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**The enabling environment for
sustainable enterprises in Malawi**

Maria Sabrina De Gobbi
with contributions from Rose Anang (The Bureau for Employers' Activities)

Small
Enterprise
Programme

Job Creation
and Enterprise
Development
Department

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community. The integrated approach to do this was further reaffirmed by the 2010 Resolution concerning the recurrent discussion on employment.²

In order to support member States and the social partners to reach this goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations and elaborations of this integrated approach and related challenges are contained in a number of key documents: in those explaining the concept of decent work,³ in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda and, as applied to crisis response, in the Global Jobs Pact adopted by the 2009 ILC in the aftermath of the 2008 global economic crisis.

The Employment Sector is fully engaged in supporting countries placing employment at the centre of their economic and social policies, using these complementary frameworks, and is doing so through a large range of technical support and capacity building activities, policy advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.



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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See http://www.ilo.org/public/libdoc/ilo/2010/110B09_108_engl.pdf

³ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

⁴ See <http://www.ilo.org/employment/employment>.

Foreword

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. The conclusions of this discussion provided an important contribution agreed by the ILO's tripartite constituency of governments, employers' and workers' organizations on how to promote enterprise development in a manner that aligns enterprise growth with sustainable development objectives and the creation of productive employment and decent work. The conclusions called for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report analyses how Malawi performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in the country. The report incorporates the results of a national opinion or perceptions survey conducted in the country in June and July 2012.

The report is designed to stimulate debate and to provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in Malawi. In particular, the report has been used to identify priority areas of policy reform to support the dialogue, advocacy and public policy work of the social partners in the country. A complementary action plan based on the findings of this report will ensure the implementation of specific measures aimed to improve the enabling environment for sustainable enterprises in Malawi.

The present report has greatly benefited from inputs from tripartite participants to three national workshops held in May, July and December 2012, respectively, and from in-depth interviews and focus group discussions organized in July 2012.

The Employers' Consultative Association of Malawi (ECAM) ought to be thanked for helping to facilitate the implementation of activities since their inception. The contributions of the ILO Lusaka Office during the entire implementation process of the assessment of an enabling environment for sustainable enterprises in Malawi is very much appreciated. Special appreciation is also due to Mr. David Gómez and Ms. Analee Pepper for their invaluable research assistance and to Ms. Analee Pepper and Ms. Annie Guyon for editing and formatting this report. The authors are grateful to Mr. Farid Hegazy, Mr. Mario Berrios, Mr. Charles Nangwale, and Ms. Christine Evans-Klock for their useful comments. The final reviewers of this paper, representing ECAM, the Ministry of Industry and Trade, and the Malawi Entrepreneurs Development Institute (MEDI) ought to be sincerely thanked for their excellent work.

The views expressed in the report are the sole responsibility of the authors and do not represent those of the ILO or the social partners in Malawi. Similarly, any errors or omissions are the sole responsibility of the authors.

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Abbreviations and acronyms

ADB	African Development Bank
BESTAP	Business Environment Strengthening Technical Assistance Project
CIESIN	Center for International Earth Science Information Network
COMATU	Congress of Malawi Trade Unions
CORDAID	Catholic Organisation for Relief and Development Aid
DSG	Directorate Registrar General
DWCP	Decent Work Country Programme (ILO)
EBA	Everything But Arms (European Union Initiative)
ECAM	Employers' Consultative Association of Malawi
FAO	Food and Agriculture Organization
FSTAP	Financial Sector Technical Assistance Project
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IEA	International Energy Agency
ILC	International Labour Conference
ILO	International Labour Organization
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
ITU	International Telecommunication Union
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MCTU	Malawi Congress of Trade Unions
MDRI	Multilateral Debt Relief Initiative
MEDI	Malawi Entrepreneurs Development Institute
MGDS	Malawi Growth and Development Strategy
MSME	Micro, Small and Medium Enterprises
OECD	Organisation for Economic Co-operation and Development
OSH	Occupational Safety and Health
SADC	Southern African Development Community
SME	Small and Medium Enterprises
TEVET	Technical, Entrepreneurial, Vocational Education and Training System
TEVETA	Technical, Entrepreneurial, Vocational Education and Training Authority
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNSD	United Nations Statistics Division
WEF	World Economic Forum
WHO	World Health Organization

Executive summary

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. This calls for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion identified 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report is based on these conclusions. It analyses how the country performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in Malawi. The assessment described in this report is based on secondary data, a literature review, focus group discussions and in-depth interviews with relevant national stakeholders, and technical inputs provided by representatives of tripartite stakeholders during three technical workshops held in Lilongwe between May and December 2012. It also takes into account the results of a perceptions survey conducted in Malawi in June and July 2012 and which was also based on the 17 pillars.

Political elements

Malawi is a peaceful country. During a period of political tension, the then president, Professor Bingu wa Mutharika, passed away and in April 2012, Mrs. Joyce Banda became president of the country. Following which, several significant reforms were introduced and positive relations with donors were re-established. Half of the respondents of the EESE perception survey commissioned by the ILO in Malawi think there is political will and support for the formation and growth of sustainable enterprises in the country. In the area of good governance Malawi is rather weak, though its neighbour countries Mozambique, Tanzania and Zambia do not perform any better. Corruption is a major problem.

Despite scanty data, the EESE assessment reveals that social dialogue in Malawi is more vibrant and developed than in Mozambique and Tanzania, and similar to that of Zambia. There is space for improving the effectiveness of social dialogue mechanisms and for strengthening workers' and employers' organizations. Close to half (49.8 per cent) of the respondents of the EESE survey think that the Government promotes tripartite social dialogue and utilizes the process in policy decision-making to a limited extent. Concerning the respect of universal human rights and international labour standards, Malawi has ratified 7 of the 9 main human rights conventions and all 8 ILO core conventions on freedom of association and collective bargaining, the abolition of child labour, forced labour, and all forms of discrimination. However, child labour remains widespread, particularly in rural areas. Respondents of the EESE survey largely share the view that human rights are “sometimes respected” (about 40 per cent) or “usually respected” (28.7 per cent) in the country.

Economic elements

Malawi is one of the poorest countries in the world, ranking 171 out of 187 in the 2011 UNDP Human Development Report. Its economy is dominated by subsistence agriculture and largely depends on external aid. Malawi Growth and Development Strategies (MGDSs) seek to transform Malawi from a consuming and importing country to a producing and exporting one. The MGDS II (2011/12-2015/16) aims to achieve poverty reduction through sustained economic growth and infrastructure development. In 2011, Malawi's economic growth slowed reaching 4.51 per cent, the lowest level of GDP growth

since 2006. This is still higher than the Sub-Saharan Africa average of 4.2 per cent in 2011. Information on the employment situation in Malawi is very scanty due to the large size of the informal economy. It was estimated that in 2010 only 8 to 10 per cent of the labour force was employed in the formal sector. According to ILO data, the labour force participation rate in the country has been decreasing since 2005. It was 83.2 per cent in that year and decreased to 82.6 per cent by 2010. The EESE survey reveals that company tax rates are an issue for respondents from micro, small and medium-size enterprises more than for those from large companies.

Malawi's growth is expected to be export-led and the new Government will support private sector led growth and export diversification. Export diversification is important for the Malawi economy in order to decrease reliance on key exports, including tobacco and sugar, and thereby decrease international market vulnerability. It is to be noted that import and export costs in Malawi are high.

Malawi does not perform well in the area of a legal and regulatory framework conducive to business creation and growth. Considering the Ease of Doing Business Index, the country has worsened from 2008 to 2012, moving from 127 to 157 in a ranking from 1 to 185. Malawi performs worse in this respect than Mozambique, Tanzania and Zambia. The EESE perception survey conducted in Malawi indicates that interviewees think the regulatory environment is rather favourable for running large companies, and unfavourable for running small firms. Moreover, the majority of respondents believe that registration costs encourage informality. One factor favouring informality is that entrepreneurs must physically go to the only existing business registration centre in the country in Blantyre to register their businesses. An option that is being explored to improve the present situation is online registration through district-level centres.

The situation in terms of rule of law and secure property rights is rather negative and similar to that of other neighbour countries. Traditional and cultural norms often prevail over the rule of law. The EESE survey reveals that commercial law is perceived as not adequately implemented for settling commercial disputes. It is however to be noted that the Commercial Division of the High Court has been fully operational and is hearing commercial cases on a full-time basis. The EESE survey also indicates that the capacity of the police to protect businesses from criminal behaviour is perceived mainly as low or very low. Physical property rights are considered to be well defined, but not well protected by law. Intellectual property protection is weak in the country and this seems to be an issue particularly for the youth.

Malawi is one of the few countries in Southern and Eastern Africa that has adopted a competition law, and it is one of the few countries in the world with a comprehensive competition policy. Nonetheless, the indicators considered reveal that monopolies and cartel behaviours still prevail in sectors such as electricity, water, local air travel, finance, telecommunication and agriculture. The majority of respondents of the EESE survey feel that competition policy and legislation in the country are sometimes effective to ineffective.

Despite the relatively negative picture that the various indicators considered disclose, Malawi is one of the regional leaders in information and communication technologies. The main challenge regarding ICTs seems to be reducing the cost of services in order to make them widely accessible. Respondents of the EESE perception survey assess information and telecommunication in their country in relatively positive terms, but believe that it is very difficult to impossible for small enterprises to afford ICT for their businesses.

Financial services are largely inaccessible to Malawians mainly due to high interest rates, lack of competition among financial institutions, and poor information on potential borrowers which discourages lending. The EESE survey indicates that the general

emerging perception is that it is more difficult for small businesses to get credit compared to large firms. Furthermore, although reliable sources of information clearly show it is more difficult for women to obtain loans compared to men, over 45 per cent of respondents of the EESE survey believe that women and men have equal access to financial services.

Regarding physical infrastructure in Malawi, secondary and primary data is sometimes conflicting. While secondary data is encouraging, particularly in areas such as paved roads and access to water, the majority of respondents of the EESE survey think that roads and access to water are satisfactory to poor. However, Malawi performs particularly well in the percentage of population with access to improved water sources and is one of the few African countries to have already reached the Millennium Development target for water. From an institutional perspective, Malawi is one of the most advanced Sub-Saharan African countries in the power sector, but unreliable power supply remains an issue, mainly because of underpricing. In addition, both primary and secondary data reveal that railways and air transport require improvements.

Social elements

Promoting an entrepreneurial culture is key to increase awareness of the potential of business as an alternative to waged employment in government or the private sector. Not much information is available on entrepreneurial culture in Malawi. It seems that in the country there is a prevalent culture that does not recognize the value of entrepreneurial activity. Gaps that exist in developing entrepreneurship in Malawi include business support services (mentoring, business advisory services, etc.) and entrepreneurial skills. The EESE survey reveals that almost half of respondents believe that the attitude of the youth towards entrepreneurship is “positive” or “very positive”.

Malawi maintains levels of Public Spending on Education similar to world means. Considering the literacy rate for youth aged 15-24, the country outperforms Mozambique, Tanzania and Zambia and achieves levels that surpass the world mean. In 2009, 86.46 per cent of Malawian youth could read and write. However, the Malawian educational system has certain weaknesses including high drop-out rates, particularly for girls, poorly equipped schools, a shortage of learning materials, high failure rates, and few and poorly trained teachers. There is a persistent and large gender gap in secondary and higher education, with substantially lower proportions of female students compared to males. At tertiary level institutions however, this gender gap has been declining in recent years. Many young people choose informal apprenticeship to formal training because it seems to offer a greater likelihood of securing a job upon completion of training. The EESE survey shows that Malawians have a positive perception of their education and training system; 55.3 per cent of respondents feel that the tertiary and vocational education in Malawi meets some of the existing needs of the business community, and 30.3 per cent find that it meets most needs.

In the area of social justice and social inclusion, Malawi has achieved significant results in poverty reduction. Over the period 2004-08, the proportion of the poor decreased from 52 per cent to 40 per cent. However, progress towards gender equality has been slow due to the existing discrepancy between formal and customary law in the country. In 2 of the 4 existing tribes in Malawi women tend to be marginalized, and despite some traditional practices favouring women, the majority of land is inherited, owned and operated by men. In general, women are less educated than men which lowers their employment prospects. Gender gaps disappear however, among highly educated individuals with university degrees. Regarding employment opportunities, the EESE survey reveals that 49 per cent of female interviewees and 29 per cent of males think that men are favoured over women.

It seems that the development of social protection policy has largely been a donor-driven process in Malawi. The country has no occupational safety and health policy. However, considerable progress has been made in reducing the spread of HIV/AIDS. A large share of respondents of the EESE survey (43 per cent) believe that OSH practices are not very well sensitized and implemented by enterprises in the country.

Environmental elements

Despite the great importance of the environment in Malawi, environmental degradation is a serious issue in the country. Over the past two decades, a strong policy and legal framework for safeguarding the environment has been developed. However, enforcement of these acts and policies is weak. The EESE survey reveals that for 40.4 per cent of interviewees environmental issues are a concern for the business community, but they are not addressed. When it comes to assessing environmental legislation, for 60 per cent of respondents it exists, but is poorly implemented.

Assessment results and ways forward

The final results of the assessment of the enabling environment for sustainable enterprises in Malawi indicate that there is scope for improving the situation in all of the 17 conditions. In order to maximize the impact of future actions, tripartite participants to the validation workshop on the preliminary findings of the EESE assessment identified 3 priority conditions out of 17:

- entrepreneurial culture;
- enabling legal and regulatory environment; and
- education, training and lifelong learning.

At the December 2012 workshop, tripartite participants drafted an action plan based on these 3 conditions with specific outputs stemming from outcomes linked to priority areas and key players for action. The action plan will be finalized and adopted at a dissemination workshop to be held in March 2013 in the presence of high-level policy makers.

1. Introduction

The important role that the private sector plays in social and economic development led the International Labour Conference to discuss the concept of sustainable enterprises in June 2007. The promotion of sustainable enterprises ensures that human, financial and natural resources are combined equitably. An environment conducive to the creation and growth of enterprises on a sustainable basis must take into account the three dimensions of sustainable development – economic, social and environmental – as interdependent and mutually reinforcing pillars.

The 2007 International Labour Conference adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work.

The very same conclusions invite the ILO to focus its interventions on practical responses, including tools, methodologies and knowledge sharing, which are relevant to the social partners in their activities. This is why the ILO has developed a methodology to assess the degree to which the 17 conditions for an enabling environment for sustainable enterprises are met in different countries. This report describes the implementation of such an assessment in Malawi and is part of a series of country reports on the same topic. The report covers the political, economic, social, and environmental situation of the enabling business environment in Malawi. The political area comprises 4 of the 17 conditions, the economic includes 8, the social 4, and the environmental dimension consists of 1 condition.

An assessment of the enabling environment for sustainable enterprises in Malawi meets the existing need in the country to implement policies and strategies for national development. The main goal of the Malawi Growth and Development Strategy (MGDS) is to create wealth and reduce poverty through sustainable economic growth and infrastructure development. MGDS II, which covers the period 2011-16, explicitly recognizes employment as a key element in achieving sustainable economic growth. To contribute to the achievement of such a goal, the Government of Malawi has drafted a National Employment and Labour Policy that is currently under discussion for final adoption. Among the priority action areas of the National Employment and Labour Policies are "Private Sector Development and Job Creation" with the creation of a conducive environment for enterprise development, and "Micro, Small and Medium Enterprise Development" with the formalization of informal firms.⁵ Moreover, the Government of Malawi has drafted a Micro, Small and Medium Enterprises (MSME) Policy Strategy for the Republic of Malawi.⁶ The EESE assessment described herein clearly contributes to the implementation of all these national policy documents.

This EESE assessment falls under the ILO Decent Work Country Programme (DWCP) 2011-16, which supports the Malawian Government national policies and development strategies by prioritizing the creation of more and better employment and income generation opportunities in the country. Another priority area of the DWCP 2011-16 is to improve the capacity and service delivery of the social partners in representing their members in policy

⁵ Government of the Republic of Malawi. 2011. National employment and Labour Policy (draft). Ministry of Labour.

⁶ Ministry of Industry and Trade. 2012a. Micro, Small and Medium Enterprises (MSME) Policy Strategy for the Republic of Malawi - Enabling Enterprise Growth in Malawi - 2012-2017. Draft August 2012 (Lilongwe).

dialogue at different levels. The EESE assessment described herein has started a policy dialogue where the social partners, led by ECAM, are supported by the ILO in taking a proactive role.⁷ In fact, the EESE assessment has been conducted upon the request of ECAM.

The enabling environment for sustainable enterprises in Malawi was assessed through a careful review of secondary data, findings from a national perception survey of workers and employers (including owners and managers of companies), in-depth interviews and focus group discussions with relevant stakeholders in the country, and supplementary information from published and unpublished materials. The perception survey was conducted in June and July 2012 by Dr. Richard Mussa and a team of recent graduate students.⁸

A total of 150 enterprises were sampled, 58 per cent of which were formal. There were 303 respondents, 68 per cent of whom were men. For 58 per cent of the sampled enterprises, workers, managers and owners were available to be interviewed. Of all respondents, 120 were workers, 81 managers and 102 company owners. Unionized respondents were in total only 18 per cent, 6.7 per cent of whom could be found in informal firms and 26.2 per cent in formal enterprises. About 57 per cent of female respondents were found in informal enterprises, whereas the corresponding proportion of male interviewees was only about 35 per cent. Data were also disaggregated by age and size of the surveyed businesses.⁹ The majority of surveyed enterprises, 52.6 per cent, have been operational for 6 years or more, while 15.2 per cent were start-ups with 0-2 years of operations. The remainder falls under the third category grouping of enterprises that have been operational for 3-5 years. As far as the size of surveyed firms is concerned, the majority of them, 41.7 per cent, were micro enterprises employing 0-4 persons, and 34 per cent were small enterprises with 5-20 employees. Large enterprises with over 100 employees were only 5.8 per cent and the remainder was medium-sized companies with 21-100 employees. About 74 per cent of informal firms were micro businesses, and the share of informal enterprises was higher in the category of start-ups. To allow for identifying possible regional differences, the survey was conducted in 4 cities/areas: Blantyre, Lilongwe, Mzuzu, and Zomba.

This report also benefited from inputs and detailed comments received at three technical tripartite workshops (consultative, inception and validation workshops respectively) held in May, July and December 2012 in Lilongwe.

⁷ International Labour Organization; Employers Consultative Association of Malawi; Malawi Congress of Trade Unions. 2011. Malawi Decent Work Country Programme, M-DWCP 2011-2016. Accessed on 20 June 2012, available at:
<http://www.ilo.org/public/english/bureau/program/dwcp/download/malawi.pdf>

⁸ Dr. Richard Mussa is a professor at the Economics Department of Chancellor College, University of Malawi.

⁹ The definitions used for grouping enterprises by size and age are in line with those of the draft MSME policy for Malawi.

2. Political elements

2.1. Peace and political stability

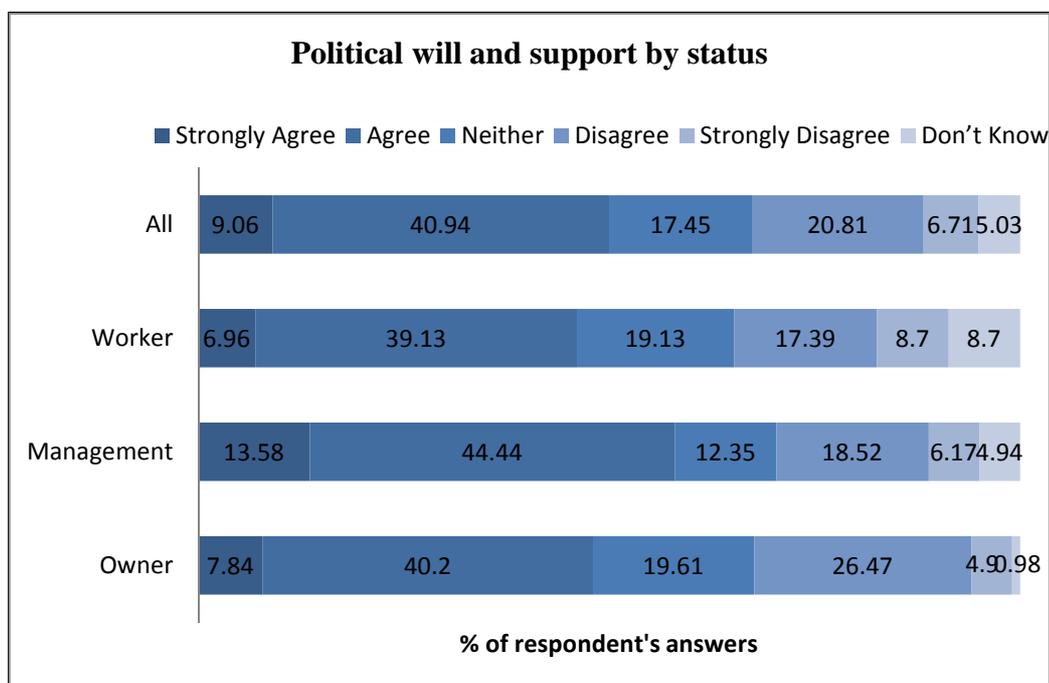
Peace and political stability are key conditions for the creation and development of sustainable enterprises. Malawi is a peaceful country. It gained political independence from Great Britain in 1964 and became a republic two years later. From 1964 to 1994 it was under single party leadership and as of 1971, the president was given absolute powers. A multiparty system of government was introduced in 1994 when general political elections were held. Since then, Malawi has had a democratic government with a multiparty Parliament. By 1995 the country had a new republican constitution.¹⁰ In 2004, Professor Bingu wa Mutharika was elected as president of the country and in 2009 he was re-elected. During his second mandate, he became more authoritarian, autocratic and intolerant of criticism. At the same time, donors suspended financial support and local discontent increased mainly due to electricity cuts, fuel shortages, unemployment, corruption, and restrictions on political freedoms. During a protest in July 2011, 19 people were killed by the security forces. Professor Mutharika died in April 2012 and Malawi's former vice-president, Mrs. Joyce Banda, gained power. Since then the political outlook of the country has improved considerably. Upon taking office, Mrs. Joyce Banda promptly introduced several significant reforms and re-established positive relations with donors who have since resumed their financial support to the country.¹¹

The recent phase of political tension that Malawi experienced resulted in a level of current account balance as a percentage of GDP around 0, which means that the share of domestic investments financed through foreigners' savings was low (see section 3.1). The periodically unstable political situation in Malawi has also led to low foreign direct investment flows, as can be observed in section 3.2. A poor economy like that of Malawi requires large investment flows from donors or foreign private investors in order to foster the development of enterprises, including through public investments in services and infrastructure. This is why peace and political stability are important for sustainable enterprises in Malawi.

Half of the respondents of the EESE perception survey commissioned by the ILO in Malawi think that in the country there is political will and support for the formation and growth of sustainable enterprises. Some 41 per cent of respondents agree with this idea and 9 per cent strongly agree. Interestingly, managers share this view in higher proportions (58 per cent) than workers and owners.

¹⁰ Tsoka, M. 2006. Competition Regime in Malawi. Country Paper prepared for the 2nd National reference group on competition regime in Malawi study. Malawi Economic Justice Network, Centre for Social Research, University of Malawi; study and advocacy supported by Consumer Unity Trust Society (CUTS). Accessed on 22 June 2012, available at: http://www.cuts-international.org/7up3/Malawi_CRR.pdf

¹¹ Economist Intelligence Unit. 2012b. Malawi Country Report. August 2012 (London). Accessed on 7 August 2012, available at: http://country.eiu.com/FileHandler.ashx?issue_id=589126843&mode=pdf



Source: EESE Survey Malawi, 2012.

Data on “Political Stability and Absence of Violence” assesses countries' political stability on a scale from -2.5 to 2.5 where higher values correspond to better performance. Considering this data, Malawi does not perform very well over time, remaining at values around 0 over the period 2006-11, and reaching a negative value in this latter year. None of the three neighbouring countries used for comparison performed as poorly as Malawi in 2011.

Key Indicator

Political Stability and Absence of Violence/Terrorism		2006	2007	2008	2009	2010	2011
The likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism. Source: World Bank, Governance Matters database. ¹²	Malawi	0.11	0.06	-0.06	0.05	0.06	-0.07
	Mozambique	0.52	0.34	0.37	0.56	0.33	0.27
	Tanzania	-0.32	-0.35	-0.20	0.06	-0.03	-0.01
	Zambia	0.36	0.35	0.46	0.56	0.49	0.47
		Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.					

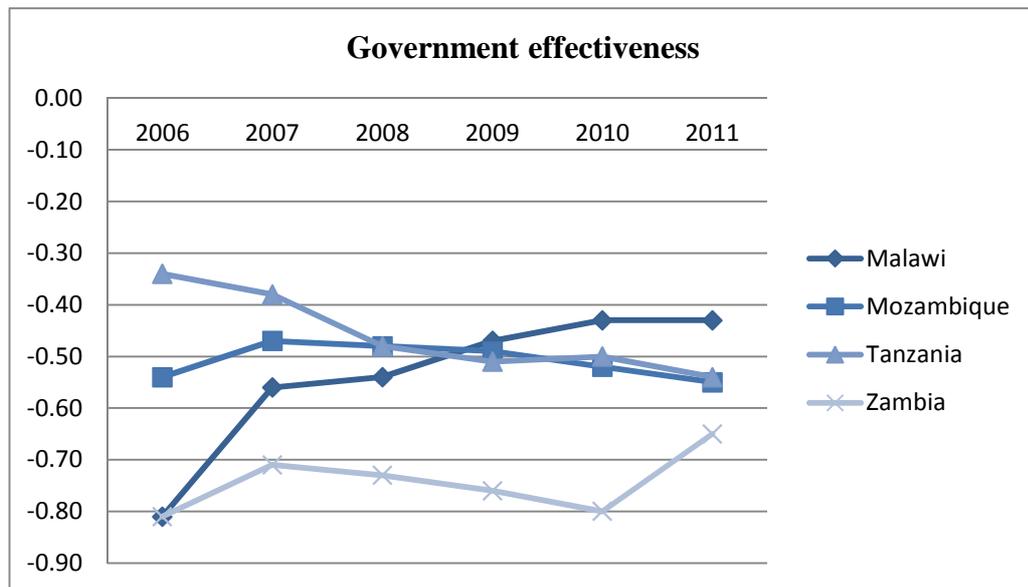
2.2. Good governance

Good governance, the absence of corruption and efficient institutions foster entrepreneurship and promote private sector growth and development. In general, Malawi does not perform well in this area. "Control of Corruption" measures the extent to which public power is exercised for private gain and the extent to which the state is captured by elites and private interests. On a scale from -2.5 and 2.5, where higher values reflect better

¹² <http://info.worldbank.org/governance/wgi/>

performance, over the period 2006-11, Malawi has maintained relatively stable, negative levels reaching only -0.39 in 2011. Its three neighbouring countries used for comparison do not perform any better. The Corruption Perceptions Index confirms this emerging, negative picture. On a scale from 0 (“highly corrupt”) to 10 (“highly clean”), Malawi has slightly improved since 2006, but nonetheless recorded a value of only 3.7 in 2012. Of its three neighbouring countries, only Zambia performs similarly to Malawi, whereas Mozambique and Tanzania record lower values in the same year.

“Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government's commitment to such policies. In a range of values from -2.5 to 2.5 with higher values indicating better performance, Malawi maintains values below 0 over the period 2006-11. Again, its three neighbouring countries used for comparison do not perform any better in this regard.



Source: World Bank, Governance Matters database.

“Voice and Accountability” measures the extent to which citizens participate in selecting their government, as well as freedom of expression, freedom of association and a free media. Similar to Mozambique, Tanzania and Zambia, Malawi maintains levels below 0 over the period 2006-11, on a scale from -2.5 to 2.5 with higher values indicating better governance.

Key Indicators

Control of corruption		2006	2007	2008	2009	2010	2011	
<p>The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.</p> <p><u>Source:</u> World Bank, Governance Matters database¹³.</p>	Malawi	-0.54	-0.54	-0.43	-0.39	-0.43	-0.39	
	Mozambique	-0.60	-0.50	-0.48	-0.41	-0.39	-0.41	
	Tanzania	-0.22	-0.34	-0.42	-0.44	-0.52	-0.52	
	Zambia	-0.73	-0.57	-0.47	-0.54	-0.58	-0.51	
<p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>								
Corruption Perception Index (CPI)		2006	2007	2008	2009	2010	2011	2012
<p>The Transparency International CPI measures the perceived levels of public sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.</p> <p><u>Source:</u> Transparency International.¹⁴</p>	Malawi	2.7	2.7	2.8	3.3	3.4	3.0	3.7
	Mozambique	2.8	2.8	2.6	2.5	2.7	2.7	3.1
	Tanzania	2.9	3.2	3.0	2.6	2.7	3.0	3.5
	Zambia	2.6	2.6	2.8	3.0	3.0	3.2	3.7
<p>The scores are on a scale from 0 (highly corrupt) to 10 (highly clean). * In 2012, Transparency International changed the CPI scale from 0-10 to 0-100. In the interest of comparison, the numbers reflected here for 2012 are thus altered, where the original score given is divided by 10.</p>								
Government effectiveness		2006	2007	2008	2009	2010	2011	
<p>The quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.</p> <p><u>Source:</u> World Bank, Governance Matters database.¹⁵</p>	Malawi	-0.81	-0.56	-0.54	-0.47	-0.43	-0.43	
	Mozambique	-0.54	-0.47	-0.48	-0.49	-0.52	-0.55	
	Tanzania	-0.34	-0.38	-0.48	-0.51	-0.50	-0.54	
	Zambia	-0.81	-0.71	-0.73	-0.76	-0.80	-0.65	
<p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>								
Voice and accountability		2006	2007	2008	2009	2010	2011	
<p>The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media.</p> <p><u>Source:</u> World Bank, Governance Matters database.¹⁶</p>	Malawi	-0.25	-0.27	-0.25	-0.16	-0.21	-0.26	
	Mozambique	-0.08	-0.07	-0.07	-0.09	-0.09	-0.15	
	Tanzania	-0.20	-0.14	-0.18	-0.13	-0.11	-0.11	
	Zambia	-0.22	-0.22	-0.18	-0.32	-0.26	-0.20	
<p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>								

¹³ <http://info.worldbank.org/governance/wgi/index.asp>

¹⁴ http://www.transparency.org/policy_research/surveys_indices/cpi

¹⁵ <http://info.worldbank.org/governance/wgi/index.asp>

¹⁶ Ibid.

Other Useful Indicators

Political Rights Index		2010	2011	2012	2013
The Political Rights Index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government. Source: Freedom House, The Freedom in the World Survey. ¹⁷	Malawi	3	3	3	3
	Mozambique	4	4	4	4
	Tanzania	4	3	3	3
	Zambia	3	3	3	3
Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.					

Civil Liberties Index		2010	2011	2012	2013
The Civil Liberties index measures freedom of expression, assembly, association, and religion. Source: Freedom House, The Freedom in the World Survey. ¹⁸	Malawi	4	4	4	4
	Mozambique	3	3	3	3
	Tanzania	3	3	3	3
	Zambia	4	4	4	4
Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.					

In 2011, certain repressive legislation was passed that allowed the Minister of Information to ban publications deemed contrary to the public interest¹⁹, and prevented Malawians from obtaining injunctions *ex parte* against Government whilst Government could still obtain *ex parte* injunctions against other persons.²⁰ The media could not therefore operate freely and independently, and citizens could not be adequately protected by law. Freedom of expression was challenged, especially in the universities and wherever critical views were expressed against the Government. During this period, several human rights activists received death threats, journalists reporting on political events in the country were arrested and independent radio stations were forbidden to report on protests.²¹ Since April 2012, the situation has improved, political freedoms have increased, and popular trust in state institutions is being fostered.²²

The perception survey commissioned by the ILO reveals that about 32 per cent of interviewees feel that citizens have and enjoy the freedom to create or join labour organizations to a “high” (19.2 per cent) or “very high” (12.9 per cent) degree. An almost

¹⁷ <http://www.freedomhouse.org/>

¹⁸ Ibid.

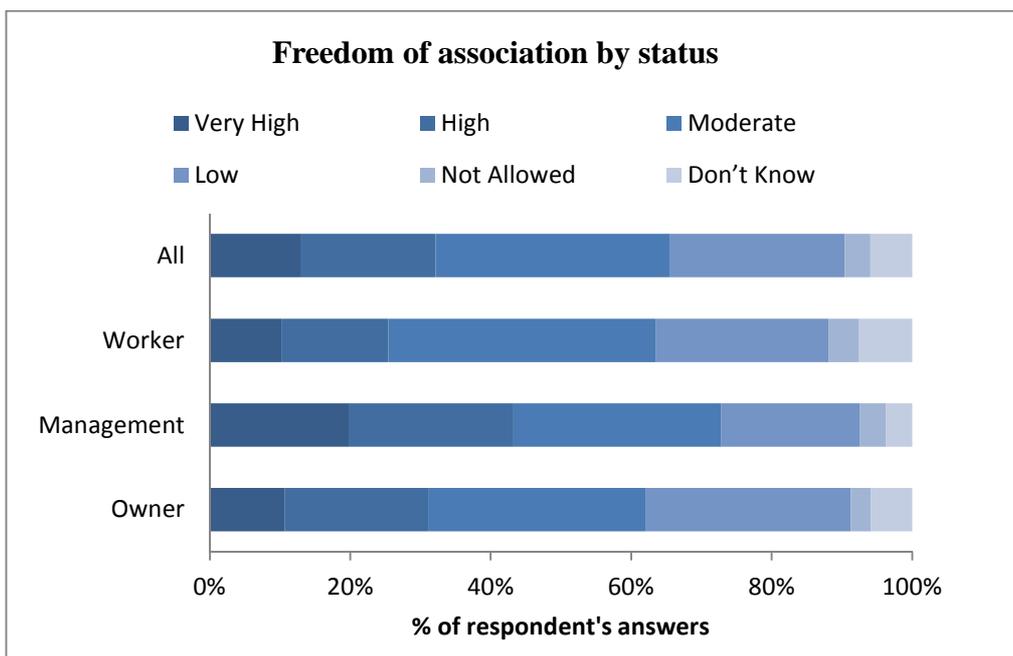
¹⁹ Human Rights Watch. 2012. Country Summary Malawi, January 2012. Accessed on 20 June 2012, available at: http://www.hrw.org/sites/default/files/related_material/malawi_2012.pdf

²⁰ Input provided at a tripartite technical workshop held in December 2012 in Lilongwe for the validation of this report.

²¹ Human Rights Watch. 2012.

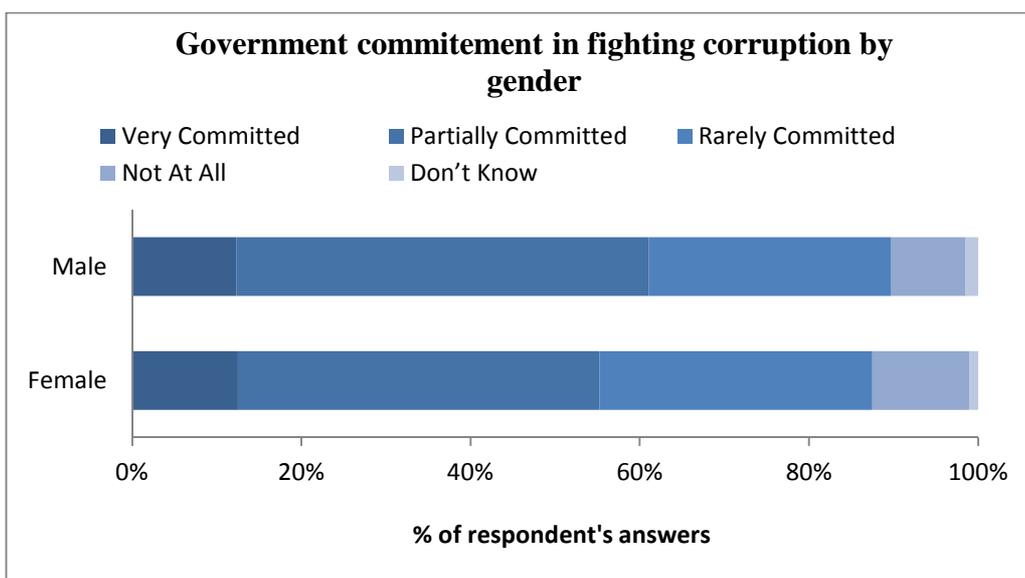
²² Economist Intelligence Unit. 2012c. Malawi, Country Report, December 2012 (London). Accessed on 10 December 2012, available at: http://country.eiu.com/FileHandler.ashx?issue_id=1859921170&mode=pdf

equal share of respondents (33.4 per cent) thinks that the same right is moderately enjoyed. Managers have more positive views than workers and owners, with 43.2 per cent of them stating that citizens have and enjoy the freedom to create or join labour organizations at a “high” or “very high” level.



Source: EESE Survey Malawi, 2012.

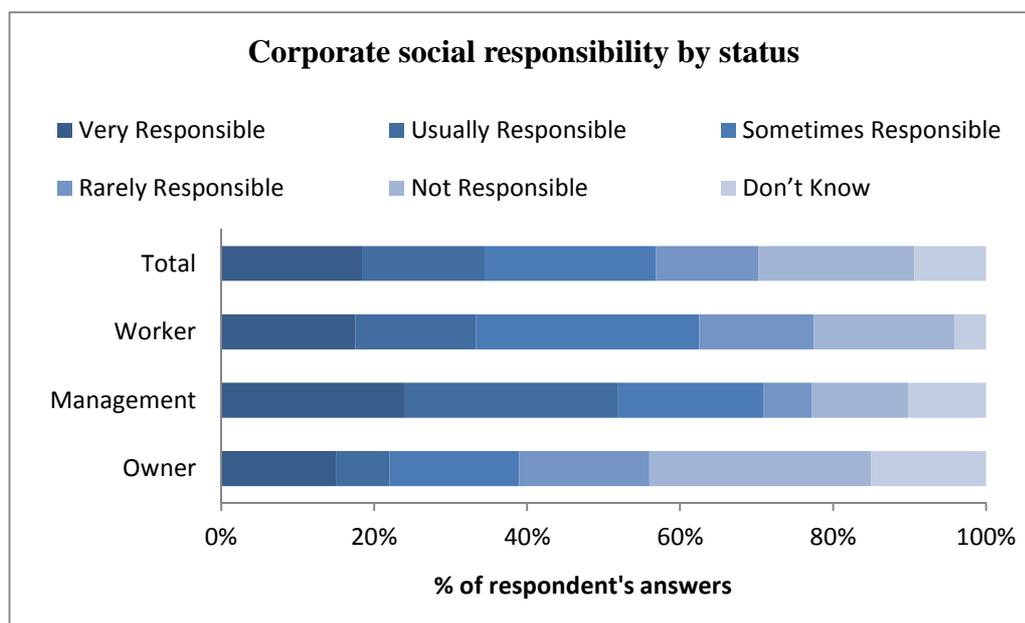
The large majority of interviewees considered by their status (88 per cent) believe that bribery and corruption negatively affect the economy or society in Malawi. Most of them (54.7 per cent) feel that bribery and corruption have a “very high negative impact” and (33.3 per cent) think they have a “high negative impact”. When it comes to assessing the level of commitment of the Government to fighting corruption, opinions differ from a gender view point. The overall prevailing idea is that the Government is partially committed, but women have a more pessimistic position compared to men, as reflected in the figure below. Another interesting emerging finding is that 9 per cent, 12 per cent and 15 per cent of owners, managers and workers respectively feel that the Government is very committed to fighting and eradicating corruption.



Source: EESE Survey Malawi, 2012.

Interviewees were asked whether government policy and legislation are effective drivers of market performance. Considering respondents by status, the prevailing view (42 per cent) is that they are sometimes effective. Interestingly, about 7 per cent of respondents from micro enterprises as compared to 14 per cent from large enterprises find that government policy and legislation are very effective drivers of market performance.

Interviewees were also asked whether their organization is socially responsible. The prevailing feeling (22.4 per cent) is that enterprises are “sometimes socially responsible”. The second most common view (20.4 per cent) is that they are “not responsible”. Considering data by status, some differences can be observed. Workers share the opinion that firms are “sometimes socially responsible” in higher proportions than managers and owners (29.2 per cent), whereas owners are more pessimistic and opt more than the other two groups (29 per cent) for the “not responsible” option. Managers express the most positive opinion, stating more than the two other categories (27.85 per cent) that firms are “usually socially responsible”. The below figure depicts these findings.



Source: EESE Survey Malawi, 2012.

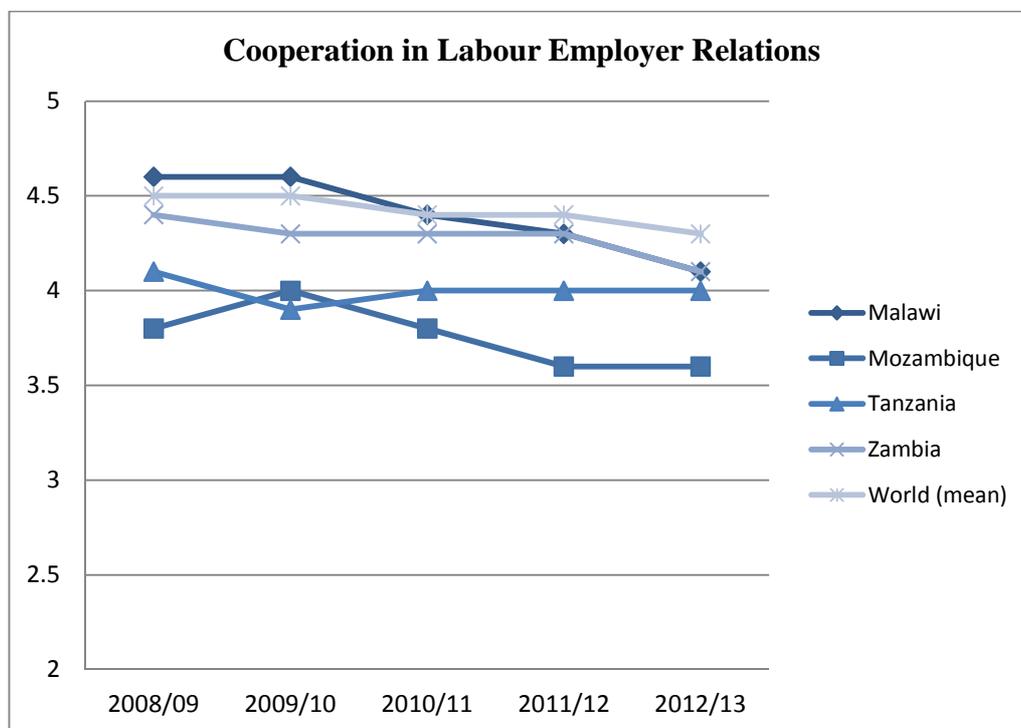
Differences also emerge when considering the size and age of enterprises. About 10 per cent of respondents from micro enterprises as compared to 33 per cent from large enterprises feel that their organization is socially responsible. Furthermore, 16 per cent versus 23 per cent of respondents from start-up and established enterprises respectively believe that their organization is socially responsible. It can be concluded that large and established companies are perceived to be more committed to being socially responsible than other firms.

2.3. Social dialogue

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and society at large. Unfortunately, secondary data on social dialogue in the sub-region tends to be scanty. For example, for “Trade Union Density” there is no data on Mozambique and Zambia, and figures for the other two countries –Tanzania and Malawi –are available for only one year.

This indicator, the Union Density rate, measures the proportion of trade union members as a percentage of total employment. In Malawi, the percentage was 2.7 per cent in 2006, compared to 2.2 per cent in Tanzania in 2009. There is no data on “Enterprises Belonging to

Employers' Organizations Rate" and on "Collective Wage Bargaining Coverage Rate" for any of the four selected countries.²³ "Cooperation in Labour-Employer Relations" determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating more cooperation. Malawi has registered decreasing levels, from 4.6 in 2009-10 to 4.1 in 2012-13. However, comparatively it maintains good levels similar to those of Zambia, better than those of both Mozambique and Tanzania, and just slightly below the 2012-13 world mean of 4.3. Despite Malawi's rather worsening performance according to this indicator, national stakeholders strongly believe that social dialogue is present in the country and has greatly improved in recent years.²⁴



Source: World Economic Forum Executive Opinion Survey.

In Malawi there are two major trade unions: Malawi Congress of Trade Unions (MCTU) and Congress of Malawi Trade Unions (COMATU). There are 26 registered trade unions in the country, 22 of which are MCTU affiliates. Of the 4 remaining ones, 2 are independent and 2 are COMATU members.²⁵ MCTU was established in 1995 and represents almost two-thirds of Malawi's workers.²⁶ Employers are grouped under the Employers Consultative Association of Malawi (ECAM) which was founded in 1963 as a means through which the Government could consult employers, particularly on wages and conditions of employment. It currently has 250 members, including 6 affiliated associations.²⁷ However, these are all weak organizations. One reason for this is that trade unions have few members because formal waged employment concerns are limited to few Malawians, though both MCTU and COMATU have one affiliate representing informal

²³ The "Enterprises Belonging to Employers' Organizations Rate" measures the number of enterprises which are members of employers' organizations. The "Collective Wage Bargaining Coverage Rate" measures the number of employers who belong to an employers' organization.

²⁴ Tripartite technical workshop, December 2012.

²⁵ ILO.2011.

²⁶ MCTU website: <http://www.mctumw.com/>

²⁷ ECAM website: <http://hespa.net/ECAM>

workers.²⁸ Another challenge is that the employers' organization has a strong competitor in the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and does not have a consistently solid presence throughout the country, as it is quite vibrant in the Southern and Central regions, but needs to be strengthened in the North.²⁹

In Malawi, legislation grants workers, including civil servants, the right to form and join trade unions and employees cannot be fired due to their trade union activities. Nonetheless, legal gaps still exist. For example, in order to bargain collectively, a trade union must reach high representation thresholds: 20 per cent of employees on an enterprise level and 15 per cent of employees on a sectoral level. In addition, only registered unions enjoy the right to strike and retaliation against strikers is not legally prohibited. Unions must register with the Ministry of Labour. Union membership is low, with many workers being unaware of their rights. Several cases of union leaders receiving death threats, being arrested, intimidated, and/or dismissed have been reported in Malawi, particularly in 2011 during the July protest.³⁰ In early 2012, the Malawi Congress of Trade Unions (MCTU) lodged claims at the ILO on labour rights violations. However, the Banda administration asked the MCTU to withdraw the claims because bringing such complaints to the ILO would have forced the new administration to answer questions before representatives of ILO constituents on cases where its position is similar to that of the MCTU.³¹ Social dialogue in Malawi is also practiced through the Tripartite Labour Advisory Council and the National Social Dialogue Forum. The latter body has been more active than the Council over the past few years, but has sustainability problems due to its reliance on donor funding.³² Because of the weakness of these two institutions, it is believed that in Malawi an effective social dialogue mechanism is missing.³³

Close to half (49.8 per cent) of the respondents of the EESE survey conducted in Malawi think that the Government promotes tripartite social dialogue and utilizes the process in policy decision-making to a limited extent. Concerning the level of effectiveness of the labour or legal institutions and regulations in dealing with conflicts and dispute resolution between employers and workers, the most common views expressed by respondents are "sometimes effective" (33.7 per cent) and "rarely effective" (26 per cent). While workers and managers choose the former option in higher proportions, owners opt more for the latter, thus confirming their relatively more pessimistic perceptions.

²⁸ ILO. 2011.

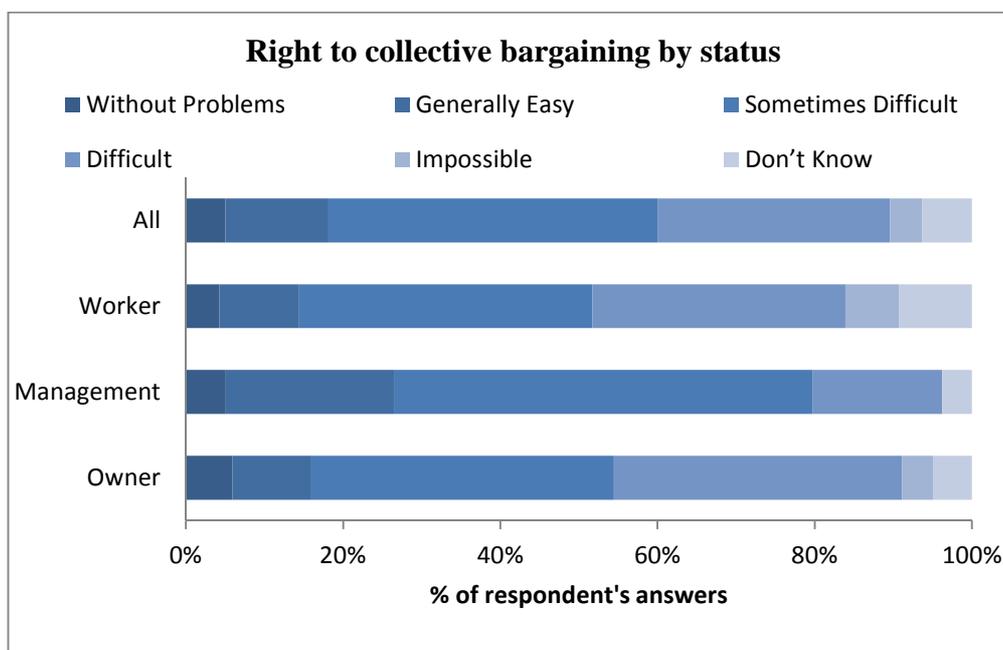
²⁹ Information received during interviews with different national stakeholders on 25 and 26 July 2012.

³⁰ Trade Union Confederation. 2012. Annual survey of violations of trade union rights, Malawi. Accessed on 7 June 2012, available at: <http://survey.ituc-csi.org/Malawi.html?lang=en>

³¹ Kasunda A. 2012. Malawi Government pleads with MCTU. African Regional Organisation of the International Trade Union Confederation (ITUC-Africa). Accessed on 21 June 2012, available at: <http://www.ituc-africa.org/Malawi-Govt-pleads-with-MCTU.html?lang=en>

³² ILO. 2011.

³³ Tripartite technical workshop, December 2012.



Source: EESE Survey Malawi, 2012.

Interviewees were also asked to what extent workers have the right to collective bargaining. As the above figure shows, the prevailing perception is that it is not easy to enjoy this right in Malawi. About 42 per cent of respondents claim that it is “sometimes difficult” and 29.5 per cent believe that it is “difficult”. Managers have a slightly less negative opinion compared to workers and owners, where over 53 per cent of them think that exercising the right to collective bargaining is “sometimes difficult”. Women seem to have a more negative perception than men, where 39 per cent of women find that exercising the right to collective bargaining is “difficult”, as opposed to just 25 per cent of men. For 28 per cent of respondents, trade union membership is not very beneficial to workers in Malawi. In addition, 35 per cent of interviewees believe that membership of employers' organizations is not very beneficial to the business community in the country.

Key Indicators

Union density rate		2006	2009
Union density rate measures the number of trade union members as a percentage of the non-agricultural labour force. Source: ILO ³⁴	Malawi	2.7	-
	Mozambique	-	-
	Tanzania	-	2.2
	Zambia	-	-
	Measured as a percentage of the non-agricultural labour force.		

³⁴ <http://www.ilo.org/ifpdial/information-resources/dialogue-data/lang--en/index.htm>

Other Useful Indicators

Cooperation in labour employer relations		2009/10	2010/11	2011/12	2012/13
The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: "Labour-employer relations in your country are". Source: World Economic Forum Executive Opinion Survey. ³⁵	Malawi	4.6	4.4	4.3	4.1
	Mozambique	4	3.8	3.6	3.6
	Tanzania	3.9	4	4	4
	Zambia	4.3	4.3	4.3	4.1
	World (mean)	4.5	4.4	4.4	4.3
1 = generally confrontational, 7 = generally cooperative.					

2.4. Respect for universal human rights and international labour standards

Societies that have successfully integrated sustainability and decent work respect human rights and international labour standards. Malawi has adopted 7 of the 9 main human rights conventions. It has not yet ratified the Genocide Convention and the International Convention for the Protection of All Persons from Enforced Disappearance. Mozambique, Tanzania and Zambia are performing slightly better than Malawi in this regard and have ratified 8 of the 9 main human rights conventions.³⁶

All four countries have ratified the eight ILO core conventions on freedom of association and collective bargaining, the abolition of child labour, forced labour, and all forms of discrimination. However, child labour remains quite widespread in Malawi. It is more common in rural areas, where 27.7 per cent of children work compared to 13.9 per cent in urban centres. In the Northern region it is also more common, where the percentage of working children reaches 32.7 per cent compared to 23 and 26.7 per cent in the Central and Southern regions.³⁷

The human rights situation in Malawi can also be assessed considering other indicators. The Political Rights Index measures the level of freedom in the electoral process, political pluralism and participation, and functioning of government. In a range from 1 to 7 with higher values indicating a higher degree of freedom, Malawi has recorded decreasing values; it reached 4 in 2006 and 3 in 2013. The three neighbouring countries chosen for comparison registered similar values. The Civil Liberty Index measures freedom of expression, assembly, association, and religion. On a scale from 1 to 7 with higher values corresponding

³⁵ <http://www.weforum.org/issues/global-competitiveness>

³⁶ These are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, the International Convention for the Protection of All Persons from Enforced Disappearance, and the Convention on the Rights of Persons with Disabilities.

