and prioritized strategies to deliver on its vision. Setting clear priorities for resourcing, project development and implementation within these new plans in coordination with development partners and in a way that equitably invests in communities across the country will be key markers for the government to show it can effectively pursue its new long-term vision and may set the stage for an open moment of transformation in Malawi.