³⁷ Duverall D.; Mussa R. 2010. Employment Diagnostic: Analysis on Malawi, prepared for the government of Malawi with the Assistance from the International Labour Organization, June 2010, Government of Malawi, Ministry of Labour. Accessed on 17 May 2012, available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/---cepol/documents/publication/wcms_143247.pdf

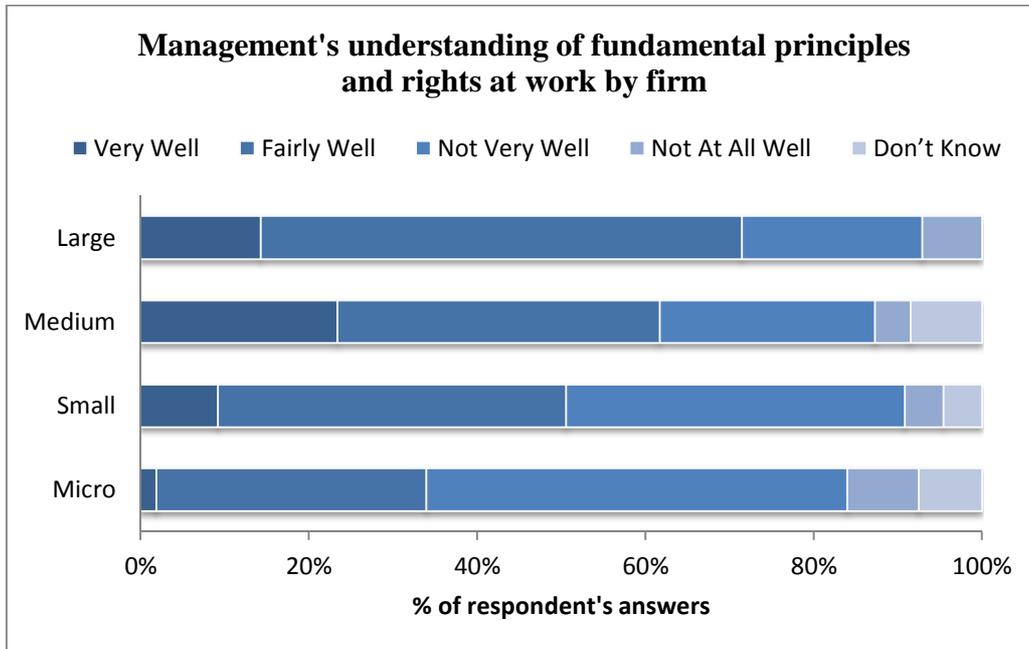
to better performance, Malawi improved from 2006 to 2013, reaching a value of 4 in the latter year. Mozambique, Tanzania and Zambia perform in a similar way, although only Zambia, like Malawi, registered a value of 4 in 2013. Contributing to this, the final phase of the Mutharika Government was characterized by widespread violations of universal human rights and in March 2012, the chairperson of the Malawi Human Rights Commission was arbitrarily arrested.³⁸ As far as freedoms of expression and opinion are concerned, in Malawi there are over ten newspapers presenting a good variety of opinions. There are also approximately 20 radio and 2 television stations that are fairly independent with the exception of the Malawi Broadcasting Corporation (MBC) Radio and TV, which was under government control until the Banda administration gained power in 2012. Freedom of assembly and association also became subject to restrictions under the Mutharika Government, particularly in 2011.³⁹

Respondents of the EESE survey conducted in Malawi largely share the view that human rights are “sometimes respected” (about 40 per cent) or “usually respected” (28.7 per cent). When asked about the level of understanding of international labour standards in Malawi, 46 per cent of interviewees think that they are “partially understood” and 22 per cent believe that they are “not understood”. In addition, about 14 per cent of interviewees state that international labour standards are not respected in the country. The perception of respondents with regard to the role of the Government is not positive at all. A large majority (about 75 per cent) find that the Government either does not promote international labour standards very well, or does not promote them at all.

When it comes to how well management understands fundamental principles and rights at work, interesting findings emerge by considering respondents by size and age of the enterprise. As the below figure shows, the perception of management in large enterprises is much more positive than that in micro firms. The majority of interviewees from large enterprises (57 per cent) believe that management understands fundamental principles and rights at work fairly well compared to only 32 per cent of respondents from micro businesses who share a similar view. The trend is reversed when it comes to management not thoroughly understanding fundamental principles and rights at work; the proportions are respectively 50 per cent for interviewees from micro enterprises and 21.4 per cent for those from large ones. Considering respondents according to the age of the company, a similar pattern emerges, with 43 per cent of interviewees from established enterprises stating that management understands fundamental principles and rights at work fairly well.

³⁸ Freedom House. 2012. Malawi arrest of human rights official part of larger crackdown (Washington). Accessed on 5 June 2012, available at: <http://www.freedomhouse.org/article/malawi-arrest-human-rights-official-part-larger-crackdown>.

³⁹ Freedom House. 2011.



Source: EESE Survey Malawi, 2012.

Key Indicators

Ratification of Human Rights Conventions		As of 15 January 2013
<p>It shows the status of human rights referring to ratification of following 9 conventions: Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment; Convention on the Rights of the Child; Convention on the Elimination of All Forms of Discrimination against Women; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Prevention and Punishment of the Crime of Genocide; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; International Convention for the Protection of All Persons from Enforced Disappearance; Convention on the Rights of Persons with Disabilities.</p> <p>Source: United Nations Treaty Collection Multilateral Treaties Deposited with the Secretary General (UNTC).⁴⁰</p>	Malawi	7
	Mozambique	8
	Tanzania	8
	Zambia	8
	Number of Conventions ratified out of 9.	
Ratification of fundamental ILO Conventions		As of 01 September 2011
<p>It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).</p> <p>Source: ILO⁴¹</p>	Malawi	8
	Mozambique	8
	Tanzania	8
	Zambia	8

⁴⁰ <http://treaties.un.org/>

⁴¹ <http://www.ilo.org/ilolex/english/docs/declworld.htm>

Other Useful Indicators

Political Rights Index		2010	2011	2012	2013
<p>The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government.</p> <p>Source: Freedom House, The Freedom in the World Survey.⁴²</p>	Malawi	3	3	3	3
	Mozambique	4	4	4	4
	Tanzania	4	3	3	3
	Zambia	3	3	3	3
	Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.				

Civil Liberties Index		2010	2011	2012	2013
<p>The Civil Liberties index measures freedom of expression, assembly, association, and religion.</p> <p>Source: Freedom House, The Freedom in the World Survey⁴³.</p>	Malawi	4	4	4	4
	Mozambique	3	3	3	3
	Tanzania	3	3	3	3
	Zambia	4	4	4	4
	Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.				

⁴² <http://www.freedomhouse.org/>

⁴³ Ibid.

3. Economic elements

3.1. Sound and stable macroeconomic policy and good management of the economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment.

Malawi is one of the poorest countries in the world, ranking 171 out of 187 in the 2011 UNDP Human Development Report. In 2009, 40 per cent of the Malawian population was estimated to live in poverty. Malawi's economy is dominated by subsistence agriculture and largely depends on external aid. In 2008-09, 44 per cent of the national budget was made up of international grants. Malawi Growth and Development Strategies (MGDSs) seek to transform Malawi from a consuming and importing country to a producing and exporting one.⁴⁴ The MGDS II covering the period 2011/12-2015/16 aims to achieve poverty reduction through sustained economic growth and infrastructure development. Macroeconomic stability and implementation of policies and structural reforms to increase national investment and diversify the economy are key elements of the strategy. The current Government has adopted an Economic Recovery Plan which identifies five priority ministries that are key to resuscitating the ailing economy. This plan stems from the MDGS II to address the economic situation in the medium term.⁴⁵

The reforms introduced by the Banda Government since April 2012 have led to improved future prospects for the Malawian economy. Some of the recently introduced measures include a 49 per cent devaluation of the national currency,⁴⁶ the introduction of a floating exchange rate regime, and an increase in the prices of petroleum products to fill the gap between import costs. Some positive results stemming from the adjustment measures can already be seen in the increase of tobacco sales through official channels and an easing of private sector access to foreign trade, including for fuel imports. The political and economic reforms of the new Government have also provoked an increase in support from Malawi's development partners. In July 2012, a new 3-year USD 156.2 million International Monetary Fund (IMF) economic programme was approved under the Extended Credit Facility. The programme focuses on the achievement and maintenance of macroeconomic stability and the implementation of policies for growth, economic diversification and poverty reduction.⁴⁷ In June, the United Kingdom released USD 51 million to help Malawi and the African Development Bank (ADB) allocated USD 45 million. In July, the EU unlocked grants for USD 143 million and the World Bank released financing worth USD 150 million to support reforms.⁴⁸

⁴⁴ Deraniyagala, S.; Kaluwa, B. 2011. Macroeconomic policy for employment creation: The case of Malawi, Employment Sector, Employment Working Paper No. 93. International Labour Organization. Accessed on 11 May 2012, available at:

http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_policy/documents/publication/wcms_165782.pdf

⁴⁵ Input provided by ECAM.

⁴⁶ Reserve Bank of Malawi. Accessed on 24 January, available at: www.rbm.mw

⁴⁷ IMF. 2012a. Malawi: 2012 Article IV consultation and request for a new arrangement under the Extended Credit Facility. IMF Country Report No. 12/221 (Washington D.C.).

⁴⁸ EIU. 2012b.

In 2011, Malawi's economic growth slowed reaching 4.51 per cent, the lowest level of GDP growth since 2006. This is still higher than the Sub-Saharan Africa average of 4.2 per cent in 2011. However, in the same year, Malawi's neighbouring countries, Mozambique, Tanzania and Zambia, all performed better reaching about 6 per cent.

Sectors that largely depend on imports, such as manufacturing, transportation, construction, and wholesale and retail trade, suffered the most in Malawi due to the foreign exchange shortage. Thanks to the Government's Farm Input Subsidy Programme and favourable weather conditions, agriculture has driven economic growth since the mid-2000s.⁴⁹ Maize is the main crop in Malawi and is generally used for subsistence purposes. Only 10-15 per cent of maize production is sold.⁵⁰ The contribution of agriculture to GDP has been declining, but is currently still 30 per cent. Thus, adverse weather conditions would have a significant negative impact on Malawi's economy. The slow world economic growth may have negative consequences for the country, particularly because international demand for some of its exports would be affected. Malawi's main export, tobacco, currently contributes 15 per cent to GDP. The Government is trying to diversify export markets, including to China, in order to mitigate potential negative effects. Another element that makes Malawi very vulnerable to economic shocks is its low level of international reserves; they are at only half a month of import cover. The new IMF programme should allow the Reserve Bank of Malawi to rebuild gross reserves to one month of imports by the end of 2012.⁵¹

The current account balance as a percentage of GDP for Malawi was just around 0 during the years 2010-12. This indicates that the portion of domestic investment financed through foreigners' savings was extremely low. Adverse terms of trade and cuts in grants from donors account for such rates.⁵² In addition, such values could also be due to the effect of a supplementary debt relief which Malawi negotiated in 2006 under the HIPC and MDRI frameworks.⁵³ Mozambique, Tanzania and Zambia recorded negative current account balance rates throughout the period 1997-2012 and Malawi registered similar rates up until 2009.

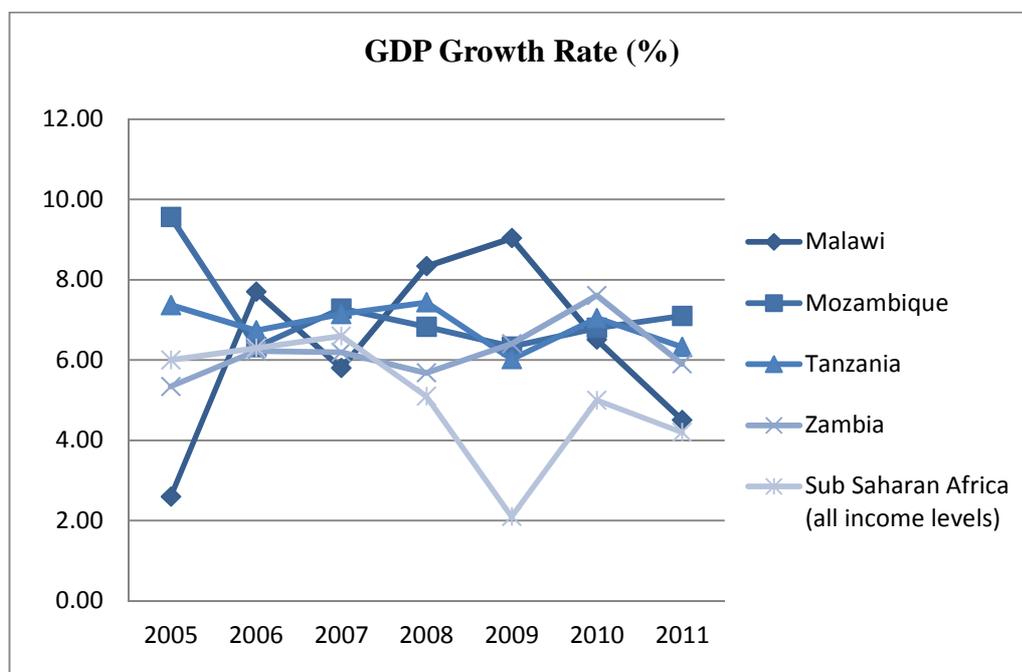
⁴⁹ IMF. 2012a.

⁵⁰ Deraniyagala & Kaluwa. 2011.

⁵¹ IMF. 2012a.

⁵² Ibid.

⁵³ IMF. 2006. Debt Relief at the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point and Under the Multilateral Debt Relief Initiative (MDRI). Prepared by the Staffs of the World Bank and the IMF. IMF Country Report No. 06/420, November. Accessed on 5 February 2013, available at: <http://www.imf.org/external/pubs/ft/scr/2006/cr06420.pdf>



Source: World Bank national accounts data (World Development Indicators Online).

The main objective of the 2012-13 budget presented to Parliament in June 2012 by the new Government is to restore macroeconomic balance and a market-based economy. The zero deficit target of the previous regime has been abandoned. Rather, the fiscal deficit should reach 1.5 per cent of GDP in 2012-13,⁵⁴ starting from an estimated 7 per cent deficit.⁵⁵ This is largely funded through domestic borrowing that the new Government inherited from the previous one. A new target for the Malawian Government is zero net domestic borrowing by June 2013. Tax policy measures will focus on the promotion of domestic production through value addition and of investment.⁵⁶

Public spending will increase in 2012-13 thanks to a rise in donors' grants. An increase in civil service salaries and an expansion of the fertilizer subsidy scheme are state-funded measures that will be adopted to mitigate the effects of the devaluation and the subsequent rise of food and fuel prices.⁵⁷

The foreign exchange shortage that Malawian businesses experienced over the past two years caused the scaling down of operations and laying off of workers in several enterprises. Restrictions on foreign exchange transactions also created distortions which boosted the informal economy.⁵⁸ A FinScope survey on small, medium and micro enterprises conducted in early 2012 reveals that only 3.3 per cent of surveyed businesses were registered and 8 per cent had a license.⁵⁹ It is to be added that the recently introduced reforms have faced some

⁵⁴ Hon. Lipenga. K. 2012. 2012/2013 Budget Statement. National Assembly of the Republic of Malawi at the Parliament Building, Lilongwe Friday 8th June, 2012. Accessed on 14 June 2012, available at: <http://www.malawivoice.com/2012/06/08/malawi-201213-full-final-budget-62092/>

⁵⁵ IMF. 2012a.

⁵⁶ Lipenga. 2012.

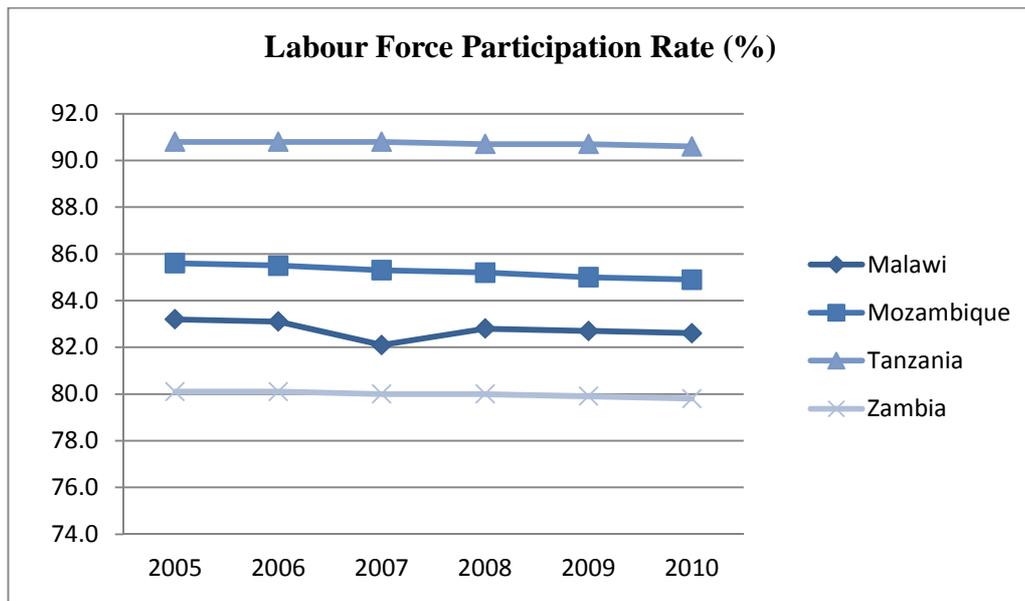
⁵⁷ EIU. 2012b.

⁵⁸ IMF. 2012a.

⁵⁹ Department of Trade and Industry; FinMark Trust; The World Bank; DFID; UNDP. 2012. FinScope Malawi SMME Survey 2012.

difficulties. For example, in mid-May the workers of a uranium mine in Northern Malawi went on strike asking for a 66 per cent salary increase as a consequence of the currency devaluation.⁶⁰

Information on the employment situation in Malawi is very scanty due to the large size of the informal economy. It was estimated that in 2010 only 8 to 10 per cent of the labour force was employed in the formal sector.⁶¹ According to ILO data, the labour force participation rate in the country has been decreasing since 2005. It was 83.2 per cent in that year and decreased to 82.6 per cent by 2010. Compared with Mozambique, Tanzania and Zambia, only the latter country registered lower labour force participation rates. However, a different source reveals that the labour force participation rate increased in Malawi from 82 per cent in 2005 to 85 per cent in 2009. The same source indicates that the labour force participation rate in 2009 was higher for women than for men and in rural areas as opposed to urban ones.⁶²



Source: ILO KILM.

Until 2012, inflation in Malawi was maintained at single digit figures, as it was in Mozambique, Tanzania and Zambia. However, following the liberalization of the exchange rate regime, an increase in electricity tariffs and the withdrawal of fuel subsidies, inflation has risen sharply. The Government expects it to increase up to over 20 per cent in 2013.⁶³ In response, safety-net programmes for those who fall under the poverty line as a consequence of the devaluation have been adopted.⁶⁴ Inflation should decrease in the future with the implementation of restrictive fiscal and monetary policies.⁶⁵

⁶⁰ EIU. 2012b.

⁶¹ Duverall & Mussa. 2010.

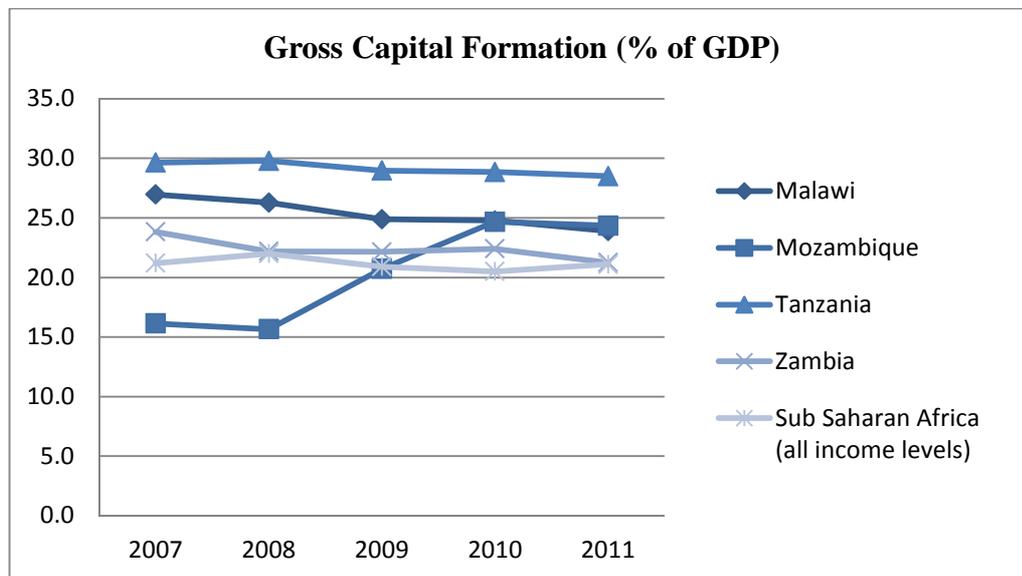
⁶² Government of the Republic of Malawi. 2011. National employment and labour policy (draft). Ministry of Labour.

⁶³ Lipenga. 2012.

⁶⁴ EIU. 2012c.

⁶⁵ IMF. 2012a.

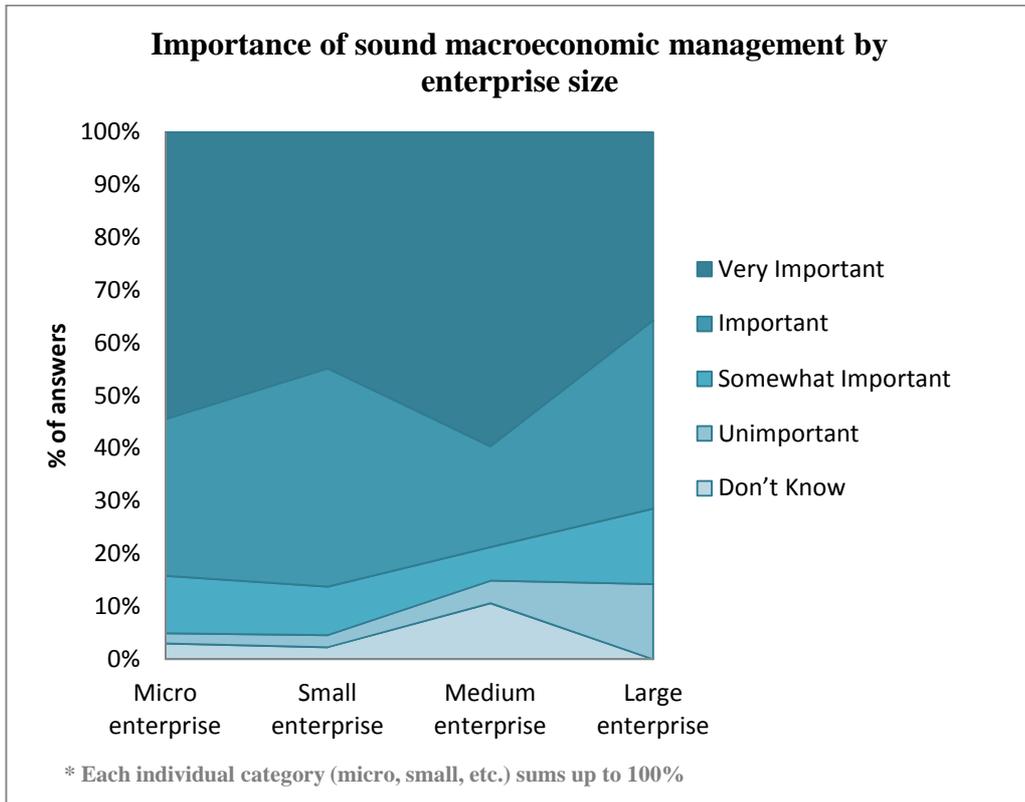
High levels of gross capital formation or investment are conducive to economic growth. Malawi's performance has been similar to that of Mozambique, Tanzania and Zambia in this regard, and above Sub-Saharan African averages. Gross capital formation in Malawi has maintained relatively stable levels over the period 2006-11, reaching 23.9 per cent of GDP in 2011.



Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).

High gross domestic savings rates usually reflect a country's high potential to invest. However, savings must be deposited in financial institutions in order to be invested through credit to businesses. In developing countries like Malawi, the financial sector is often weak and good savings rates do not correspond to significant investments. In fact, as will be presented in section 3.7, Malawi performs rather poorly in the area of credit to private sector as a percentage of GDP. In 2011, it reached a level of 19.7 per cent, compared to a Sub-Saharan African average of 58.3 per cent in the same year. Gross domestic savings rates in Malawi have been lower and more fluctuating than those registered in Tanzania and Zambia, as well as those recorded for Sub-Saharan Africa in general. The latest available rate for Malawi is 13.35 per cent of GDP in 2011.

The EESE survey conducted in Malawi reveals interesting information concerning the perception of the importance of sound macroeconomic management in the country. Interviewees were asked whether sound macroeconomic management is important in creating more and better jobs and in stimulating productive investment. As the below chart shows, there is a remarkable difference in opinions expressed by respondents from micro enterprises and interviewees from large ones. The large majority of the former group (84.2 per cent) considers sound macroeconomic management to be "very important" (54.5 per cent) or "important" (29.7 per cent), whereas a smaller proportion of the latter (71.2 per cent) share similar views. Respondents from large companies comprise the greatest proportion of those who believe that sound macroeconomic management is "somewhat important" or "unimportant" (28.6 per cent).



Source: EESE Survey Malawi, 2012.

When asked about the impact of company tax rates in Malawi, respondents from micro, small and medium-size enterprises state that they do not encourage growth ranging between 40 to 50 per cent; interviewees from large companies share this opinion in a lower proportion (35.7 per cent). A similar picture emerges concerning the impact of VAT and PAYE rates, where interviewees from large companies mostly believe that they have little impact (50 per cent for VAT and 71.4 per cent for PAYE). Considering enterprises by age, respondents from start-ups think in greater proportions that VAT and PAYE rates discourage growth.

Key Indicators

GDP growth rate (%)		2005	2006	2007	2008	2009	2010	2011
<p>Annual percentage growth rate of Gross Domestic Product (GDP) at market prices based on constant local currency. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.</p> <p>Source: World Bank national accounts data (World Development Indicators Online).⁶⁶</p>	Malawi	2.6	7.7	5.8	8.34	9.03	6.51	4.51
	Mozambique	9.57	6.32	7.28	6.83	6.34	6.8	7.1
	Tanzania	7.37	6.74	7.15	7.44	6.02	7.04	6.32
	Zambia	5.34	6.23	6.19	5.68	6.4	7.61	5.9
	Sub Saharan Africa	6	6.3	6.6	5.1	2.1	5	4.2
Annual percentage growth rate of GDP.								
Labour force participation rate		2005	2006	2007	2008	2009	2010	
<p>The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.</p> <p>Source: ILO KILM⁶⁷</p>	Malawi	83.2	83.1	82.1	82.8	82.7	82.6	
	Mozambique	85.6	85.5	85.3	85.2	85.0	84.9	
	Tanzania	90.8	90.8	90.8	90.7	90.7	90.6	
	Zambia	80.1	80.1	80.0	80.0	79.9	79.8	
The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.								

⁶⁶ <http://data.worldbank.org/>

⁶⁷ <http://kilm.ilo.org/>

Other Useful Indicators

Current account balance (% of GDP)		2006	2008	2010	2011	2012	
<p>Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice - once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.</p> <p>Source: International Monetary Fund, World Economic Outlook Database, April 2010.⁶⁸</p>	Malawi	-7.82	-9.92	-0.98	-0.97	0.01	
	Mozambique	-10.7	-11.9	-13.6	-13.2	-14.58	
	Tanzania	-7.74	-9.75	-7.96	-8.18	-8.19	
	Zambia	1.2	-7.14	-3.48	-3.89	-4.38	
	% of GDP						
Gross capital formation (% of GDP)		2006	2007	2008	2009	2010	2011
<p>Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress." Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth.</p> <p>Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online)⁶⁹</p>	Malawi	25.67	26.96	26.28	24.89	24.77	23.89
	Mozambique	17.65	16.14	15.66	20.72	24.67	24.34
	Tanzania	27.63	29.64	29.79	28.97	28.85	28.50
	Zambia	22.99	23.83	22.19	22.15	22.41	21.26
	Sub Saharan Africa	19.8	21.2	22.0	20.9	20.5	21.1
	% of GDP.						

⁶⁸ <http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx>

⁶⁹ <http://data.worldbank.org/>

Gross domestic savings (% of GDP)		2006	2007	2008	2009	2010	2011
<p>Gross domestic savings are calculated by deducting total final consumption expenditure from GDP at current prices. A high gross domestic saving rate usually indicates a country's high potential to invest. Savings can therefore be vital to the amount of fixed capital available, which in turn can contribute to economic growth. However, increased savings do not always correspond to increased investment. If savings are not deposited into a financial intermediary like a bank, there is no chance for those savings to be recycled as investment by businesses. This means that saving may increase without increasing investment, possibly causing a short-fall of demand rather than economic growth. In the short term, if savings fall below investment, it can lead to growth of aggregate demand and economic boom. In the long term if savings fall below investment it eventually reduces investment and detracts from future growth.</p> <p><u>Source:</u> World Bank national accounts data, and OECD National Accounts data files (World Development Indicators Online).⁷⁰</p>	Malawi	1.18	14.37	4.52	9	8.17	13.35
	Mozambique	8.79	6.34	1.57	2.2	5.96	7.83
	Tanzania	14.5	12.79	16.14	17.05	17.16	16.55
	Zambia	31.39	30.19	24.63	25.59	31.48	23.14
	Sub Saharan Africa	15.9	16.6	16.3	15.1	16.8	17.1
	% of GDP.						

3.2. Trade and sustainable economic integration

Trade integration can lead to positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered.

Malawi's growth is expected to be export-led⁷¹ and the recent devaluation of the national currency should enhance export diversification. Until April 2012, the focus of the Malawian Government was poverty reduction and growth through food security rather than trade. Nonetheless, in recent years there has been an increase in government funding allocated to trade-related investments.⁷² The new Government has taken a different stance and will support private sector led growth and export diversification; a National Export Strategy has been adopted in this regard. Three priority clusters have been identified; these are oil seed products (cooking oil, soaps, lubricants, paints, varnishes, meals and flours, bio-fuel, animal feed, fertilizer, snacks and confectionary based on sunflower, groundnuts, soya, and cotton), sugar cane products (sugar, high value sugar through branding, sugar confectionary (such as syrups, sweets, caramel, etc.), sweetener, ethanol, spirits, cane juice, fertilizer, animal feed, electricity, and cosmetics), and manufactures (beverages, agro-processing (including dairy and maize, wheat, horticulture, and pulse value addition),

⁷⁰ <http://data.worldbank.org/>

⁷¹ Input provided by Ministry of Industry and Trade.

⁷² Said J.; McGrath J.; Grant C.; Chapman G. 2011. Evaluating aid for trade on the ground. International Centre for Trade and Sustainable Development (ICTSD). Accessed on 11 May 2012, available at: <http://ictsd.org/downloads/2011/11/evaluating-aid-for-trade-on-the-ground-lessons-from-malawi.pdf>

plastics and packaging, and assembly).⁷³ Malawi imports essential commodities such as fuel, fertilizers, cars, machinery, electronics, and pharmaceuticals.⁷⁴

Export diversification is also important for the Malawi economy in order to decrease reliance on key exports including tobacco and sugar, and thereby decrease international market vulnerability. Tobacco accounted for 55 per cent of exports in 2010⁷⁵ and only 30 per cent in 2011.⁷⁶ Furthermore, tobacco production experienced a sharp decline in 2012.⁷⁷ It is to be added that the 2003 Framework Convention on Tobacco Control has limited the expansion potential of tobacco exports. The textile and sugar sectors have also declined over the past decade.⁷⁸ In 2011, Sugar accounted for 11.6 per cent of total exports. Uranium, on the other hand, is a promising export item for Malawi. Despite the fact that the first uranium mine started operations only in 2009, in 2011 this mineral constituted 12.3 per cent of national exports. In 2011, Malawi imported and exported goods principally with the Southern African Development Community (SADC) region. In the same year, Malawi's largest import partner country was South Africa, followed by India and China. Canada was Malawi's largest export partner in the same year, followed by South Africa, Zimbabwe, the United Kingdom, and Egypt.⁷⁹ The EESE survey conducted in Malawi shows that the large majority of respondents (70 per cent) consider measures aimed at controlling imports in order to protect domestic industries as "important" or "very important". However, it is suggested that domestic companies should improve the quality of their products in order to become more competitive on an international level.⁸⁰

"Trade" as an indicator measures the sum of exports and imports of goods and services as a share of GDP. For some countries, in particular small ones, it exceeds 100 per cent. For instance, Swaziland's trade share in GDP was 183 per cent in 2004. Malawi's performance in this respect was above the Sub-Saharan African average in 2011, reaching a level of 68.62 per cent, but below the rates of its neighbouring countries, Mozambique, Tanzania and Zambia, all of which reached levels above 72 per cent. In 2008, Malawi's trade as a share of GDP was as high as 80 per cent.

Being landlocked increases transport costs for a country.⁸¹ In particular, for Malawi the total cost of export transportation to destination is estimated to be about 15 per cent of

⁷³ Ministry of Industry and Trade. 2012. Malawi National Export Strategy, 2013-2018, (Lilongwe).

⁷⁴ Said et al. 2011.

⁷⁵ Ibid.

⁷⁶ National Statistical Office (Malawi). 2011. Trade statistics brief release, midyear (January-June, 2011) Provisional. Accessed on 18 May 2012, available at: [http://www.nso.malawi.net/images/stories/data_on_line/economics/Trade%20on%20NSO%20website/Brief%20Reports/TRADE%20BRIEF%20RELEASES/2011%20MALAWI%20TRADE%20BRIEF%20RELEASE%20\(Jan-June2011\).pdf](http://www.nso.malawi.net/images/stories/data_on_line/economics/Trade%20on%20NSO%20website/Brief%20Reports/TRADE%20BRIEF%20RELEASES/2011%20MALAWI%20TRADE%20BRIEF%20RELEASE%20(Jan-June2011).pdf)

⁷⁷ EIU. 2012c.

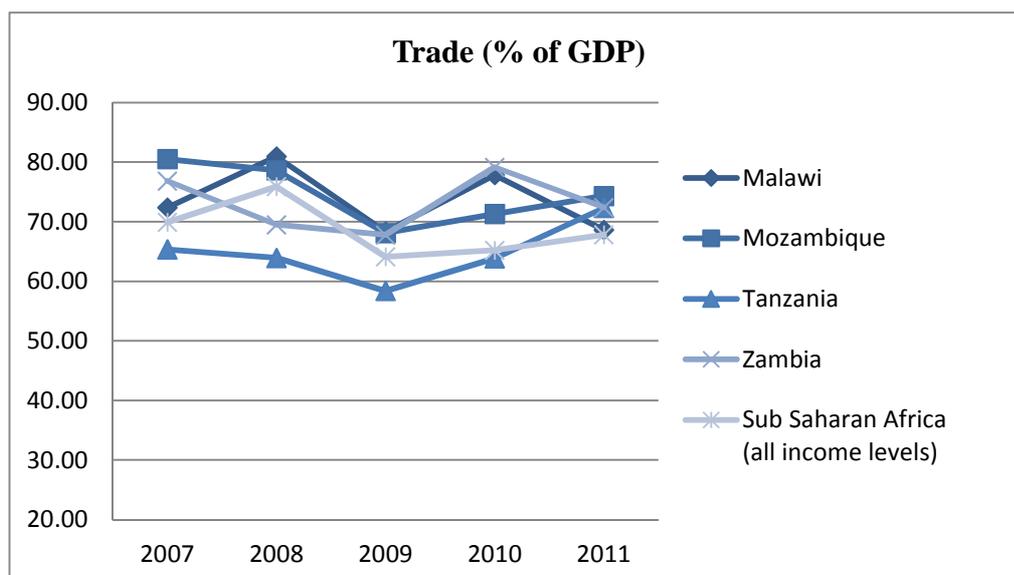
⁷⁸ Said et al. 2011.

⁷⁹ National Statistical Office Malawi. 2011.

⁸⁰ Tripartite technical workshop, December 2012.

⁸¹ Said et al. 2011.

the trade value, and the cost of import transport is approximated to be 12.5 per cent of import value.⁸²



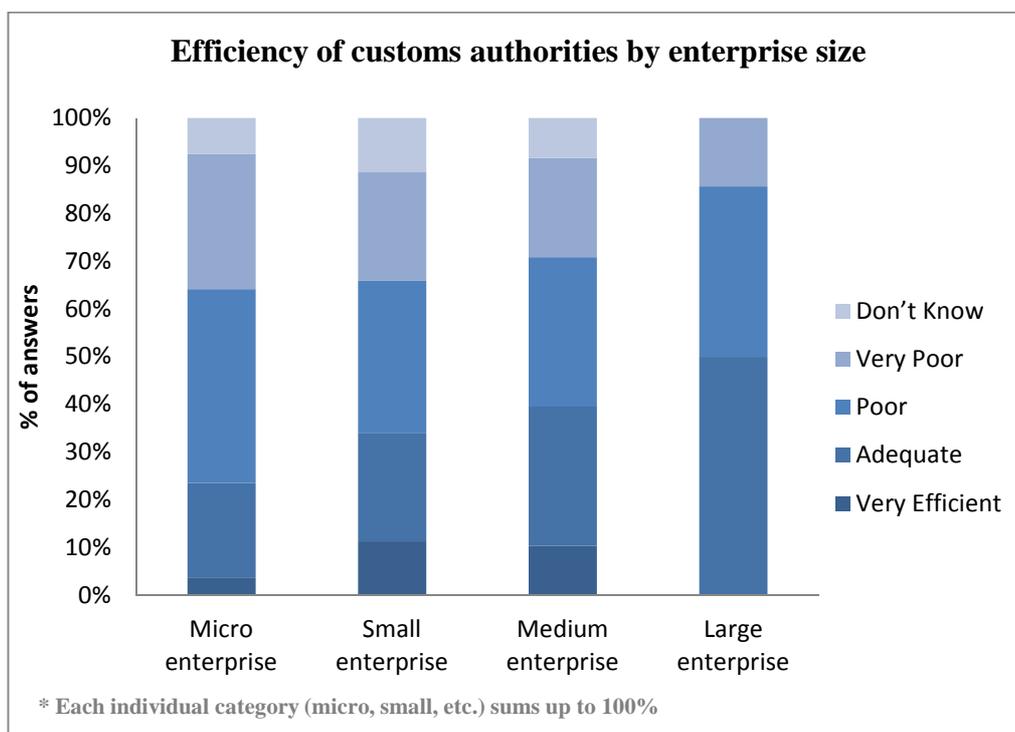
Source: World Bank national accounts data (World Development Indicators Online).

Considering data from the World Bank's Doing Business Report, in Malawi the number of documents required to import and export has decreased in recent years, but is 9 and 10 respectively in 2012, as opposed to 6 for both import and export in Tanzania in 2011. Similarly, the number of days it takes to import and export has lowered in recent years for Malawi, but is still 43 and 34 respectively in 2012, whereas in Mozambique the corresponding values are 28 and 23 for the same year. Despite poor results, the Malawian Government has introduced a number of reforms aimed at improving international trade. Examples include integrated border management, and the use of scanners and x-rays to speed up revenue collection. Unfortunately, while this machinery is available, it is non-functioning.⁸³

Findings from the EESE survey conducted in Malawi indicate that the efficiency of customs authorities in processing imports and exports is assessed more favourably by respondents from large enterprises than by those from other types of firms by size. Specifically, 50 per cent of interviewees from large companies find the level of efficiency to be "adequate". In contrast, only 19.8 per cent of respondents from micro enterprises share this view. The largest proportion of interviewees from micro businesses (69 per cent) considers their efficiency to be "poor" or "very poor". A similar opinion is expressed by respondents from small and medium-size enterprises, although in smaller proportions (54.5 per cent and 52 per cent respectively).

⁸² World Bank. 2010a. Malawi, Country Economic Memorandum, Seizing opportunities for Growth through Regional Integration and Trade, Volume I: Summary of Main Finding and Recommendations, Poverty reduction and Economic Management Africa Region, Report No. 47969-MW. Accessed on 14 May 2012, available at: http://www-nds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/12/09/000333037_20101209230947/Rendered/PDF/479690V10ESW0G1OFFICIAL0USE0ONLY191.pdf

⁸³ Tripartite technical workshop, December 2012.



Source: EESE Survey Malawi, 2012.

The impact of import taxes and other shipping costs on business growth is deemed as unfavourable by respondents from all enterprise sizes. However, interviewees from micro firms state that import taxes and other shipping costs discourage growth in a larger proportion (54.5 per cent) than respondents from the other three categories. Considering enterprises by age, the share of interviewees from start-up companies agree with this view in greater proportions (55 per cent) than the other groups.

The “Enabling Trade Index” measures the factors, policies and services facilitating the free flow of goods over borders and to final destination. On a scale from 1 to 7 where the highest value indicates that a country is successful at enabling the free flow of trade, Malawi earned a score of 3.8 in 2012. This is similar to the score for Zambia and slightly higher than the scores recorded for Mozambique and Tanzania in the same year. The “Export Propensity Index” measures the export of goods and services as a percentage of GDP. In 2011, Malawi registered a share of 29.04, which is lower than values recorded for Tanzania and Zambia, as well as for the Sub-Saharan African region.

Malawi benefits from the European Union’s Everything But Arms (EBA) initiative and can export its sugar at more favourable prices than world standards. However, this arrangement will end in 2015. Malawi has been part of other similar arrangements, but has not derived any lasting benefit from them.⁸⁴

The EESE survey conducted in Malawi reveals that although regional economic integration is considered to be very important by all respondents in general, it is considered as such in smaller proportion for interviewees from micro enterprises (under 40 per cent) than for those from the other three enterprise size categories, all of which record proportions over 42 per cent. Furthermore, 48 per cent of respondents from formal enterprises deem regional economic integration to be very important as compared to 40 per cent of those from informal firms.

⁸⁴ Deraniyagala & Kaluwa. 2011.

“Foreign direct investment” measures the net inflows of investment to acquire lasting management of an enterprise operating in a country different from that of the investor. The values recorded in Malawi are lower than those registered in Mozambique, Tanzania and Zambia, and are below the Sub-Saharan African average for 2011. After recording a very low FDI rate in 2009 of only about 1 per cent, perhaps due to the international economic crisis, Malawi continued to reflect poor performance in this area through 2010 and 2011. In the latter year, the percentage of FDI was at 1.64 per cent, which is lower than the level reported for 2010. This could be explained with the political tensions experienced in Malawi in that year. Despite the fluctuating trend observed from the data on FDI net inflow as a percentage of GDP, government institutions reveal that between 2003 and 2008 there has been a consistent rise in the stock of foreign liabilities in the country, especially in the form of FDI (89.5 per cent in 2008). Almost 50 per cent of investments were in manufacturing, followed by construction and agriculture, and were concentrated in the Southern region of Malawi. The SADC was the main source of investments in Malawi and the main sources by country were Mauritius, South Africa and the United Kingdom.⁸⁵ However, the 2010 World Investment Report reveals that Malawi was receiving low FDI inflows and was underperforming in attracting foreign investment. The main reasons for this include Malawi's landlocked position, poor infrastructure, high import costs, and an ineffective regulatory framework.⁸⁶

Key Indicators

Trade (% of GDP)		2007	2008	2009	2010	2011	Avg 2000-11
Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and +∞. Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. Source: World Bank national accounts data (World Development Indicators Online). ⁸⁷	Malawi	72.35	80.94	68.35	77.84	68.62	69.38
	Mozambique	80.5	78.62	68.1	71.28	74.31	72.9
	Tanzania	65.34	63.93	58.38	63.84	72.32	52.41
	Zambia	76.85	69.5	67.77	79.13	72.38	72.21
	Sub Saharan Africa	69.9	75.9	64.1	65.2	67.8	66.4
	Trade share (%) in GDP.						

⁸⁵ National Statistical Office (Malawi), Reserve Bank of Malawi, Malawi Investment promotion Agency, Ministry of Finance, Ministry of development planning and cooperation, Ministry of industry and trade. 2011. 2009 Foreign private capital and investor perception survey report Malawi, May 2011. Accessed on 18 May 2012, available at: http://www.nso.malawi.net/images/stories/data_on_line/economics/national_accounts/2009%20Malawi%20For%20eign%20Private%20Capital%20and%20Investors'%20Perceptions%20Report%202011.pdf

⁸⁶ Deraniyagala & Kaluwa. 2011.

⁸⁷ <http://data.worldbank.org/>

Enabling trade index (ETI)		(Report 2008)	(Report 2009)	(Report 2010)	(Report 2012)
<p>The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment.</p> <p><u>Source:</u> World Economic Forum.⁸⁸</p>	Malawi	-	3.77	3.82	3.8
	Mozambique	3.3	3.49	3.71	3.7
	Tanzania	3.27	3.5	3.6	3.7
	Zambia	3.52	3.64	3.8	3.8
	On a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade.				

FDI net inflow (% of GDP)		2007	2008	2009	2010	2011
<p>Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.</p> <p><u>Source:</u> International Monetary Fund, International Financial Statistics and Balance of Payments databases & World Development Indicators Online.⁸⁹</p>	Malawi	3.41	4.57	0.98	1.80	1.64
	Mozambique	5.19	5.65	9.26	10.92	16.25
	Tanzania	3.46	6.68	4.46	4.46	4.59
	Zambia	11.47	6.41	5.43	10.68	10.32
	Sub Saharan Africa	3.4	3.8	3.6	2.3	2.62
	FDI net inflow (in current US\$ as % of GDP).					

Other Useful Indicators

Export propensity index= Exports of goods and services (% of GDP)		2007	2008	2009	2010	2011
<p>Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.</p> <p><u>Source:</u> World Bank national accounts data and OECD national accounts data files (World Development Indicators Online).⁹⁰</p>	Malawi	29.88	29.6	26.23	30.62	29.04
	Mozambique	35.35	32.27	24.79	26.28	28.9
	Tanzania	24.24	25.14	23.23	26.07	30.18
	Zambia	41.6	35.97	35.61	44.1	37.13
	Sub Saharan Africa	33.7	36.1	29.9	31.2	33.1
	It ranges from 0 (with no exports) to 100 (with all domestic production exported).					

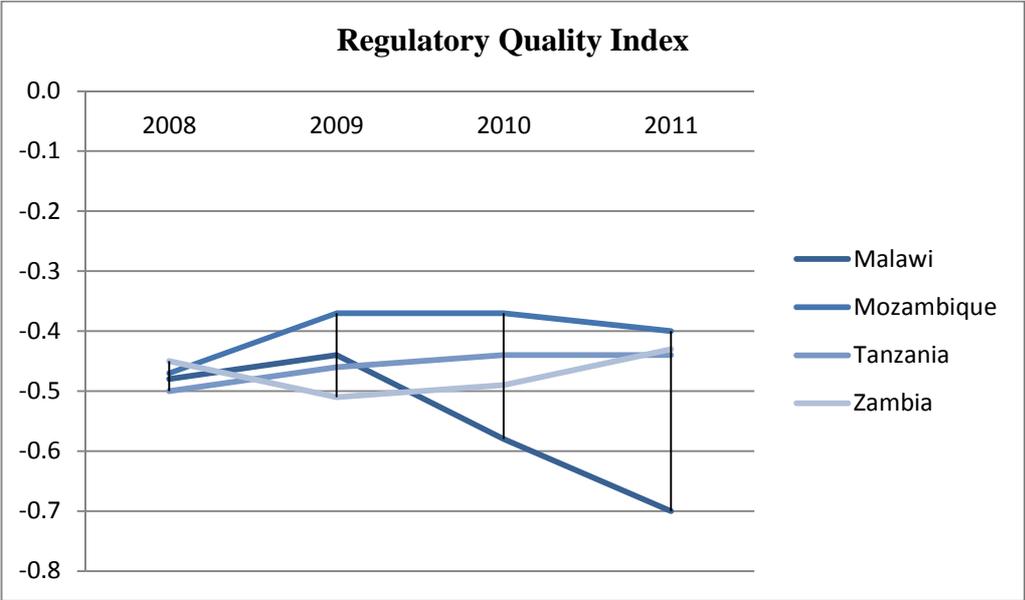
⁸⁸ <http://www.weforum.org/s?s=global+enabling+trade+report>

⁸⁹ <http://data.worldbank.org/>

⁹⁰ Ibid.

3.3. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. They facilitate formalization and boost systemic competitiveness. The Regulatory Quality Index measures the ability of a government to provide sound policies and regulations for the promotion of the private sector. Malawi’s performance in this regard has been poor and below 0, shifting from -0.48 in 2005 to -0.70 in 2011, on a scale from -2.5 to 2.5 with higher values indicating better performance. The country scores poorly, having achieved a value lower than that of Mozambique, Tanzania and Zambia in 2011.

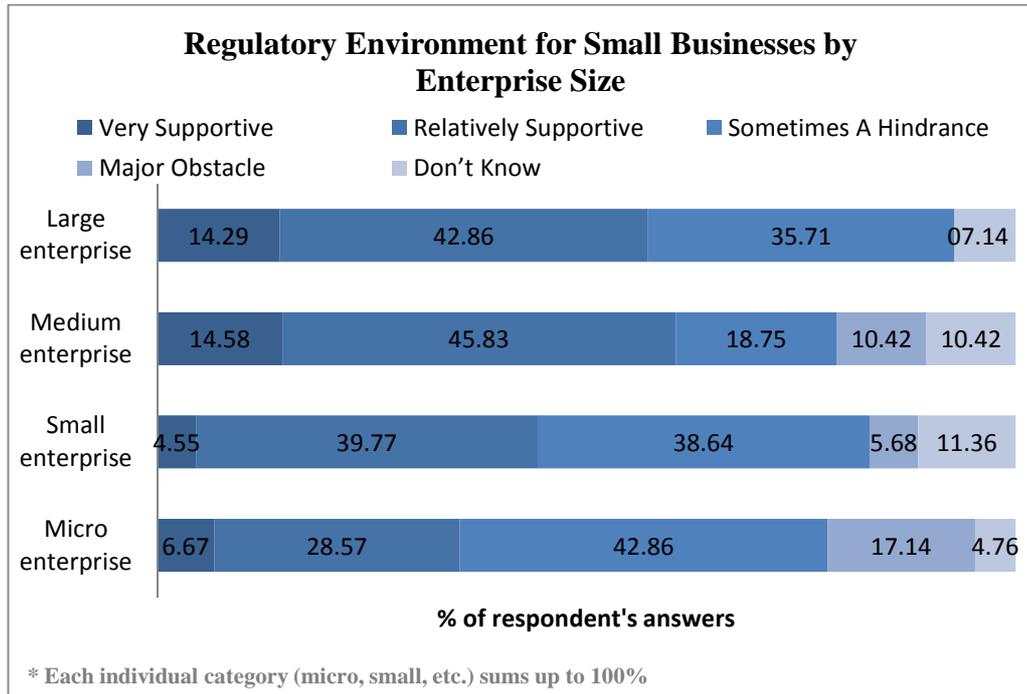


Source: World Bank, Governance Matters database.

The Ease of Doing Business Index ranks economies from 1 to 185, where a high ranking reflects for a regulatory environment that is conducive for business operations. This index includes averages for 10 different areas. Unfortunately, the data shows that the situation in Malawi has worsened from 2008 to 2012. The country fell 30 positions during this period, moving from 127 to 157. Malawi’s performance in this respect is worse than that of Mozambique, Tanzania and Zambia. Zambia performed particularly well over the past few years, but recently it has experienced a slight decrease in its ranking, falling to 94 in 2012. The Zambian Government introduced several reforms over the past few years, including improving infrastructure, streamlining procedures and minimizing legal requirements to start a business. The Starting a Business Index records the officially required procedures to start and operate an enterprise. Malawi’s ranking in this regard has been worsening, moving from 108 in 2007 to 141 out of 185 countries in 2012. For 2012, Malawi ranks lower than Mozambique, Tanzania and Zambia. The number of days required to start a business in Malawi is also higher than in the other three countries and has increased from 37 in 2007 to 39 days in 2012.

Despite these negative data, findings from the EESE survey carried out in Malawi are comparatively encouraging. When asked to describe the regulatory environment as it affects running a large business, a share of respondents from large enterprises as big as 80 per cent define it as “very supportive” (33.3 per cent) and “relatively supportive” (46.7 per cent). The picture looks slightly less positive when interviewees are asked about the regulatory environment as it affects running a small business. In this case, 42.9 per cent of respondents from micro enterprises find that it is “sometimes a hindrance”. This view is shared by 38.6 per cent of interviewees from small firms and 35.7 per cent of respondents from large ones. However, 28.6 per cent of interviewees from micro enterprises and 39.8 per cent of respondents from small firms find it “relatively supportive”. Interestingly, about 19 per cent

of respondents from informal enterprises think that the regulatory environment is a major obstacle to running a small business compared to just 8 per cent of interviewees from formal firms.



Source: EESE Survey Malawi, 2012.

Respondents were asked about their views on whether or not the cost of registering a small enterprise encourages businesses to remain informal. The majority of respondents think that registration costs encourage informality. Interestingly, this perception is strongest among interviewees from large enterprises (50 per cent). The view that registration costs to a large extent encourage informality is shared more by respondents from informal firms (26 per cent) than by those from formal companies (20 per cent).

With respect to labour law, 22 per cent of respondents feel that the business community generally does not understand it. Concerning respect of labour law by the business community, the survey finds that approximately 23 per cent of interviewees think that entrepreneurs typically do not respect it. The survey also reveals that 52 per cent of respondents believe that workers only partially understand labour law in the country. These findings suggest that the inspection capacity of the Ministry of Labour could be strengthened in order to increase the respect of labour law. In addition, there seems to be scope for workers' and employers' organizations to better support their members in understanding labour law.⁹¹ Regarding how labour law affects the growth of small businesses in Malawi, for 22 per cent of respondents, small businesses are unaware of most provisions of the labour law and so it is not a major impediment to growth. Interestingly, 17 per cent of interviewees feel that small businesses are aware of labour law, but choose to ignore it.

The informal economy, with businesses operating outside the realm of the regulatory framework, has traditionally dominated the Malawian economy. The most significant manifestation of the urban informal economy in Malawi is street vending. The Government that held power for about a decade beginning in 1994 introduced a credit scheme to set up

⁹¹ Tripartite technical workshop, December 2012.

informal businesses. Coupled with high unemployment due to privatization and retrenchment in the public sector, this initiative led to the mushrooming of street vending in all urban centres throughout the country. In 2004, the new Government adopted a completely different approach to the matter and mobilized the police and army to remove street vendors. This Government tried to reduce the informal economy through the provision of formal markets (the flea markets), loans and registration. Political changes may have negative or positive impacts on informal businesses.⁹²

Interestingly, 57 per cent of the interviewees of the EESE survey conducted in Malawi were women operating in the informal economy, whereas the corresponding share of men was only 35 per cent. This finding indicates that women are involved in informal economic activities more than their male counterpart, as is often the case in developing countries.⁹³

One aspect of the Malawian business environment that has certainly stimulated the development of informal firms is the fact that entrepreneurs must physically go to the only existing business registration centre in the country in Blantyre to register their businesses. In response to this, the current Government is seeking alternative solutions for registering enterprises. For example, one option that is being explored is online registration through district-level centres. However, this poses challenges as well, as Internet access tends to be problematic in the country.⁹⁴

Key Indicators

Regulatory Quality Index		2008	2009	2010	2011
The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.	Malawi	-0.48	-0.44	-0.57	-0.70
	Mozambique	-0.47	-0.37	-0.37	-0.4
	Tanzania	-0.5	-0.46	-0.44	-0.44
	Zambia	-0.45	-0.51	-0.49	-0.43
<i>Source:</i> World Bank, Governance Matters database. ⁹⁵	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.				

⁹² Kayuni M.; Tambulasi R. 2009. Political transitions and vulnerability of street vending in Malawi. Theoretical and Empirical Researches in Urban Management Number 3(12)/August 2009. Accessed on 7 June 2012, available at: <http://um.ase.ro/no12/7.pdf>

⁹³ Heintz, James; Valodia, Imraan. Informality in Africa: A Review. WIEGO Working Paper no 3. Women in Informal Employment Globalizing and Organizing (WIEGO). September 2008. Accessed on 11 December 2012, available at: wiego.org/sites/wiego.org/files/publications/files/Heintz_WIEGO_WP3.pdf

⁹⁴ Interview with Mr. Alexander Mtsendero, Principal of the Enterprise Development Department, Ministry of Industry and Trade, Lilongwe, 26 July 2012.

⁹⁵ <http://info.worldbank.org/>

Ease of Doing Business Rank		2010 (2011 report)	2011 (2012 report)	2012 (2013 report)
Ease of Doing Business Index ranks economies from 1 to 183, with first place being the best. A high ranking means that the regulatory environment is conducive to business operation. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. <u>Source:</u> World Bank, Doing Business. project. ⁹⁶	Malawi	132	151	157
	Mozambique	135	139	146
	Tanzania	131	133	134
	Zambia	90	90	94
	The index ranks economies from 1 to 183, with first place being the best.			

Other Useful Indicators

Starting a business rank		2009 (2010 report)	2010 (2011 report)	2011 (2012 report)	2012 (2013 report)
Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. <u>Source:</u> World Bank, Doing Business project. ⁹⁷	Malawi	128	132	139	141
	Mozambique	96	65	82	96
	Tanzania	120	122	117	113
	Zambia	94	57	68	74
	The index ranks economies from 1 to 181, with first place being 113th the best.				

3.4. Rule of law and secure property rights

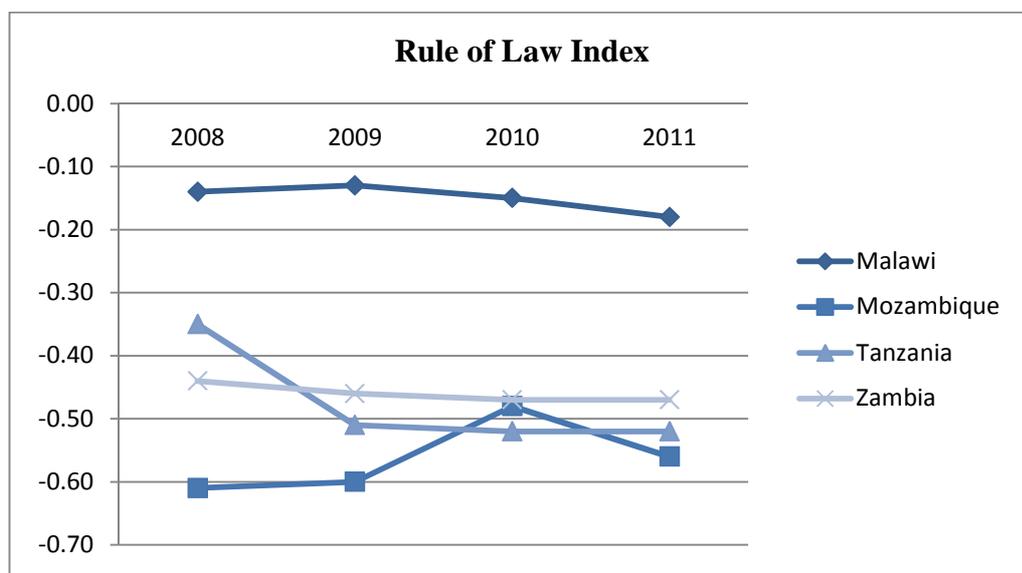
A formal and effective legal system which guarantees that contracts are honoured and upheld, the rule of law is respected and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society.

The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society. This includes the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence. Malawi does not perform very well in this area, though it does outperform its neighbouring countries, Mozambique, Tanzania and Zambia. In 2011, Malawi recorded a value of -0.18 in a range of values from -2.5 to 2.5, with higher values indicating better performance. The three other neighbouring countries registered values around -0.5 in the same year. Since 2005, the general situation has not changed substantially for the four countries. However, the Commercial Division of the High Court has put in place guideline provisions for contract enforcement. For example, there is a dedicated sheriff that enforces orders by the court. The Commercial Division was established in 2009 and has been fully functional ever since. Its main purpose is to settle commercial disputes. The Division has active branches in Lilongwe and Blantyre, and a branch in Mzuzu is being organized.⁹⁸

⁹⁶ <http://www.doingbusiness.org/EconomyRankings/>

⁹⁷ Ibid.

⁹⁸ Tripartite technical workshop, December 2012.



Source: World Bank, Governance Matters database.

A 2001 survey on traders in Malawi reveals that among agricultural commodity traders the level of contractual non-performance was as high as 41 per cent. Almost 200 cases a year of bad quality, disagreement over measures and ex post price renegotiation with suppliers were recorded. This corresponds to about 6 per cent of purchases. The fear of losing one's good reputation to others (in particular to suppliers) proved to be an effective deterrent to nonpayment.⁹⁹ This clearly indicates that traditional and cultural norms often prevail over the rule of law.

The EESE survey carried out in Malawi reveals that commercial law is not adequately implemented for settling commercial disputes, such as breaches of contract. Respondents divided by size of enterprise generally perceived commercial law as "sometimes ineffective", in percentages ranging from 33.3 per cent for those from large companies, to 39.2 per cent for interviewees from micro firms. Interestingly, over 20 per cent of respondents do not know about the effectiveness of commercial law in Malawi. In terms of the interviewees' perception concerning the capacity of the police to protect businesses from criminal behaviour, the survey reveals that almost half of male and female respondents think that this capacity is "low" or "very low". The survey also finds differences in the perceived capacity of the police between younger and older individuals. Specifically, 14 per cent of those aged 18-24 consider the capacity of the police to be "very high" as compared to only 9 per cent of respondents aged 55-60.

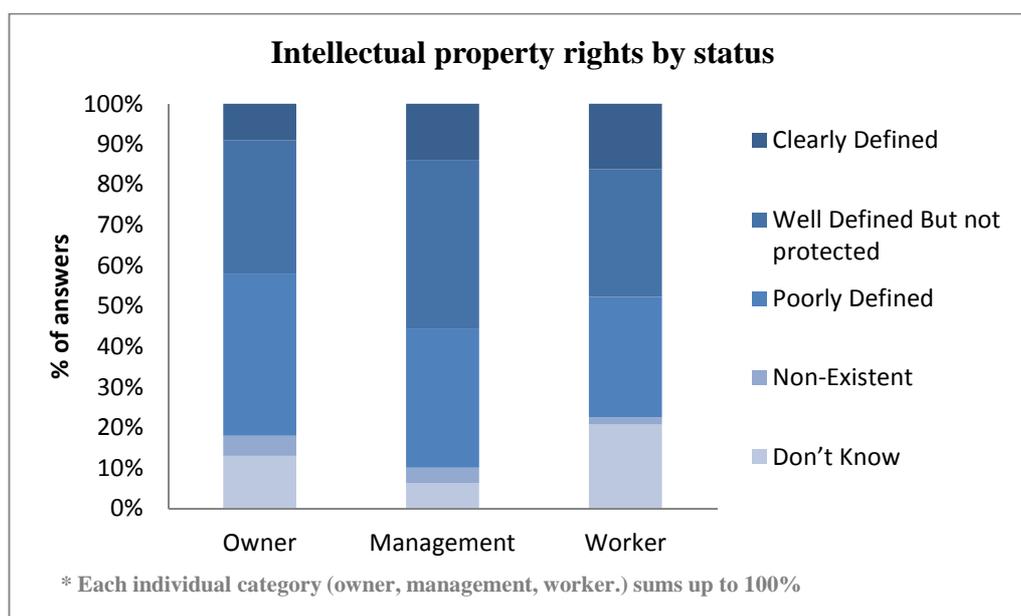
When it comes to assessing whether property rights are well defined and protected by law, Malawi scores better than Mozambique and Tanzania, and similar to Zambia. Its situation in this respect has been worsening from 4.3 in 2008 to 3.9 in 2012, on a scale from 1 to 7 where the highest value indicates better performance. Zambia performs better than Malawi reaching a value of 4.5 in 2012, and outperforms the world mean of 4.3 in the same year. As far as land ownership is concerned, in Malawi there are three major categories for controlling land: customary land, public land and private land. According to the customary system of land tenure, land in a village belongs to the community; individuals in the

⁹⁹ Gabre-Madhin E. 2009. Exchange, Contracts, and Property-Rights Enforcement. Institutional Economics Perspectives on African Agricultural Development, International Food Policy Research Institute, Chapter 4. Accessed on 22 June 2012, available at: http://www.ifpri.org/sites/default/files/publications/oc61abr_0.pdf#page=137

community have the right to cultivate it and sometimes use it as though they were the owners. The lack of explicit private ownership has led some researchers to conclude that land tenure is insecure. In Malawi, customary land tenure accounts for 69 per cent of the country's total land. However, in many developing countries, especially in rural areas, land registration may not necessarily confer more security than an existing traditional system.¹⁰⁰

The EESE survey conducted in Malawi indicates that the largest share of owners, managers and workers who were interviewed consider that physical property rights are well defined, but not well protected by law. Owners and managers share this view in higher proportions than workers (43.9 per cent and 42.5 per cent respectively). About one-third of each group claims that physical property rights are clearly defined.

While assessing whether intellectual property protection is weak and not enforced, or strong and enforced, on a scale from 1 to 7 with higher values corresponding to better performance, Malawi registers values which are rather good but which have slightly worsened in 2012. Of its neighbouring countries, Zambia outperforms Malawi achieving a level of 3.8 in 2012. Malawi scored 3.1 in 2008 and 3.6 in 2012, with the latter value being below the world mean of 3.8 in the same year. National stakeholders believe that intellectual property protection continues to be weak in the country and that this is an issue particularly for the youth.¹⁰¹ This view is confirmed by the EESE perception survey. The majority of owners (40 per cent) believe that intellectual property rights are "poorly defined", whereas the majority of managers and workers find that they are well defined, but poorly protected by law (41.8 per cent and 31.5 per cent respectively). Reportedly, most of the existing laws are outdated and do not reflect the current situation on the ground, including technological advancements. Final stages of review processes are underway.¹⁰²



Source: EESE Survey Malawi, 2012.

¹⁰⁰ Matchaya G. 2009. Land ownership security in Malawi. African Journal of Agricultural Research Vol. 4 (1), pp. 001-013. Accessed on 21 June 2012, available at: <http://www.academicjournals.org/ajar/pdf/pdf%202009/Jan/Matchaya.pdf>

¹⁰¹ Tripartite technical workshop, December 2012.

¹⁰² Ibid.

Key Indicators

Rule of Law Index		2008	2009	2010	2011
<p>The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence.</p> <p>Source: World Bank, Governance Matters database.¹⁰³</p>	Malawi	-0.13	-0.12	-0.14	-0.18
	Mozambique	-0.6	-0.0	-0.5	-0.56
	Tanzania	-0.34	-0.5	-0.51	-0.52
	Zambia	-0.47	-0.48	-0.49	-0.47
<p>Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.</p>					

Other Useful Indicators

Property rights		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
<p>The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law".</p> <p>Source: World Economic Forum, The Global Competitiveness Report.¹⁰⁴</p>	Malawi	4.3	4.2	4	3.9
	Mozambique	3.2	3.3	3.5	3.5
	Tanzania	3.7	3.7	3.5	3.6
	Zambia	4.5	4.1	4.1	4.5
	World (mean)	4.5	4.4	4.3	4.3
<p>1= poorly defined and not protected by law, 7=clearly defined and well protected by law.</p>					
Intellectual property protection		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
<p>The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1= weak and not enforced, 7=strong and enforced".</p> <p>Source: World Economic Forum, The Global Competitiveness Report.¹⁰⁵</p>	Malawi	3.4	3.8	3.8	3.6
	Mozambique	2.5	2.5	2.5	2.6
	Tanzania	3.1	3.3	3.3	3.1
	Zambia	3.6	3.6	3.6	3.8
	World (mean)	3.8	3.7	3.7	3.8
<p>1= weak and not enforced, 7=strong and enforced.</p>					

¹⁰³ <http://info.worldbank.org/governance/wgi/>

¹⁰⁴ <http://www.weforum.org/issues/global-competitiveness>

¹⁰⁵ Ibid.

3.5. Fair competition

In order for the private sector and sustainable enterprises to develop and grow, it is important to have competition rules, including those ensuring respect for labour and social standards. In addition, anti-competitive practices at the national level must be eliminated.

“New Business Density” indicates the number of newly registered, limited liability companies per 1000 working aged people (15 to 64 years old) in a given year. Malawi recorded very low rates up to 2009 when it fell to 0.08. In the same year Zambia registered a higher value, up to 0.88. However, this indicator refers to relatively large companies, which are much more common in Zambia than in Malawi, possibly because of the larger size of enterprises operating in Zambia’s extractive industry. Compared to the Sub-Saharan African average of 1.2 for 2009, both countries reflect comparatively poor performance rates.

The “Intensity of local competition Index” measures the level of competition in local markets from 1 to 7, 1 being limited and 7 being intense in most industries. The values recorded for Malawi decreased from 4.8 in 2008 to 3.9 in 2012. Of Malawi’s neighbouring countries, Tanzania and Zambia performed best, with the latter reaching a value of 5 in 2012. It is reported that there are few competitive markets in Malawi. This is due to the small size of the economy, which limits the production capacity and the number of market players. The formation of cartels and associations restricting competition is a relatively common phenomenon, particularly in the agriculture sector. The manufacturing sector, on the other hand, includes competitive markets. Competition in the financial sector has increased in recent years, but it seems that dominant and established players still lead the market and sometimes collude.¹⁰⁶

The “Effectiveness of Anti-Monopoly Policy Index” reflects the level of efficiency of anti-monopoly policy in promoting competition on a scale from 1 to 7 with higher values corresponding to better performance. Malawi has been improving in this regard over the period 2008 to 2011, when it reached a value of 4.1. However, in 2012 its performance worsened recording a level of only 3.9. Zambia outperformed Malawi achieving a value of 4.6 in the same year; the world mean was 4 in 2012. In Malawi, monopolies continue to characterize local air travel, electricity and water, and there seems to be limited competition in telecommunications.¹⁰⁷ This may be due to the fact that the telecommunication industry is heavily taxed and initial set-up costs are high, making it unappealing to business players.¹⁰⁸ The “Extent of Market Dominance Index” indicates whether corporate activity is dominated by only a few business groups or spread among many firms, in a range of values from 1 to 7 with higher values corresponding to more firms. Malawi has maintained relatively stable values over the period 2008 to 2012, reaching 3.2 in the latter year. This is lower than the world mean for 2012 of 3.8, and less than both Mozambique and Zambia.

Malawi is one of the few countries in Southern and Eastern Africa that has adopted a competition law, and it is one of the few countries in the world with a comprehensive competition policy.¹⁰⁹ The objectives of the 1998 “Competition and Fair Trading Act” are to encourage competition, establish the Competition and Fair Trading Commission, regulate

¹⁰⁶ Tsoka. 2006.

¹⁰⁷ Ibid.

¹⁰⁸ Tripartite technical workshop, December 2012.

¹⁰⁹ Sengupta R.; Dube C. 2008. Competition Policy enforcement experiences from developing countries and implications for investment. OECD Global Forum on international investment VII 27-28 March 2008, Session 1.3.: Competition policy. Accessed on 22 June 2012, available at: <http://www.oecd.org/dataoecd/42/55/40303419.pdf>

and monitor monopolies and concentrations of economic power, protect consumers, favour freedom of trade, and facilitate the expansion of entrepreneurship. A Consumer Protection Bill was also drafted in 2001 to address the specific needs of consumers. It provides for the establishment of a Consumer Protection Council, as well as for channels that consumers can use to remedy unfair trading practices.¹¹⁰ Some government interventions to facilitate competition include an action to prohibit price collusion among the bakeries and the elimination of price controls on petroleum products. However, the latter intervention unfortunately led to the creation of a cartel in the oil sector.¹¹¹ The Competition and Fair Trading Commission has been operational only since 2005, and competition policy implementation has remained weak in the country. Despite a commitment to promoting investment through the competition policy, the combined absence of a strong responsible agency and poor macroeconomic reforms to foster growth has led to low investment levels in Malawi.¹¹² In addition, attempts to attract foreign investors to partner with local firms have been neglected thus far, but could be encouraged with incentives in the future.¹¹³

Key Indicators

New business density		2007	2008	2009
The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year. Source: World Bank's Entrepreneurship Survey (World Development Indicators Online) ¹¹⁴	Malawi	0.09	0.11	0.08
	Mozambique	-	-	-
	Tanzania	-	-	-
	Zambia	0.89	1.03	0.88
	Sub Saharan Africa	1.2	1.4	1.2
The number of newly registered limited liability companies per 1,000 working-age people.				

Other Useful Indicators

Intensity of local competition index		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)". Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report. ¹¹⁵	Malawi	4.7	4.7	4.4	3.9
	Mozambique	3.8	4	3.9	3.8
	Tanzania	4.3	4.3	4.2	4.2
	Zambia	4.5	4.6	4.8	5
	World (mean)	4.9	4.8	4.8	4.8
1 =limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership.					

¹¹⁰ Tsoka. 2006.

¹¹¹ Qaqaya H.; Lipimile G. 2008. The effects of anti-competitive business practices on developing countries and their development prospects (New York and Geneva). United Nations Conference on Trade and Development (UNCTAD). Accessed on 22 June 2012, available at: http://unctad.org/en/docs/ditcc1p20082_en.pdf

¹¹² Sengupta & Dube. 2008.

¹¹³ Tripartite workshop, December 2012.

¹¹⁴ <http://data.worldbank.org/>

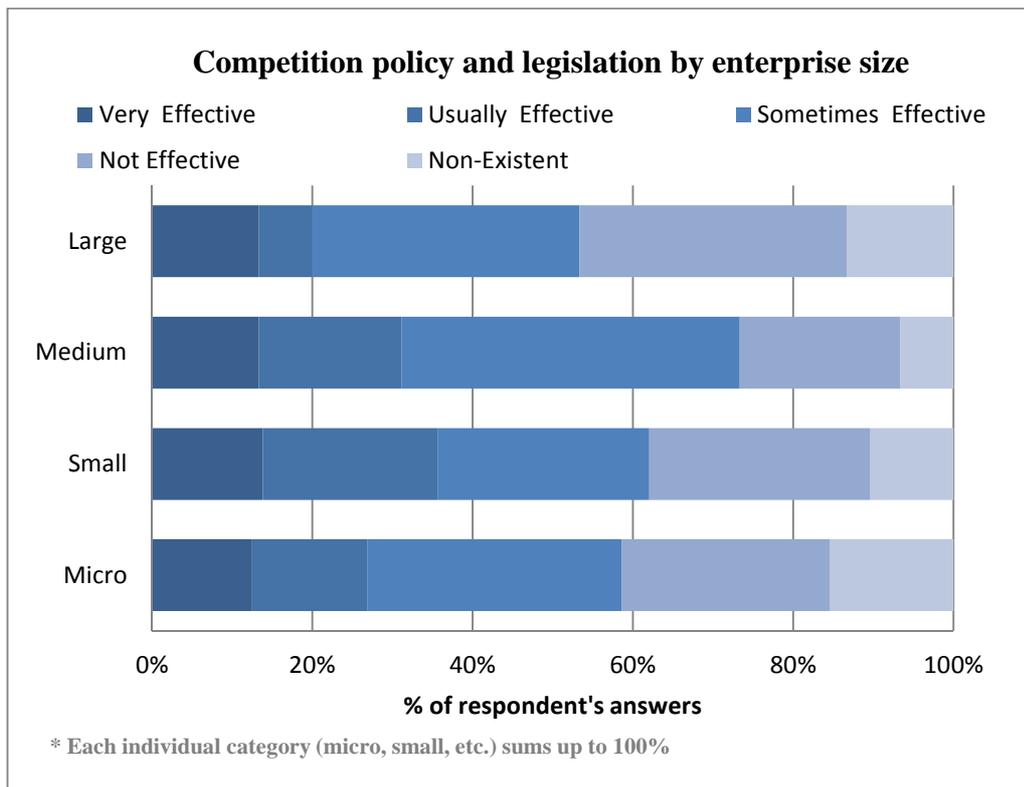
¹¹⁵ <http://www.weforum.org/issues/global-competitiveness>

Effectiveness of anti-monopoly policies		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)". Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report ¹¹⁶	Malawi	4	4.2	4.1	3.9
	Mozambique	3.2	3.6	3.3	3.1
	Tanzania	3.8	4	4	4.1
	Zambia	3.9	4.3	3.9	4.6
	World (mean)	4	4.1	4	4
	1=lax and not effective at promoting competition, 7=effective and promotes competition.				
Extent of market dominance		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)". Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report. ¹¹⁷	Malawi	3.2	3.3	3.2	3.2
	Mozambique	2.9	3.1	3	2.9
	Tanzania	3.3	3.6	3.6	3.3
	Zambia	3.7	3.5	3.6	4
	World (mean)	3.9	3.8	3.8	3.8
	1=dominated by a few business groups, 7=spread among many firms.				

The findings of the EESE survey conducted in Malawi tend to contradict the relatively positive picture described thus far. Specifically, when asked how they would describe competition policy and legislation in their country, about one-third of respondents expressed the feeling that they are only "sometimes effective", and approximately a quarter believe they are "ineffective".

¹¹⁶ <http://www.weforum.org/issues/global-competitiveness>

¹¹⁷ Ibid.



Source: EESE Survey Malawi, 2012.

About one-third of the respondents of the EESE survey also feel that the Government sometimes favours foreign investors over domestic ones by offering better conditions and incentives. This view is particularly supported by interviewees from large enterprises (40 per cent), and by those from start-up companies (37 per cent).

3.6. Information and communication technologies

In the era of the knowledge economy, the use of information and communication technologies (ICTs) is fundamental to the development of sustainable enterprises. Affordable broadband technology is also very important and should be facilitated.

The ICT Development Index compares developments in information and communication technologies in 154 countries. It combines several indicators, such as households with a computer, number of Internet users, literacy levels, etc. On a scale from 1 to 10 with higher values indicating better performance, Malawi steadily improved from 2002 to 2011, but remains at extremely low levels, recording a score of only 1.4 in 2011. Mozambique performs worse than Malawi, whereas Tanzania and Zambia reach values over 1.6 in 2011. The Network Readiness Index measures the extent to which a country leverages ICTs for enhanced competitiveness. On a scale from 1 to 7 with higher values corresponding to better performance, Malawi scores better than Mozambique and Tanzania and slightly worse than Zambia in 2011-12, reaching a moderate level of 3.05. Considering Internet Users per 100 people, Malawi performs substantially worse than its three neighbours, reaching only 3.3 per cent in 2011. In this regard, Tanzania is the best performing country of the four under consideration with a score of 12 per cent in the same year. This is compared to the world mean for 2010 equal to 29.7 per cent. When it comes to fixed-line subscriptions per 100 people, despite a comparatively high world mean of 17.2 per cent in 2010, Malawi outperforms its neighbours with a level of 1.13 per cent in 2011. However, Malawi shows a much lower level of mobile telephone subscriptions per 100 people compared to Mozambique, Tanzania and Zambia. In 2011, it reached 25.1 per cent, compared to Zambia's rate of 60.6 per cent in the same year, the highest of the four countries. Concerning

Broadband subscriptions per 100 people, in 2011 Malawi performed similarly to its three neighbours, reaching a level of only 0.06 per cent, compared to the 2010 world mean of 7.6 per cent. In 2009, SADC announced plans to begin the process of digital migration from analogue to digital broadcasting in the region. The foreseen completion date is 31 December 2013, two years before the ITU Analogue Switch Off deadline in 2015.¹¹⁸ In regards to this regional effort, one important concern is digital migration sensitization efforts.¹¹⁹

Key Indicators

ICT Development Index (IDI)		2007 (MIS Rep 2010)	2008 (MIS Rep 2010)	2010 (MIS Rep 2011)	2011 (MIS Rep 2012)
IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, including households with a computer, the number of Internet users and literacy levels. Source: International Telecommunication Union. ¹²⁰	Malawi	1.2	1.28	1.37	1.42
	Mozambique	0.97	1.05	1.26	1.28
	Tanzania	1.05	1.17	1.52	1.6
	Zambia	1.43	1.44	1.53	1.65
	Scale from 1 to 10, with lower scores reflecting lower development levels.				

Other Useful Indicators

Internet users (per 100 people)		2009	2010	2011
The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100. Source: International Telecommunication Union. ¹²¹	Malawi	1.07	2.26	3.33
	Mozambique	2.68	4.17	4.3
	Tanzania	10	11	12
	Zambia	6.31	10	11.
	World (mean)	26.5	29.7	-
	Number of users per 100 people.			

¹¹⁸SADC. Draft Plan of Action for Digital Broadcasting Migration in SADC. The Mauritius Working Forum on SADC Digital Broadcasting Migration. September 2009. Accessed on 14 December 2012, available at: <http://www.nbc.na/resources/Draft%20Plan%20of%20Action%20for%20Digital%20Broadcasting%20Migration%20in%20SADC.pdf>

¹¹⁹ Tripartite workshop, December 2012.

¹²⁰ <http://www.itu.int/pub/D-IND>

¹²¹ <http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx>

Fixed lines subscriptions (per 100 people)		2009	2010	2011
Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network. Source: International Telecommunication Union. ¹²²	Malawi	0.77	1.07	1.13
	Mozambique	0.36	0.38	0.37
	Tanzania	0.4	0.39	0.35
	Zambia	0.71	0.69	0.64
	World (mean)	17.8	17.2	-
	Number of subscribers per 100 people.			
Mobile cellular subscriptions (per 100 people)		2009	2010	2011
Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network. Source: International Telecommunication Union. ¹²³	Malawi	16.44	20.38	25.07
	Mozambique	26.12	30.88	32.8
	Tanzania	40.14	46.80	55.5
	Zambia	34.63	41.62	60.6
	World (mean)	68.3	78	-
	Number of subscribers per 100 people.			
Broadband subscribers (per 100 people)		2009	2010	2011
Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem or other high-speed technologies. Source: International Telecommunication Union. ¹²⁴	Malawi	0.03	0.03	0.06
	Mozambique	0.05	0.06	0.07
	Tanzania	0.01	0.01	0.01
	Zambia	0.08	0.08	0.06
	World (mean)	6.90	7.60	-
	Number of subscribers per 100 people.			

Despite the relatively negative picture that is reflected by the indicators presented above, Malawi is one of the regional leaders in ICTs. Specifically, several related reforms have been adopted, including the privatization of the fixed-line incumbent, the creation of an independent regulatory agency and the establishment of a competitive market for mobile services. Additionally, GSM telephone signals have been made widely available by the private sector without public subsidies. The main challenge regarding ICTs seems to be reducing the cost of services in order to make them widely accessible. High prices are due to the lack of a submarine cable along the East African coast and of fiber-optic links with

¹²² <http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx>

¹²³ Ibid.

¹²⁴ Ibid.

neighbouring capitals.¹²⁵ It is also believed that costs are high because telecommunication companies are few and adopt a market behaviour which is typical of cartels.¹²⁶ Some also report that Malawi lacks an ICT policy. Currently, a Communication Act is under preparation, but an adequate ICT regulatory framework is still missing. For this reason, Malawi is becoming a dumping ground for second-hand and over-used technology. Poor access to electricity is another major barrier preventing regular use of ICT among Malawians.¹²⁷ Other hindering factors include vandalism of ICT infrastructure (e.g. cables), and solar energy generators.¹²⁸

Respondents of the EESE survey were asked about the extent of development of laws relating to the use of ICTs (e.g. electronic commerce, data protection, digital signature). Nearly half of all interviewees think that laws relating to ICT are underdeveloped in Malawi. When asked about the extent to which small enterprises can afford ICT for their business activities, 63 per cent of interviewees believe that it is very difficult, and 10 per cent think it is impossible. Of those who find it impossible, 13 per cent are from informal businesses and 8 per cent from formal ones. Malawians, however, assess information and telecommunication in their country in relatively positive terms, as the chart in section 3.8 indicates.

3.7. Access to financial services

The creation and expansion of sustainable enterprises require access to financial resources. Considering Credit to Private Sector as a percentage of GDP, Malawi improved over the period 2005-11, reaching 19.66 per cent in 2011. Mozambique performs better and Zambia records a rate of only 12.27 per cent in 2011. The Credit Information Index measures the level of credit information available in a country through public or private registries to facilitate lending decisions. On a scale from 0 to 6, higher values indicate better performance. Malawi and Tanzania perform considerably worse than the other two neighbour countries, both maintaining values of 0 up to 2012. In sharp contrast, Mozambique and Zambia recorded values of respectively 4 and 5 in 2012. Information on potential borrowers is a crucial issue to avoid default cases. Malawi currently has no national identity cards. However, the National Registration Bureau was established and progress is underway to set up a national identification system that will lead to the issuing of national identities. Furthermore, two credit reference bureaus were established and have been operational following the enactment of the Credit Reference Act.¹²⁹

“Interest Rate Spread” measures the difference between lending rate and deposit rate. In this area, Malawi’s performance appears to be much worse than that of its three neighbouring countries. Malawi maintains generally stable values from 2005 to 2010, reaching in the latter year a level of 21.02 per cent. It is believed that the interest rate spread is high in the country

¹²⁵ Foster V.; Shkaratan M. 2011. Malawi’s Infrastructure, A continental perspective, Policy Research Working Paper 5598. The World Bank, Africa Region, Sustainable Development Department, March. Accessed on 12 June 2012, available at: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2011/03/17/000158349_20110317135225/Rendered/PDF/WPS5598.pdf

¹²⁶ Tripartite technical workshop, December 2012.

¹²⁷ Mkula C. 2012. Malawi lags behind technology. CAJ News Agency (Lilongwe). Accessed on 25 June 2012, available at: <http://cajnewsagency.com/index.php/investing/816-malawi-lags-behind-technology>

¹²⁸ Tripartite technical workshop, December 2012.

¹²⁹ Input from the Ministry of Industry and Trade.

because banks charge high operation cost and because financial institutions adopt a market behaviour which is typical of cartels.¹³⁰

Key Indicators

Credit to private sector (% of GDP)		2008	2009	2010	2011
<p>Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.</p> <p>Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators Online).¹³¹</p>	Malawi	11.9	14.24	19.04	19.66
	Mozambique	18.3	24.79	26.83	23.88
	Tanzania	16.08	15.33	16.21	17.89
	Zambia	14.97	11.98	11.51	12.27
	Sub Saharan Africa	56.23	63.26	62.18	58.32
	Credit to private sector (% of GDP).				

Other Useful Indicators

Credit information index		2009	2010	2011	2012
<p>Credit information index measures rules affecting the scope, accessibility and quality of credit information available through public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.</p> <p>Source: World Bank, Doing Business project.¹³²</p>	Malawi	0	0	0	0
	Mozambique	4	4	4	4
	Tanzania	0	0	0	0
	Zambia	3	5	5	5
	World	3	3.05	3.2	3.3
	0=less information to 6=more information.				
Interest rate spread		2007	2008	2009	2010
<p>Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time or savings deposits.</p> <p>Source: International Monetary Fund, International Financial Statistics and data files. (World Development Indicators Online)¹³³</p>	Malawi	21.74	21.78	21.75	21.02
	Mozambique	7.67	7.33	6.15	6.58
	Tanzania	7.39	6.73	7.06	7.98
	Zambia	9.67	12.51	14.97	13.52
	Sub Saharan Africa	9.97	8.27	8.1	9.7
	Interest rate spread (lending rate minus deposit rate, %).				

¹³⁰ Tripartite technical workshop, December 2012.

¹³¹ <http://data.worldbank.org/>

¹³² Ibid.

¹³³ Ibid.

The financial system in Malawi includes eleven licensed commercial banks, two discount houses, one leasing company, eight non-life and three life insurance companies, four DFIs, a young microfinance industry, and a recently established capital market. The three largest banks account for 65 per cent of total assets,¹³⁴ which would seem to support the possibility of cartel behaviour among these three institutions and hence, a lack of competition. Profitability of commercial banks is high, which decreases their incentive to look for new, more risky borrowers.¹³⁵ Nonetheless, 3 of the 11 commercial banks do currently offer credit services to SMEs.¹³⁶ Private sector credit has increased by about 30 per cent since June 2012 and the volume of non-performing loans has risen from less than 4 per cent at the end of 2011 to almost 8 per cent in October 2012. In an effort to contain inflation, stabilize the exchange rate and reduce risk in the financial system, the Reserve Bank of Malawi increased the interest rate in December 2012.¹³⁷ Thus, the already quite challenged business community in Malawi is presently confronting a base lending interest rate of 35 per cent as of 4th December 2012.¹³⁸

The World Bank Enterprise Survey data for 2009 indicates that access to finance is the main business environment constraint in Malawi. Specifically, high interest rates for loans and the lack of long-term financing are major obstacles. In addition, it is not possible for consumers to resolve their complaints against financial institutions as there are neither procedures for handling such complaints, nor non-judiciary dispute resolution mechanisms in place. In an effort to address these and other challenges, the Ministry of Finance adopted a Malawi National Strategy for Financial Inclusion (2010-2014).¹³⁹ Currently, the financial sector serves 35 per cent of micro and small entrepreneurs. Informal financial institutions reach some additional 20 per cent of the Malawian small and micro business community. At present, 59 per cent of small and micro entrepreneurs are financially excluded.¹⁴⁰ Over the past few years, development partners have tried to improve the general situation through technical cooperation. In 2011, the World Bank approved an allocation of USD 28 million for the second phase of a Financial Sector Technical Assistance Project (FSTAP) to facilitate access to credit in Malawi. The project provides support to improve the technical capacity of the Ministry of Finance and the Reserve Bank of Malawi, and to improve the legal and regulatory framework.¹⁴¹ UNCDF, UNDP, CORDAID, and the Government of Malawi are also jointly implementing a project to broaden access to financial services, particularly in rural areas.¹⁴²

¹³⁴ World Bank. 2010b. Project Appraisal Document for the Financial Sector Technical Assistance Project, Proposed credit in the amount of USD 19.840 million to the Republic of Malawi, (Lilongwe).

¹³⁵ Deraniyagala & Kaluwa. 2011.

¹³⁶ Interview with Mr. Charles Nangwale from the National Association of Business Women, Lilongwe, 26 July 2012.

¹³⁷ EIU. 2012c.

¹³⁸ National Bank of Malawi Interest Rates. National Bank of Malawi. 2012. Accessed on 14 December 2012, available at: <http://www.natbank.co.mw/rates/interest-rates.html>

¹³⁹ World Bank. 2010b.

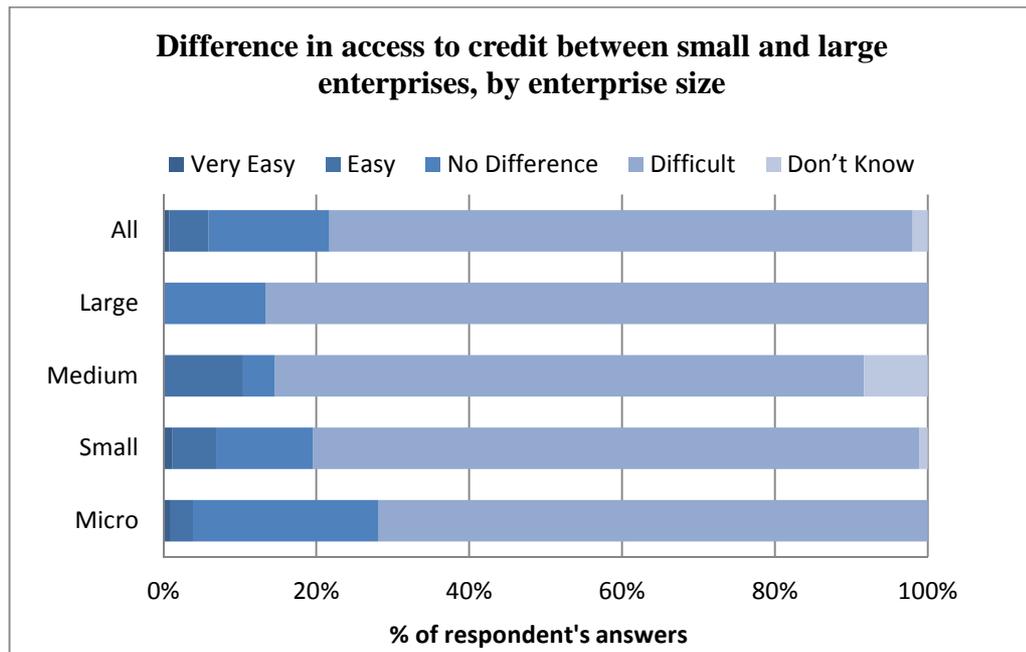
¹⁴⁰ Department of Trade and Industry; FinMark Trust; The World Bank; DFID; UNDP. 2012. FinScope Malawi SMME Survey 2012. Received on 10 July 2012.

¹⁴¹ World Bank. 2011. Banking the Unbanked in Malawi, World Bank approves \$28.2 million to increase Malawian's access to financial services (Washington). Press Release No: 2011/386/AFR. Accessed on 11 June 2012, available at:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MALAWIEXTN/0,,contentMDK:22867581~menuPK:50003484~pagePK:2865066~piPK:2865079~theSitePK:355870,00.html>

¹⁴² United Nations Capital Development Fund (UNCDF). 2012. UNCDF in Malawi. Accessed on 8 June 2012, available at: <http://www.uncdf.org/malawi>

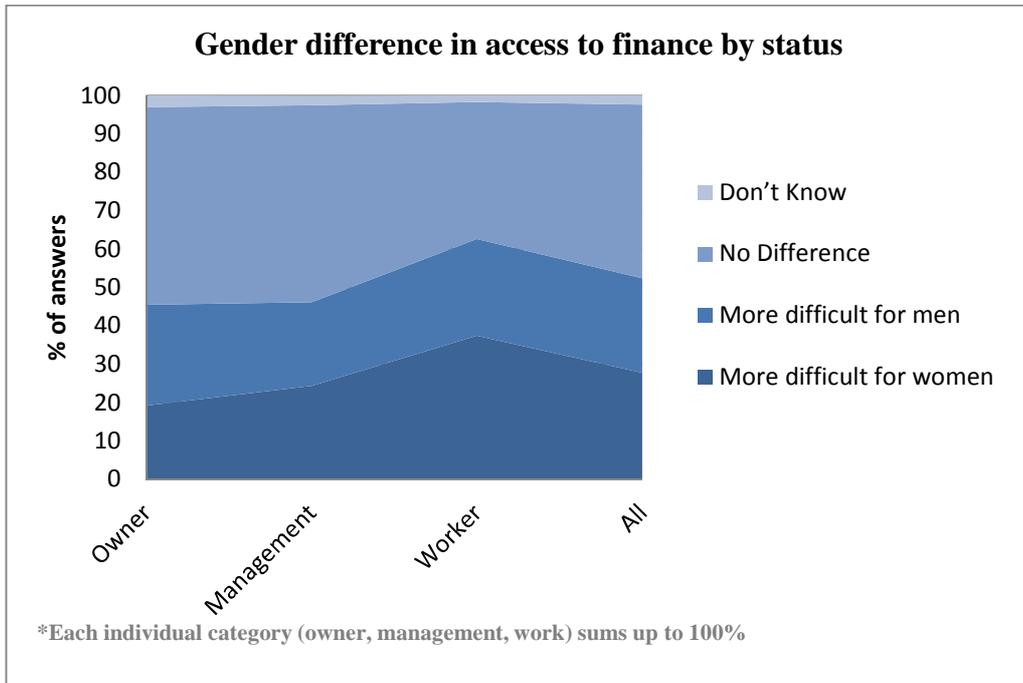
The EESE survey conducted in Malawi provides rich supplementary information on access to finance for Malawians. Respondents were asked how easy it is for a small business to obtain a bank loan with a good business plan only (i.e. without capital/collateral). For 53.6 per cent of interviewees it is difficult, and for 31.75 per cent it is impossible. Moreover, obtaining venture capital by entrepreneurs with innovative but risky projects is deemed to be very difficult for 58.5 per cent of respondents. A large majority of interviewees (76.3 per cent) think that it is more difficult for small firms to get credit compared to large companies. Paradoxically, a higher proportion of respondents from large enterprises (86.7 per cent) hold this view compared to those from micro businesses (71.8 per cent). There is a difference also in respondents from enterprises divided by firm age. About 88 per cent of respondents from start-up companies, as compared to 72 per cent of interviewees from established firms, believe that it is more difficult for small enterprises relative to large ones to obtain credit.



Source: EESE Survey Malawi, 2012.

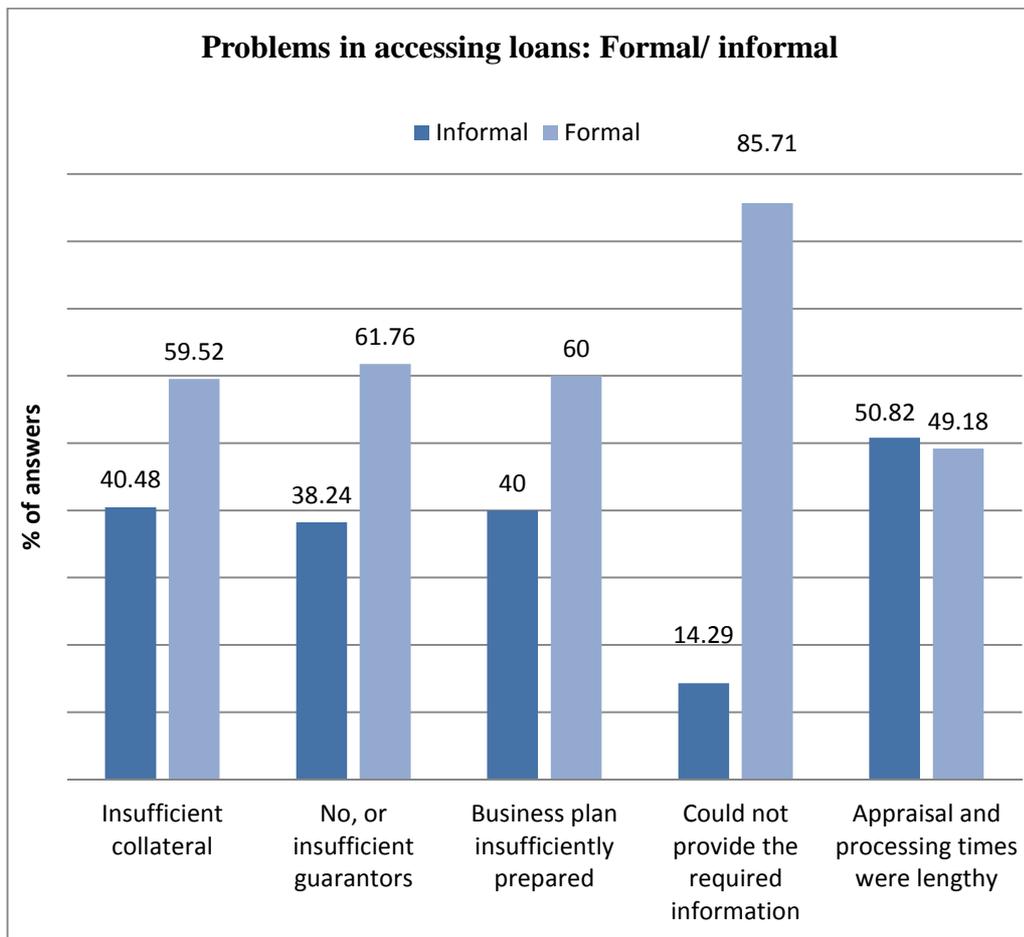
Access to finance is difficult for Malawians in general, but reportedly even more so for women. When women submit a business idea for funding, they lack credibility and bankers tend to simply reject their loan applications. Furthermore, female entrepreneurs are often unfamiliar with registration procedures. They delegate the registration task to their husbands who formally become the owners of their companies. When women request credit, their spouses must sign for the loan. Furthermore, properties are generally under men's names. This means that female entrepreneurs can rarely offer collateral for their own loans. Women business associations could help female entrepreneurs gain access to finance, but in Malawi such organizations are rare and tend to be weak.¹⁴³ However, perceptions emerging from the EESE survey are not in line with these findings. As shown in the chart below, a very large proportion of respondents (45.2 per cent) think that women and men have equal access to financial services. Only workers seem to believe that women have more difficulty accessing financial services than men. Considering interviewees by sex, 41 per cent of female respondents and 46 per cent of males think that there is no difference in access to formal finance services between men and women. It is also to be added that about 40 per cent of respondents feel that it is generally more difficult for young people to obtain credit.

¹⁴³ IDM Consulting and Associates. 2011. Final Report: Barriers to access business finance by women entrepreneurs in Malawi.



Source: EESE Survey Malawi, 2012.

The three most common sources of funding in Malawi are: microfinance institutions (for 45 per cent of respondents), banks (for 34 per cent) and credit unions (for 19 per cent of interviewees). The three most common funding sources where respondents have applied for credit are: microfinance institutions (40 per cent), banks (30 per cent) and credit unions (11 per cent). For respondents, the most common perceived problems in accessing loans include: insufficient collateral (for 49 per cent of interviewees), lengthy appraisal and processing time (for 23 per cent), no or insufficient guarantor (for 13 per cent), poor business plan (for 12 per cent), and insufficient provision of information (for 6 per cent). Considering respondents by their coming from a formal or an informal enterprise, it is possible to observe that the most common problem perceived by interviewees from informal businesses is the lengthy appraisal and processing time, whereas for respondents from formal firms it is the inability to provide the required information.



Source: EESE Survey in Malawi, 2012.

3.8. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems. Access to water and energy also plays a pivotal role. Enterprise surveys indicate that infrastructure constraints account for two-thirds of the productivity gap experienced by Malawian businesses. Malawi spends about 6 per cent of GDP on infrastructure, which is less than the average in other low-income African countries (approximately 10 per cent of GDP).¹⁴⁴

Data on physical infrastructure in Malawi is generally sparse. For example, data on electricity is missing and information on roads is not up-to-date. We only know that paved roads as a percentage of total roads were 45.02 per cent in 2003. However, it is interesting to observe that the percentage of paved roads in the three neighbouring countries was lower, even in the latest year for which information is available. Of Malawi and its neighbouring countries, the best performer in this area for which data is available is Mozambique, which registered a rate of 20.78 per cent in 2009. However, based on the 2003 data, Malawi is not notably underperforming relative to the world mean of 49.4 per cent for the same year. A substantial road investment programme has further improved the country's road network over the past few years. Road maintenance is now a priority issue as there are apparently more

¹⁴⁴ Foster & Shkaratan. 2011.

paved roads than necessary, and thus investments could be shifted from paving additional roads to maintaining existing ones.¹⁴⁵

Malawi performs particularly well in the percentage of population with access to improved water sources. In 2010, 83 per cent of the population had access to improved water sources. This percentage is much higher than the Sub-Saharan African average for the same year, which was only 61.13 per cent. Mozambique, Tanzania and Zambia reached far lower levels than Malawi. Malawi is one of the few African countries to have already reached the Millennium Development target for water, nearly ten years before the set deadline (2015). However, this impressive performance may be due to Malawi's much lower levels of reliance on service water and sanitation compared to other low-income countries in Africa; boreholes and traditional latrines are widespread in the country. It also seems that the percentage of Malawians relying on utility water has decreased over the past few years.¹⁴⁶

The Quality of Overall Infrastructure Index reveals whether a country's infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Over the period from 2008-11, Malawi consistently rose in the index, reaching 3.5 in the latter year. It unfortunately decreased to 3.2 in 2012. This is compared to the world mean of 4.3 for the same year, and relative to its three neighbouring countries, only Zambia outperformed Malawi. As Malawi is a landlocked country, the Quality of Port Infrastructure Index is meant to represent how accessible port facilities are, using a scale from 1 to 7 with higher values indicating better performance. Malawi has slightly improved in time reaching 3.7 in 2012. The world mean for the same year is 4.3, and of its neighbouring countries, only Zambia registered a higher score than Malawi.

In 2004, Malawi adopted a new legal framework in the power sector, and in 2007 two commissioners of a new Malawi Energy Regulatory Authority were appointed. From an institutional perspective, Malawi is one of the most advanced Sub-Saharan African countries in this sector. Nonetheless, the country suffers from unreliable power supplies. This is why formal enterprises tend to have backup generators. Underpricing is the main weakness of the power sector in Malawi, where tariffs cover only about 50 per cent of the total cost of power production. In response, price increases are being implemented and more are planned for the future.¹⁴⁷

Railways in Malawi do not compare favourably to those of other countries in the region. Relatively high tariffs and slow transit times prevent railways from being competitive vis-à-vis the road network. Malawi also has a small air transport market, as is typical of small African countries. Though service to the relevant hubs (Johannesburg and Lusaka) is deemed sufficient, over the past few years Malawi experienced declining air transport connectivity. Air Malawi is financially unsustainable and new private operators would undoubtedly improve the national air transport market.¹⁴⁸ There are currently six national airline companies in total and four international airports, two of which are major (Lilongwe and Blantyre). It is however to be noted that practically there are only two real international airports which are located in Blantyre and Lilongwe; then there are air strips (most notably in Mangochi, Karonga and Mzuzu).¹⁴⁹ The country is considered to be one of the highest cost countries in the world to fly into. It is believed that policy reforms and investments are

¹⁴⁵ Foster & Shkaratan. 2011.

¹⁴⁶ Ibid.

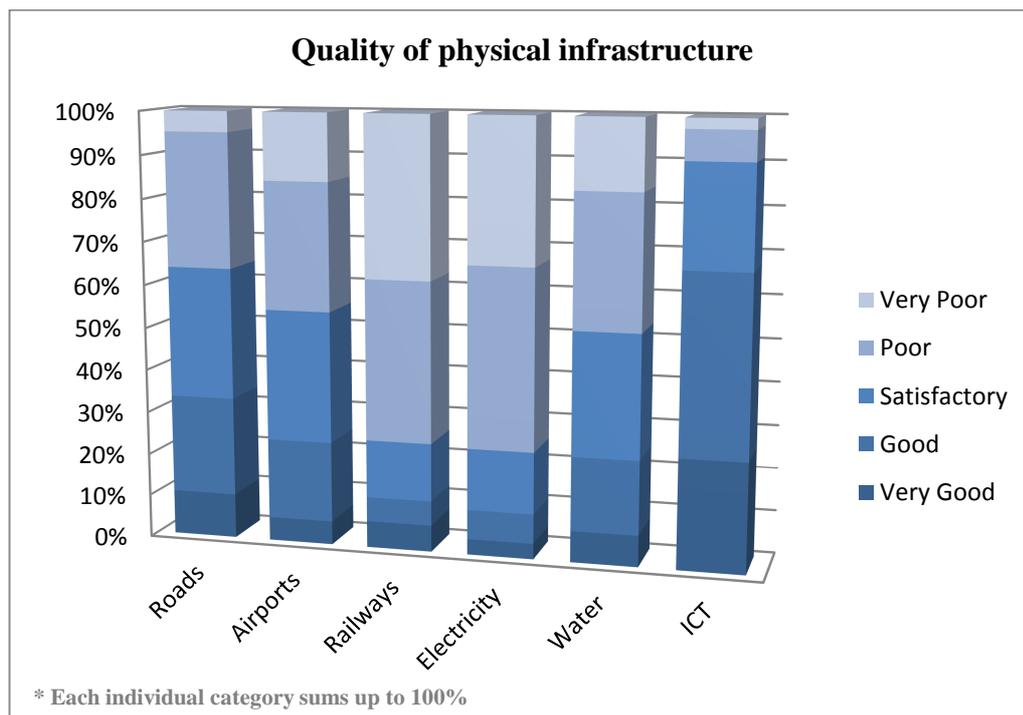
¹⁴⁷ Ibid.

¹⁴⁸ Ibid.

¹⁴⁹ Input provided by ECAM.

needed to address such excessive costs.¹⁵⁰ The MGDS II mentions energy, transport and water development as key priority areas, and two of the nine cross-cutting themes are the improvement of the energy system and transport in the country.¹⁵¹ In addition, one of the five priority ministries of the Economic Recovery Plan is the Ministry of Transport.¹⁵²

The EESE survey offers a somewhat different overview of physical infrastructure in the country. Roads and access to water, which seem to be areas where Malawi performs well, are perceived to be “satisfactory” or “poor” by 60 per cent of respondents in almost equal shares. The assessment of electricity is confirmed as being “poor” or “very poor” for a total of 75 per cent of interviewees. Railways are similarly assessed by approximately the same percentage of individuals. Airports are deemed to be “satisfactory” or “poor” for about 60 per cent of interviewees in almost equal shares. Surprisingly, over 60 per cent of respondents perceive telecommunications as “very good” (25.6 per cent) and “good” (41.6 per cent).



Source: EESE Survey Malawi, 2012.

¹⁵⁰ UNDP. 2011. Summary country Matrix, Country fast facts: Malawi. Accessed on 15 May 2012, available at: http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Trade,%20Intellectual%20Property%20and%20Migration/Tourism%20Paper-%20Country%20matrices/Malawi_DTIS_vfinal.pdf

¹⁵¹ The Government of the Republic of Malawi. The Malawi growth and development strategy II (2011-2012).

¹⁵² Input provided by ECAM.

Key Indicators

Electric power consumption (kWh per capita)		2007	2008	2009	2010
<p>Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution and transformation losses, and own use by heat and power plants.</p> <p>Source: International Energy Agency, Energy Statistics and Balances of Non-OECD Countries and Energy Statistics of OECD Countries (World Development Indicators Online).</p> <p>* Taken from Index Mundi.¹⁵³</p>	Malawi	*88.36	*75.44	*73.66	-
	Mozambique	473.1	462.41	453.35	443.72
	Tanzania	82.08	84.32	85.68	77.85
	Zambia	689.15	614.07	635.03	552.50
	World	2'833.12	2'858.20	2'806.92	2'974.78
	KWh per capita.				
Roads, paved (% of total roads)		2003	2008	2009	
<p>Paved roads are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete or with cobblestones, as a percentage of all the country' roads, measured in length.</p> <p>Source: International Road Federation, World Road Statistics (World Development Indicators Online).¹⁵⁴</p>	Malawi	45.02	-	-	
	Mozambique	-	20.78	20.78	
	Tanzania	8.63	7.38	6.67	
	Zambia	-	-	-	
	World	49.4	-	64.9	
	% of total roads.				

Other Useful Indicators

Improved water source (% of population with access)		2000	2005	2010
<p>Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres a person a day from a source within one kilometre of the dwelling.</p> <p>Source: World Health Organization and United Nations Children's Fund, Joint Measurement Programme (World Development Indicators Online).¹⁵⁵</p>	Malawi	62	73	83
	Mozambique	42	45	47
	Tanzania	54	54	53
	Zambia	54	58	61
	Sub Saharan Africa	54.76	58.31	61.13
	% of population with access.			

¹⁵³ <http://data.worldbank.org/data-catalog/> and <http://www.indexmundi.com/>

¹⁵⁴ <http://data.worldbank.org/data-catalog/>

¹⁵⁵ Ibid.

Quality of overall infrastructure Index		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Survey data: "General infrastructure in your country is: 1 = underdeveloped, 7= as extensive and efficient as the world's best". Source: World Economic Forum, The Global Competitiveness Report. ¹⁵⁶	Malawi	2.9	3.4	3.5	3.2
	Mozambique	2.7	3.3	3.1	3
	Tanzania	2.7	3	3.1	3.1
	Zambia	2.9	3.4	3.7	3.9
	World (mean)	4.1	4.3	4.3	4.3
	1= underdeveloped, 7= as extensive and efficient as the world's best.				
Quality of port infrastructure Index		2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
Survey data: "Port facilities and inland waterways in your country are: 1= underdeveloped, 7= as developed as the world's best. For landlocked countries, this measures the ease of access to port facilities and inland waterways". Source: World Economic Forum, The Global Competitiveness Report. ¹⁵⁷	Malawi*	3.5	3.6	3.6	3.7
	Mozambique	3.2	3.5	3.4	3.4
	Tanzania	2.8	3	3.3	3.3
	Zambia	3.7	3.6	4	4.1
	World (mean)	4.2	4.3	4.3	4.3
	1= underdeveloped, 7= as developed as the world's best. * Malawi is a landlocked country. For landlocked countries, the question is: How accessible are port facilities? (1= extremely inaccessible; 7= extremely accessible)				

¹⁵⁶ <http://www.weforum.org/issues/global-competitiveness>

¹⁵⁷ Ibid.

4. Social elements

4.1. Entrepreneurial culture

The general recognition of the key role of enterprises in development is a fundamental element for a conducive business environment. Strong public and private support to entrepreneurship, innovation, creativity, and the concept of mentorship are other important determinants of an enabling environment for sustainable enterprises. Identifying indicators showing the degree of entrepreneurial culture in a country is quite challenging. Moreover, for Malawi, secondary data in this area is scanty. “New Business Density” indicates the number of newly registered limited liability companies per 1000 working age people in a year. A poor country like Malawi is characterized by a large majority of micro and small enterprises that are normally not limited liability companies. This partly explains why Malawi registers very low values, from 0 in 2004 to 0.08 in 2009. Zambia, the only country selected for comparison for which information is available, records higher values and reached 0.9 in 2009. It is believed that the higher value for Zambia is due to the relative importance of its mining sector that is characterized by comparatively large companies.¹⁵⁸

It is observed that in Malawi there is a prevalent culture that does not recognize the value of entrepreneurial activity.¹⁵⁹ However, every second informal apprentice interviewed for an ILO study claimed that he/she wanted to start his/her own business after informal training. Nonetheless, the same report reveals that in Tanzania the percentage of informal trainees who started their own company is as high as 80 per cent.¹⁶⁰ A 2009 labour market survey on TEVET in Malawi reveals that the majority of the interviewed apprentices (57.6 per cent) nurse the hope of engaging in self-employment in order to obtain a higher income and autonomy.¹⁶¹

Gaps that exist in developing entrepreneurship in Malawi include business support services (mentoring, business advisory services, etc.) and entrepreneurial skills.¹⁶² Business training institutions do exist in the country, but the service costs are unaffordable to potential clients.¹⁶³ This is the main reason why many young people choose informal apprenticeship.¹⁶⁴

Of all owners interviewed for the EESE survey conducted in Malawi, 7 per cent are aged 15-24, and of all workers surveyed 23.7 per cent belong to the same age cohort. The

¹⁵⁸ Tripartite technical workshop, December 2012.

¹⁵⁹ Ministry of Industry and Trade, 2012a. Kamoto J. 2011. Final Report on SME policy analysis: Women entrepreneurship development and gender equality - Malawi Project (Lilongwe). Bunda College. This idea was also confirmed during focus group discussions held with Ms. Cinzia Tecce, private sector specialist from UNDP in Malawi, on 25 July 2012.

¹⁶⁰ Aggarwal A.; Hofmann C.; Phiri A. 2010. A study on informal apprenticeship in Malawi, Employment Sector, Employment Report No. 9, 2010, Skills and Employability department, ILO Decent work Team for Southern and Eastern Africa. Accessed on 7 June 2012, available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_151254.pdf

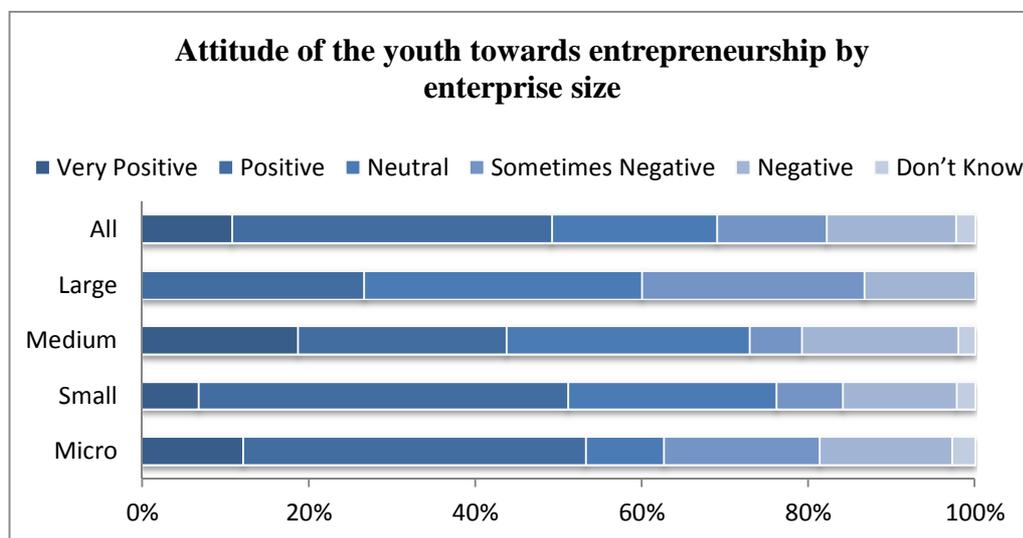
¹⁶¹ Jimat Development Consultants. Malawi Labour Market Survey. Technical, Entrepreneurial and Vocational Education and Training (TEVETA). Lilongwe, Malawi. 2009. Accessed on 11 December 2012, available at: <http://www.tevetamw.com/pdf/Malawi-Labour-Market-Survey-2009.pdf>

¹⁶² Tembo R.; Chinguo G. 2011. Report on gender, HIV & AIDS, disability, and youth mainstreaming workshop of the small and medium enterprises (SME) policy. National Association of Business Women (NABW).

¹⁶³ Kamoto. 2011.

¹⁶⁴ Aggarwal et al. 2010.

survey also reveals that almost half of respondents (49.6 per cent) believe that the attitude of the youth towards entrepreneurship is “positive” or “very positive”. Micro and small firms share this opinion in larger proportions (41 per cent and 44.3 per cent respectively) than medium and large companies. However, a non-negligible percentage of respondents (15.5 per cent) hold the opinion that the attitude of the youth towards entrepreneurship is “negative”. Of all interviewees, 37 per cent think that young men have a more positive attitude towards entrepreneurship than young women, whereas 28 per cent believe that the opposite is true.



Source: EESE Survey Malawi, 2012.

When asked whether the youth have the necessary skills and competencies to start and run their own businesses, respondents appear to have relatively divergent views. About 32 per cent believe that quite a few do, while 29 per cent of them feel that only a minority do. A considerable share (19.2 per cent) holds the opinion that most do, whereas an almost equal proportion (18.8 per cent) feels that most do not. The largest share of respondents (40.3 per cent) believes that there is no difference in skills between young men and young women. Nonetheless, a considerable proportion of interviewees (28.3 per cent) think that young men have much stronger skills than young women. With respect to the two most important aspects that young people value when applying for a job, an overwhelming majority (79 per cent) of the interviewees consider money to be a critical factor, followed by “job security”, with about 9 per cent. The survey also reveals that 45 per cent of respondents believe that new business start-ups have limited access to entrepreneurship training and business services, including business advice, mentoring, business plan development, research, product development, export promotion, etc. In addition, 23 per cent of respondents find that programmes supporting the growth of entrepreneurial activities rarely include or promote workers' rights.

Reportedly, in Malawi private sector development receives considerably less support from donors (only 1 per cent in 2010) compared with other sectors. However, private sector development projects are a promising approach to promoting entrepreneurial culture. In 2011, the African Development Fund granted Malawi a USD 10 million loan for a “Competitiveness and job creation support” project. This project seeks to address the main constraints of SMEs in the country, namely difficult access to credit, foreign exchange scarcity and low entrepreneurial skills. The project also includes institutional capacity

building and is being executed by the Ministry of Industry and Trade.¹⁶⁵ An effective way to boost entrepreneurial culture would be to change the education training curriculum to include entrepreneurial skills in schools starting from primary education.¹⁶⁶ It seems that the Ministry of Education is working on introducing entrepreneurship modules in the curriculums of secondary schools,¹⁶⁷ but work in this area began some ten years ago and is not at present substantially progressing.¹⁶⁸

Key Indicators

New Business Density		2007	2008	2009
The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year. <small>Source: World Bank's Entrepreneurship Survey (World Development Indicators Online).¹⁶⁹</small>	Malawi	0.09	0.11	0.08
	Mozambique	-	-	-
	Tanzania	-	-	-
	Zambia	0.89	1.03	0.88
	Sub Saharan Africa	1.2	1.4	1.2
The number of newly registered limited liability companies per 1,000 working-age people.				

4.2. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning is important in helping workers to find good jobs and enterprises to find the skilled workers they require. Data on Public Spending on Education for the sub-region is scanty. In general, it seems that Zambia has spent the least on education, reaching only 1.35 per cent of GDP in 2008, and Tanzania the most with 6.18 per cent in 2010. Malawi is performing relatively well in this area, recording a level of 5.72 per cent of GDP in 2011. Although the world average for this indicator is available only up to 2008, it appears that Malawi maintains levels of Public Spending on Education similar to world means. The Education Index measures the educational attainment on a scale from 0 to 1 with higher values indicating better performance. Over the period 2006 to 2011 Malawi has slightly improved, achieving a value of 0.4 in the latter year. This is moderately lower than that of Tanzania and Zambia, but higher than that of Mozambique. In 1994, the Malawi government launched a programme aimed at providing free primary education for all. Some 18,000 teachers were trained to meet the increasing demand and the enrolment rate rose throughout the country. In the 1990s, the participation of the private sector in education service delivery was favoured by

¹⁶⁵ African Development Bank. 2011. African Development Fund, project appraisal report: competitiveness and job creation support project, Malawi. Accessed on 14 May 2012, available at: [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Malawi%20-%20Approved%20-%20Competitiveness%20%20%20Job%20Creation%20Support%20Project-%20Appraisal%20Report%20En%20\(2\).pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Malawi%20-%20Approved%20-%20Competitiveness%20%20%20Job%20Creation%20Support%20Project-%20Appraisal%20Report%20En%20(2).pdf)

¹⁶⁶ Kamoto. 2011.

¹⁶⁷ Interview with Mr. Alexander Mtsendero, principal of the Enterprise Development Department of the Ministry of Industry and Trade, Lilongwe, 26 July 2012.

¹⁶⁸ Interview with Mr. Charles Nangwale from the National Association of Business Women.

¹⁶⁹ <http://data.worldbank.org/>

liberalization measures, but public institutions still provide education services to 99 per cent of primary school pupils and 77 per cent of secondary school students.¹⁷⁰ One outcome of the 1994 education programme could be the impressive results achieved regarding the literacy rate for youth aged 15-24, where Malawi outperforms Mozambique, Tanzania and Zambia. In this regard, Malawi achieves levels that surpass the world mean. Specifically, in 2009, 86.46 per cent of Malawian youth could read and write, with the world mean being 83.31 per cent in the same year. The adult literacy rate has also improved, reaching 73.69 per cent in 2009.¹⁷¹ It seems, however, that the Malawian educational system has certain weaknesses including high drop-out rates, particularly for girls, poorly equipped schools, a shortage of learning materials, high failure rates, and few and poorly trained teachers. In addition, there is a persistent and large gender gap in secondary and higher education, with substantially lower proportions of female students compared to males.¹⁷² At the tertiary level institutions however, it seems that this gender gap has been declining in recent years.¹⁷³

When it comes to the percentage of firms offering formal training to their permanent and full-time staff, despite sparse data, Malawi seems to perform notably better than its three neighbouring countries. The most recent available figure for Malawi is 48.42 per cent in 2009. The “Extent of Staff Training” indicates whether companies in a country invest little or heavily in training and employee development to attract, train and retain staff, on a scale from 1 to 7 with higher values indicating more investments. Malawi performed better than its three neighbouring countries until 2011. Unfortunately, its performance worsened in 2012 to reach a value of 3.7, which is slightly lower than the level recorded by Tanzania (3.8) and the world mean for that year (3.9).

In general, graduates are more likely than others to obtain a job and there is an excess of demand for skilled labour by the private sector.¹⁷⁴ This may account for the high level of training that enterprises offer to their staff. In other words, as private firms cannot recruit enough skilled labour, they must invest in their own staff to upgrade their employees' skill sets. Enterprises which are levy compliant can benefit from public funding covering up to one-third of the cost of in-house training requirements. Sadly, the aforementioned 2009 labour market survey reveals that over 70 per cent of surveyed firms engage in in-house training, but only a few make use of this facility. Many enterprises fail to implement in-house training mainly due to production pressure and a lack of training materials and qualified trainers.¹⁷⁵

Considering the period 2005-08, the number of graduates from secondary and tertiary institutions has risen, and a clear shortage of secondary schools and universities has become apparent. The technical and vocational education system is diverse, with a multitude of private and public providers offering what are, in general, inadequate services.¹⁷⁶ Many young people choose informal apprenticeship because this training system seems to offer a greater likelihood of securing a job afterward than does formal training.¹⁷⁷ In 1999, the Government established a Technical, Entrepreneurial, Vocational Education and Training

¹⁷⁰ Castel V.; Phiri M.; Stampini M. 2010. Education and employment in Malawi, Working Paper No. 110. June 2010. African Development Bank Group. Accessed on 17 July 2012, available at: <http://www.ilo.org/public/libdoc/igo/2010/457462.pdf>

¹⁷¹ UNESCO website: <http://www.indexmundi.com/facts/malawi/literacy-rate>

¹⁷² Castel et al. 2010.

¹⁷³ Duverall & Mussa. 2010.

¹⁷⁴ Castel et al, 2010.

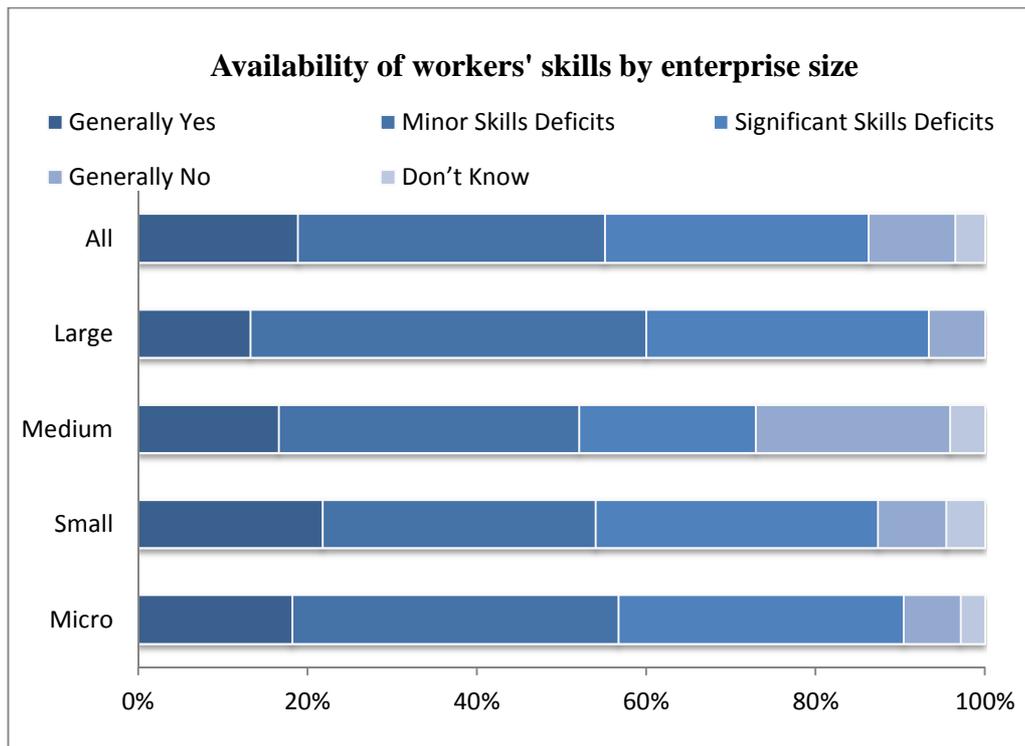
¹⁷⁵ Jimat Development Consultants, 2009.

¹⁷⁶ Duverall & Mussa, 2010.

¹⁷⁷ Aggarwal et al. 2010.

Authority (TEVETA). The mandate of this institution is to develop a demand-driven technical, entrepreneurial, vocational education, and training (TEVET) system covering both the formal and informal sectors in the country. It tries to meet the technical and vocational skills needs of the national market and runs the private sector programme granting subsidies for companies' in-house training.¹⁷⁸

The EESE survey carried out in Malawi provides interesting information on whether workers are perceived to have the skills demanded by business. Slightly over one-third of interviewees (36.2 per cent) believe that there are minor skills deficits among workers in the country. As the below chart shows, large companies share this opinion more than other types of firms grouped by size. However, about 31 per cent of all respondents feel that there are significant skills deficits. Reportedly, this may be due to the fact that many well-educated and skilled Malawians go abroad and are employed out of the country.¹⁷⁹



Source: EESE Survey Malawi, 2012.

When asked to what extent tertiary and vocational education in Malawi meets the needs of the business community, 55.3 per cent of respondents answer that it meets some of the existing needs, and 30.3 per cent find that it meets most needs. These findings tend to conflict with the negative picture reflected by the literature review described above. Also in contrast are the views from respondents on the investment of business in human resource development. About 80 per cent of respondents think that firms' investment through internal training is “moderate” to “small”, and approximately 72 per cent of interviewees feel that investment in human resource development through external training is also “moderate” to “small”. On brain drain, 40 per cent of respondents feel that it affects business very negatively.

¹⁷⁸ Jimat Development Consultants. 2009.

¹⁷⁹ Tripartite technical workshop, December 2012.

Some specific initiatives may improve the situation described so far. A USD 41 million five-year project has recently been launched to improve training and skills development in Malawi. This initiative is funded by the African Development Bank (ADB) with a contribution from the Malawian Government. It seeks to increase access to education and training and to match skills to existing employment opportunities. It targets students and teachers in secondary schools and institutions of higher education and TEVET in the country. It will also involve prospective employers.¹⁸⁰

Key Indicators

Public spending on education, total (% of GDP)		2008	2010	2011
Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels. <i>Source:</i> United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online). ¹⁸¹	Malawi	-	4.64	5.72
	Mozambique	-	-	-
	Tanzania	6.83	6.18	-
	Zambia	1.35	-	-
	World	4.56	-	-
	Public spending on education as share (%) of GDP.			
Education Index		2009	2010	2011
It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 1]) (with one-third weighting). <i>Source:</i> UNDP, Human Development Report. ¹⁸²	Malawi	0.4	0.41	0.41
	Mozambique	0.22	0.22	0.22
	Tanzania	0.45	0.45	0.45
	Zambia	0.48	0.48	0.48
	On a scale from 0 to 1. Higher values correspond to better performance.			
Firms offering formal training (% of firms)		2006	2007	2009
Firms offering formal training are the percentage of firms offering formal training programmes for their permanent, fulltime employees. <i>Source:</i> World Bank, Enterprise Surveys and World Development Indicators Online. ¹⁸³	Malawi	51.61	-	48.42
	Mozambique	-	22.08	-
	Tanzania	36.48	-	-
	Zambia	-	26.02	-
	% of firms offering formal training.			

¹⁸⁰ African Development Bank. 2012b. AfDB approves USD 41m funding to boost graduate employment in Malawi (Tunis). Accessed on 14 May 2012, available at: <http://www.afdb.org/en/news-and-events/article/afdb-approves-usd-41m-funding-to-boost-graduate-employment-in-malawi-8827/>

¹⁸¹ <http://data.worldbank.org/>

¹⁸² <http://hdr.undp.org/en/reports/global/hdr2011/>

¹⁸³ <http://www.enterprisesurveys.org/>

Extent of staff training		2008 (GC 08/09)	2009 (GC 09/10)	2010 (GC 10/11)	2011 (GC 11/12)	2012 (GC 12/13)
<p>The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".</p> <p><u>Source:</u> World Economic Forum, The Global Competitiveness Report.¹⁸⁴</p>	Malawi	3.8	3.8	4	3.9	3.7
	Mozambique	3.3	3.7	3.4	3.3	3.2
	Tanzania	3.6	3.6	3.4	3.6	3.8
	Zambia	3.7	3.5	3.8	3.7	3.5
	World (mean)	4	4	4	4	3.9
	1= to invest little in training and employee development, 7= to invest heavily to attract, train, and retain employees.					
Literacy rate, youth total (% of people ages 15-24)					2009	
<p>Youth literacy rate is the percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life.</p> <p><u>Source:</u> United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators Online).¹⁸⁵</p>	Malawi					86.46
	Mozambique					70.87
	Tanzania					77.42
	Zambia					74.59
	World					83.31
	% of people.					

4.3. Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed.

The GINI Coefficient measures the extent to which the distribution of income among individuals or households within an economy is equal. Absolute equality corresponds to a value of 0, whereas absolute inequality is represented by 100. Available data in Malawi is very scanty. However, it can be observed that Malawi has improved towards a more equal distribution of income, moving from 50.31 in 1998 to 39.02 in 2004. This trend seems to have continued throughout the period 2004-08, when the proportion of the poor decreased from 52 per cent to 40 per cent. In addition, the share of ultra poor declined from 22 per cent to 15 per cent over the same period. In Malawi wages are very low, with minimum wages being below the poverty line. In addition, there is anecdotal evidence showing that some formal firms pay less than minimum wage.¹⁸⁶ Of the three countries chosen for comparison, Tanzania presents the lowest GINI Coefficient values, indicating a more equal distribution of income, while Zambia presents the highest.

The Gender-related Development Index measures average achievements in long and healthy life, knowledge and a decent standard of living, adjusted to account for inequalities

¹⁸⁴ <http://www.weforum.org/issues/global-competitiveness>

¹⁸⁵ <http://data.worldbank.org/>

¹⁸⁶ Duverall & Mussa. 2010.

between men and women. Higher values indicate a better situation. Malawi has slightly improved over time, reaching 0.49 in 2009. Its three neighbouring countries used for comparison perform in a similar way, with Tanzania reflecting a slightly better situation and Mozambique a slightly worse one. The Gender Equality Rating measures the extent to which a country has implemented institutions and programmes to enforce laws and policies aimed at promoting equal access for men and women to education, health, the economy, and legal protection. The rating is on a scale from 1 to 6 with higher values indicating better performance. Malawi maintained a level of 3.5 from 2005 to 2011, performing above the Sub-Saharan African average of 3.2 in 2011. The same can be said of Mozambique, whereas Tanzania and Zambia have slightly worsened over time. The Gender Inequality Index measures the loss due to inequality in achievements in health, empowerment and the labour market. Values range from 0, reflecting perfect equality, to 1, reflecting total inequality. Data is available only for 2010 and 2011. Nonetheless, it can be concluded that Malawi has improved, reaching a value of 0.594 in 2011. Of its three neighbouring countries, only Tanzania performs slightly better. The Female Economic Activity Index measures the share of women over 15 who work in industry, agriculture or services as a percentage of men. Malawi improved in this area over the period 2003-05, recording a rate of 95 per cent in the latter year. Mozambique outperforms Malawi, whereas Zambia registers the lowest values of the four countries considered.

In Malawi there are 4 main tribes, two of which, the Chewa and Lomwe tribes, are female-dominated. Women are considered to be pillars of society, but are nonetheless restricted to the home and performing family care responsibilities. Paradoxically, such female-dominated societies prevent women from attending school and from having an economically active life. Women's role is to stay at home. Northern tribes, which are male-based, do allow women to go to school and do not marginalise them by forcing them to take care of the family.¹⁸⁷ In Malawi there are both matrilineal and patrilineal systems of inheritance. Under the former system, land is handed down through the female line. Although this system is under great pressure, a large proportion of land is still transferred through women who thereby maintain some level of power. In a system based on land titles, some women may sell their titles because of their unfavourable economic conditions. This worsens their situation as it may be very difficult for them to purchase land again. Such a situation does not occur in a matrilineal system where women maintain control of land over time.¹⁸⁸ However, the majority of land in the country is inherited, owned and operated by men.¹⁸⁹

In general, women are less educated than men which lowers their employment prospects. Similarly, they are more likely than their male counterparts to be economically inactive and are usually engaged in farming. Men are present in waged employment in much higher proportions than women, though gender gaps disappear among highly educated individuals with university degrees.¹⁹⁰

The 1994 constitution of Malawi specifically mandates gender equality, the promotion of women's rights, and the prohibition of any kind of discrimination. A Gender Equality

¹⁸⁷ Interview with Mr. Brain Ng'oma, Chief of Planning, Ministry of Labour, Lilongwe, 26 July 2012.

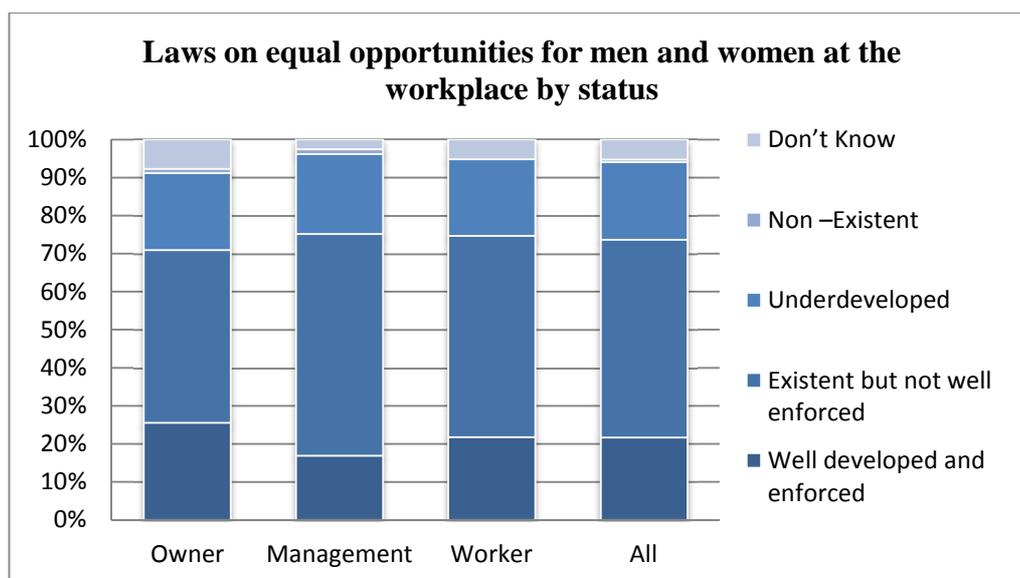
¹⁸⁸ Matchaya. 2009.

¹⁸⁹ FAO. 2011b. Gender Inequalities in Rural Employment in Malawi, Policy Context, Malawi country profile, Appendix 1 - Policy Context, prepared by the gender, equity and rural employment division of FAO. Accessed on 18 May 2012, available at: http://www.nso.malawi.net/images/stories/data_on_line/general/FAO%20Gender%20Inequalities/MALAWI%20CP-Appendix1%20PolicyContext.pdf

¹⁹⁰ Castel et al. 2010.

Statute has been drafted and there already exists a National Gender Policy for the period 2007-11. However, progress towards gender equality in society has been slow due to the existing discrepancy between formal and customary law.¹⁹¹ Furthermore, the gender policy has not been revived.¹⁹²

The EESE survey conducted in Malawi reveals that for about 52 per cent of interviewees, laws supporting equality of opportunities for men and women at the workplace are existent but not enforced. Owners have more positive views in this regard than managers and workers. Additionally, they believe at a higher proportion than either other group, that laws on equal opportunities at the workplace are well-developed.



Source: EESE Survey Malawi, 2012.

In terms of equality of opportunities in access to formal schooling by men and women, slightly over half of male and female respondents think that it is equal. Concerning access to vocational and technical education, 38 per cent of female interviewees believe that it is equal, while 48 per cent of male respondents hold this view. As far as equality of employment opportunities is concerned, the survey reveals that 49 per cent of female respondents think that men are favoured, while 29 per cent of male interviewees hold a similar view.

¹⁹¹ FAO. 2011b.

¹⁹² Input provided by ECAM.

Key Indicators

GINI coefficient		2006	2007	2008		
<p>Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.</p> <p>Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments.¹⁹³</p>	Malawi	-	-	-		
	Mozambique	-	-	45.66		
	Tanzania	-	37.58	-		
	Zambia	54.63	-	-		
	0= perfect equality, 100= perfect inequality.					
Labour force participation rate		2006	2007	2008	2009	2010
<p>The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.</p> <p>Source: ILO KILM.¹⁹⁴</p>	Malawi	83.10	82.10	82.80	82.70	82.6
	Mozambique	85.50	85.30	85.20	85.00	84.9
	Tanzania	90.80	90.80	90.70	90.70	90.6
	Zambia	80.10	80.00	80.00	79.90	79.8
	The lower the value, the more heavily a society is penalized for having inequalities.					
Gender-related Development Index (GDI)		2006 (Report 2006)	2007 (Report 2007/ 2008)	2009 (Report 2009)		
<p>A composite index measuring average achievement in the three basic dimensions captured in the human development index – a long and healthy life, knowledge, and a decent standard of living – adjusted to account for inequalities between men and women.</p> <p>Source: UNDP Human Development Report.¹⁹⁵</p>	Malawi	0.394	0.432	0.49		
	Mozambique	0.387	0.373	0.395		
	Tanzania	0.426	0.464	0.527		
	Zambia	0.396	0.425	0.473		
	The lower the value, the more heavily a society is penalized for having inequalities.					
Gender empowerment measure		2006 (Report 2006)	2007 (Report 2007/ 2008)	2009 (Report 2009)		
<p>A composite index measuring gender inequality in three basic dimensions of empowerment – economic participation and decision-making, political participation, and decision-making and power over economic resources.</p> <p>Source: UNDP, Human Development Report.¹⁹⁶</p>	Malawi	-	-	-		
	Mozambique	-	-	-		
	Tanzania	0.597	0.597	0.539		
	Zambia	-	-	0.426		
	The lower the value, the more heavily a society is penalized for having inequalities.					

¹⁹³ <http://data.worldbank.org/>

¹⁹⁴ <http://kilm.ilo.org/>

¹⁹⁵ <http://hdr.undp.org/en/reports/>

¹⁹⁶ Ibid.

Gender Inequality Index (GII)		2010 report	2011 report	
The Gender Inequality Index is a composite index measuring loss in achievements in three dimensions of human development—reproductive health, empowerment and labour market—due to inequality between genders. Source: UNDP, Human Development Report. ¹⁹⁷	Malawi	0.758	0.594	
	Mozambique	0.718	0.602	
	Tanzania	-	0.59	
	Zambia	0.752	0.627	
	Values range from 0 (perfect equality) to 1 (total inequality).			
Female economic activity		2003 (Report 2005)	2004 (Report 2006)	2005 (Report 2007/2008)
Female economic activity is a measure of women over the age of fifteen who are working in industry, agriculture, or services as a percent of males. Source: UNDP, Human Development Report. ¹⁹⁸	Malawi	90	95	95
	Mozambique	92	102	102
	Tanzania	93	95	95
	Zambia	74	73	73
	% aged 15 and older.			

4.4. Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, are key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. The EESE survey carried out in Malawi indicates that over 70 per cent of interviewees feel that poor health greatly affects productivity at the workplace.

Secondary information on social protection in Malawi is largely missing. Only data on Public Expenditure on Health as a percentage of GDP is available for this country. Considering the period 2002 to 2010, a fluctuating pattern can be observed. The peak was reached in 2005 and 2006, when the proportion was over 6 per cent. Thereafter the share declined up until 2009 when it reached 4.4 per cent. In 2010 a slight decline to 4 per cent was recorded. Of the neighbouring countries considered for comparison, in 2010 Tanzania registered an equal value to Malawi, whereas Mozambique reached a lower percentage. Malawi surpassed the Sub-Saharan African average of 2.9 per cent for the same year.

The Malawi Government is implementing a Health Sector Strategic Plan covering the period 2011-2016. Within this plan, malaria will remain a focus area, as the disease is the principal cause of morbidity and mortality in the country. In 2003, a National HIV/AIDS Policy was adopted. The objectives of the policy are to prevent the spread of HIV, reduce HIV vulnerability, improve the provision of treatment, care and support for people living

¹⁹⁷ <http://hdr.undp.org/en/reports/>

¹⁹⁸ Ibid.

with HIV, and mitigate its social and economic effects on individuals, families and communities.¹⁹⁹

Considerable progress has been made in reducing the spread of HIV/AIDS. Specifically, the 2010 Malawi Demographic and Health Survey reveals that over a period of five years adult HIV prevalence decreased from 12 per cent to 10.6 per cent, and mortality as a share of overall deaths declined from 11 per cent to 3 per cent.²⁰⁰

In 2011, the Government adopted a Pension Act providing for mandatory pension for all employees. The Act excludes those whose salary is below a specific threshold and who are covered by the provision of a gratuity on termination of employment introduced in 2010 with the adoption of the Employment Amendment Act.²⁰¹ These two acts began to run concurrently in 2011.²⁰² Only a few employers offer voluntary medical aid schemes. Liability for compensation lies with individual employers.²⁰³ Malawi has no occupational safety and health policy, though there is an Occupational Safety, Health and Welfare Act which was adopted in 1997. This act regulates working conditions in terms of safety, health and employees' welfare and deals with the regulation and prevention of accidents at the workplace.²⁰⁴ In addition, in 2012 an EU-funded National programme on OSH was launched.²⁰⁵ The 2000 Worker's Compensation Act regulates the compensation of injuries suffered or diseases contracted at the workplace, or for deaths resulting from such injuries or diseases. It also envisages the creation of a Workers' Compensation Fund, though one has not yet been established. The main health insurance provider in the country is the Medical Aid Society of Malawi,²⁰⁶ although other new providers exist, such as Momentum Health and Horizon.²⁰⁷

When asked about maternity protection in Malawi, 46 per cent of respondents assess it as "satisfactory". Other interviewees were divided in their opinions, with 25.7 per cent of them describing it as "well-functioning" and 24.3 as "underdeveloped". Perceptions on how statutory social security contributions affect business are quite diverse as well. Some 29 per cent of interviewees think these contributions are beneficial, whereas about 23 per cent feel they have a negative impact. It should be noted that close to 31 per cent of respondents do not know how business is affected by statutory social security contributions. Regarding occupational safety and health (OSH) practices, a large share of interviewees (43 per cent) believe that these are not very well sensitized and implemented by enterprises in Malawi. One factor accounting for the insufficient implementation of OSH practices may be the poor inspection capacity of the Ministry of Labour.²⁰⁸

Poverty and vulnerability are widespread in Malawi and social protection is a pillar in the Malawi Growth and Development Strategy. However, it seems that the development of

¹⁹⁹ FAO. 2011b.

²⁰⁰ National Statistical Office (Malawi), USAID, UKAID, PEPFAR, UNFPA, UNICEF, CDC. 2011. Malawi demographic and health survey 2010. Accessed on 23 May 2012, available at: http://www.nso.malawi.net/images/stories/data_on_line/demography/MDHS2010/MDHS2010%20report.pdf

²⁰¹ ILO. 2011.

²⁰² Input provided by ECAM.

²⁰³ World Bank. 2010b.

²⁰⁴ FAO. 2011b.

²⁰⁵ Input provided by ECAM.

²⁰⁶ FAO. 2011b.

²⁰⁷ Input provided by ECAM.

²⁰⁸ Tripartite technical workshop, December 2012.

social protection policy has largely been a donor-driven process in the country. Donor-funded social protection programmes include a range of safety nets and social protection instruments, such as targeted nutrition programmes, public works projects, school feeding schemes, food transfers, and more recently cash transfers.²⁰⁹

Key Indicators

Old age expenditure (% of GDP)		1992	1993	1994		
Old age expenditure as a percentage of GDP. <i>Source:</i> ILO Social Security Inquiry. ²¹⁰	Malawi	-	-	-		
	Mozambique	-	-	-		
	Tanzania	-	-	-		
	Zambia	2.34	-	-		
Old age expenditure as percentage of GDP.						
Public expenditure on health (% of GDP)		2007	2008	2009	2010	
Public expenditure on health as percentage of GDP - Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds. <i>Source:</i> World Health Organization (WHO) WHOSIS133 and World Development Indicators CD-ROM and UNDP Human Development Report. ²¹¹	Malawi	4.5	4.1	4.4	4	
	Mozambique	3.5	2.9	3.9	3.7	
	Tanzania	3.7	3.4	3.7	4	
	Zambia	3.25	3.64	3.6	-	
	Sub Saharan Africa	2.8	2.8	3.1	2.9	
% of GDP.						
Coverage by health care (% of total health care)		2006	2007	2008	2009	2010
Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator). <i>Source:</i> World Health Organization WHOSIS. ²¹²	Malawi	-	-	-	-	-
	Mozambique	-	-	-	-	-
	Tanzania	77.7	74.4	84.0	85.9	86.4
	Zambia	73.6	71.4	72.8	72.1	73.5
% of total health care.						

²⁰⁹ Devereux S.; Dorward A.; Sabates-Wheeler R.; Poulton C.; Guenther B.; Al-Hassan R. 2008. Linking Social Protection and Support to Small Farmer Development. A paper commissioned by FAO. Accessed on 16 July 2012, available at: http://www.fao.org/es/esa/pdf/workshop_0108_social_protection.pdf

²¹⁰ <http://hdr.undp.org/en/reports/>

²¹¹ <http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>

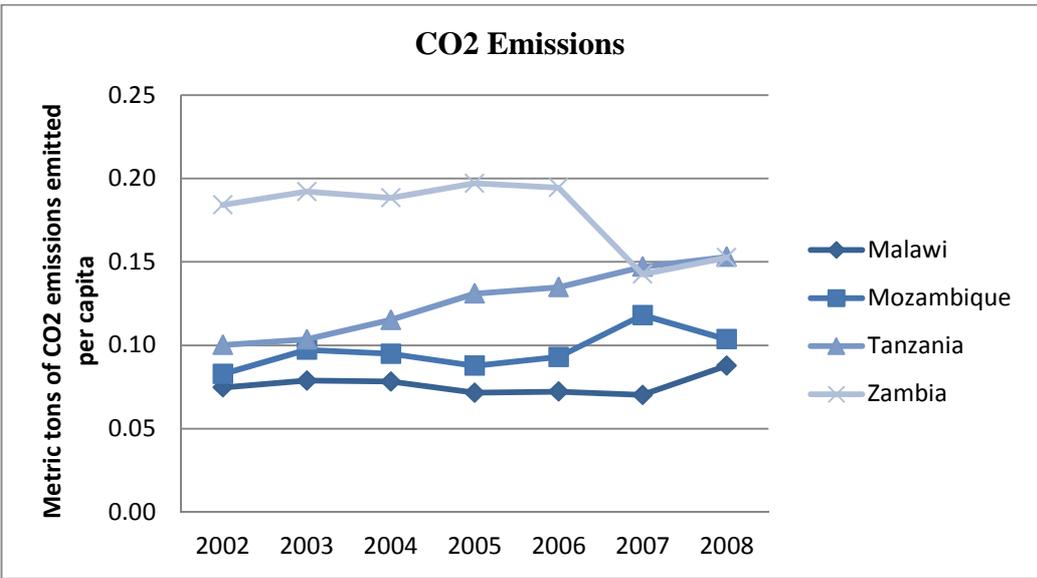
²¹² Ibid.

5. Environmental element

5.1. Responsible stewardship of the environment

In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. The development of sustainable enterprises and the protection of the environment require sustainable production and consumption patterns.

The Environmental Sustainability Index benchmarks the ability of nations to protect the environment over the next several decades. Higher values indicate better performance. From 2001 to 2005 Malawi improved its ratings, reaching 49.3 in the latter year. However, it still falls short of the values recorded for Tanzania and Zambia in 2005. Considering Total Ecological Footprint, where lower values indicate better performance, Malawi has worsened its performance over the period 2005-08. Its neighbouring countries used for comparison do not record any better value and Tanzania registers 1.2 in 2008, the highest value of the four countries. However, the world mean for that year is notably worse than the values recorded by the four countries. No data is available for Malawi on the Environmental Performance Index, though additional information can be obtained by considering other indicators. For example, CO2 emissions in metric tonnes per capita indicate that Malawi has only slightly increased its emission level, reaching 0.09 in 2008. Its three neighbouring countries have all recorded higher levels of CO2 emissions. Only Zambia registers a fluctuating, but generally declining pattern, which may be the product of a real effort by the country to reduce global pollution.



Source: Carbon Dioxide Information Analysis Center, Environmental Sciences Division, Oak Ridge National Laboratory, Tennessee, United States (World Development Indicators Online).²¹³

Malawians heavily depend on the quality of their environment. About 85 per cent of them live on rain-fed agriculture, and soil, water, forests, and biodiversity play a pivotal role in their daily subsistence. For this reason, Malawians are extremely vulnerable to environmental shocks, including floods and droughts, as well as the consequences of climate

²¹³ <http://data.worldbank.org/data-catalog/world-development-indicators>

change.²¹⁴ Since the 1990s, protected areas corresponded to 21 per cent of the country's total land surface.²¹⁵ Malawi is the country that hosts the greatest fresh water biodiversity centre in the world. Despite the great importance of the environment in Malawi, environmental degradation is a serious issue in the country. Wood demand exceeds supply by one-third and deforestation has occurred at a rate of 2.8 per cent per year.²¹⁶ The cost of unsustainable natural resource use in Malawi is estimated at 5.3 per cent of GDP each year.²¹⁷

The Malawian Government is becoming increasingly aware of the relevance to the country of investing in the protection and good management of natural resources and the environment. Over the past two decades, a strong policy and legal framework for safeguarding the environment has been developed. It includes the 1996 Environmental Management Act, the 1996 Forestry Policy and the 1997 Forestry Act, the 2002 Land Policy Act, the 2004 National Environmental Policy, the 2005 Water and Sanitation Policy, and the 2008 Biodiversity Strategy and Action Plan.²¹⁸ The Environmental Management Act provides for the establishment of an Environment Fund that has yet to be operationalized.²¹⁹ The MGDS II 2011-2016 prioritizes the environment substantially more than any previous national development strategy in the country. For example, "Climate change, natural resources and environmental management" appears in the policy document as one of nine priority areas. In addition, the environmental aspect in the other eight priority areas is highlighted and taken into account also in budgetary terms. As a result, significant increases in allocations from the national budget for natural resources and environmental management have been recorded.²²⁰ However, enforcement of these acts and policies is weak,²²¹ and regulatory gaps persist. For example, Malawi does not have a certified plant for the management of toxic wastes. Some factories bury toxic substances in closed pits and others treat toxic wastes in oxide ponds.²²²

²¹⁴ Bass S.; Banda J.; Kalowekamo J.; Kalua T.; Kambalame K.; Hamella B.; Mmangisa M.; Mphepo G.; Mughogho N.; Mulebe D.; Njaya F.; Phiri. E.; Yassin B.; Yaron G. 2011. Mainstreaming the environment in Malawi's development: experience and next steps. A collaboration between IIED and PEI, MDPC. Accessed on 15 June 2012, available at: <http://pubs.iied.org/pdfs/11072IIED.pdf>

²¹⁵ Haarstad S.; Jumbe C.; Chinangwa S.; Mponela P.; Dalfelt A.; Disch A. 2009. Environmental and Socio-Economic baseline study- Malawi, August 2008- March 2009 (Oslo). Norwegian Agency for Development Cooperation (Norad), Evaluation Department. Accessed on 18 June 2012, available at: <http://www.norad.no/en/tools-andpublications/publications/evaluations/publication?key=235914>

²¹⁶ Cabral L.; Moon S. 2010. Guidance note on how to integrate the environment into the budget process in Malawi (London). United Nations Environmental Programme (UNEP); Overseas Development Institute (ODI); United Nations Development Programme (UNDP). Accessed on 15 June 2012, available at: <http://www.odi.org.uk/resources/docs/7092.pdf>

²¹⁷ Yaron G.; Mangani R.; Mlava J.; Kambewa P.; Makungwa S.; Mtethiwa A.; Munthali. S; Mgoola W.; Kazembe J. 2011. Economic evaluation of sustainable natural resource use in Malawi. Ministry of Finance and Development Planning, Government of Malawi. Accessed on 19 June 2012, available at: http://www.nccpmw.org/index.php?option=com_filecabinet&view=files&id=21&Itemid=2

²¹⁸ Ministry of Natural Resources, Energy and Environment. 2010. Malawi state of environment and outlook report, Environment for sustainable economic growth 2010 (Lilongwe). Government of Malawi. Accessed on 19 June 2012, available at: http://www.nccpmw.org/index.php?option=com_filecabinet&view=files&id=13&Itemid=2

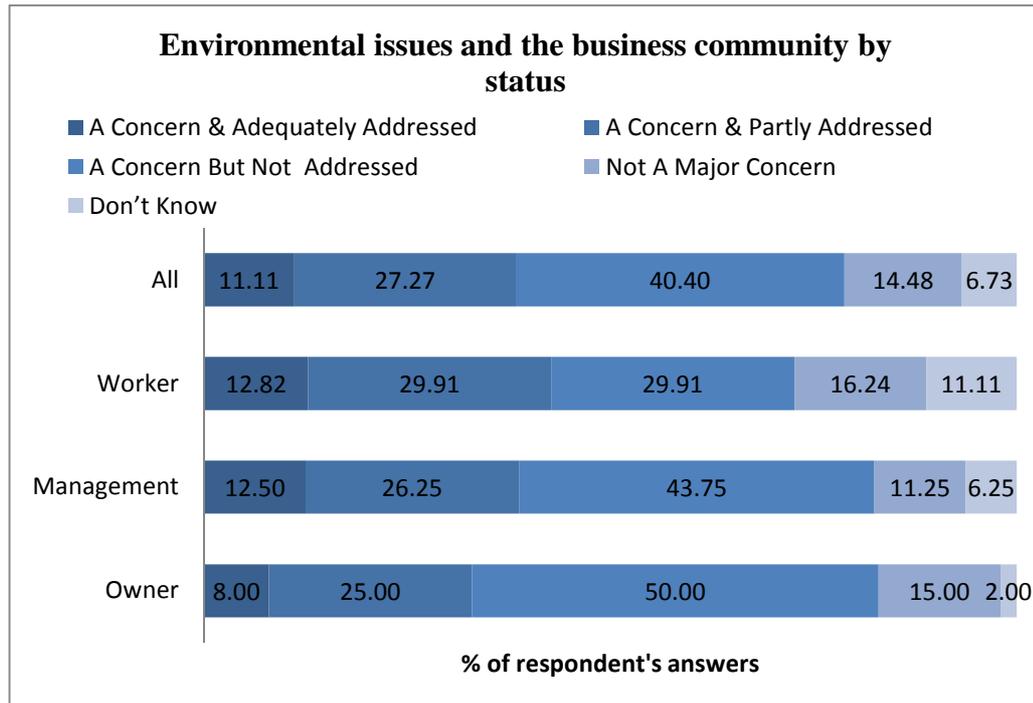
²¹⁹ Cabral & Moon. 2010.

²²⁰ Bass et al. 2011.

²²¹ Said J.; McGrath J.; Grant C.; Chapman G. 2011. Evaluating aid for trade on the ground. International Centre for Trade and Sustainable Development (ICTSD). Accessed on 11 May 2012, available at: <http://ictsd.org/downloads/2011/11/evaluating-aid-for-trade-on-the-ground-lessons-from-malawi.pdf>

²²² World Health Organization, African health observatory. 2011. Analytical Summary Malawi. Accessed on 11 June 2012, available at: http://www.who.int/profiles/index.php/Malawi:Analytical_summary_-_The_physical_environment

The EESE survey conducted in Malawi reveals that for 40.4 per cent of interviewees environmental issues are a concern for the business community, but they are not addressed. This view is shared in a larger proportion by owners as compared to managers and workers. Another considerable share of respondents (27.3 per cent) believes that environmental issues are a concern for the business community in Malawi and are partly addressed. When it comes to assessing environmental legislation, for 60 per cent of respondents it exists, but is poorly implemented. Over 70 per cent of owners hold this view. It is also to be noted that for 17.5 per cent of interviewees environmental legislation exists and is satisfactorily implemented. The share of workers holding this opinion is particularly high (21.4 per cent) compared to owners and managers.



Source: EESE Survey Malawi, 2012.

As far as energy is concerned, Malawi depends excessively on biomass fuels. Firewood, charcoal, crop residues, and animal dung account for 93 per cent of the total national energy demand. This over-dependence on biomass fuels may be carbon neutral, but it is very detrimental to the environment and in particular, to forests. Forest reserves declined over the course of 25 years from 47 per cent to 28 per cent of land cover and only 21 per cent of forests are in protected areas. Deforestation has damaged catchment areas and has led to siltation and seasonal drying up of streams. As a result, there has been a loss in fish biodiversity and production. Community Based Forest Management is a new approach that many donors are supporting in an attempt to stop deforestation. This is based on the idea that involving local communities leads to more sustainable forest management. A modern biomass energy strategy has been drafted, but it must be finalized and implemented in order to remedy the current situation.²²³

Thanks to government policy, a market for ethanol has been created in Malawi. The policy initially required that automotive fuels be blended with a 20 per cent composition of

²²³ Bass et al. 2011.

ethanol, which was later lowered to 11 per cent. This measure was intended to simultaneously create employment and reduce dependency on fossil fuels. Unfortunately, the policy has been unsuccessful due to a lack of molasses and to the absence of a legal instrument making the blend mandatory.²²⁴

The business community in Malawi has been active in adopting sustainable production patterns. Eastern Produce Malawi Limited is Malawi's largest tea producer. It offers 1 per cent of its annual profits to community projects such as clinics, schools and environmental protection. The company also adopted the fair trade approach. Other socially and environmentally sustainable enterprises can be found in the areas of sugar cane and honey production in Malawi.²²⁵

Key Indicators

Environmental Sustainability Index (ESI)		2001	2002	2005
<p>The Environmental Sustainability Index (ESI) benchmarks the ability of nations to protect the environment over the next several decades. It does so by integrating 76 data sets – tracking natural resource endowments, past and present pollution levels, environmental management efforts, and the capacity of a society to improve its environmental performance – into 21 indicators of environmental sustainability.</p> <p><i>Source:</i> Yale University's Center for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum²²⁶</p>	Malawi	41.3	47.3	49.3
	Mozambique	44.2	51.1	44.8
	Tanzania	40.3	48.1	50.3
	Zambia	39.8	49.5	51.3
		The higher a country's ESI score, the better positioned it is to maintain favourable environmental conditions into the future.		
Total ecological footprint (EFP) (global hectares per capita)		2007	2008	
<p>The Ecological Footprint (global hectares per capita) measures the amount of biologically productive land and water area an individual, population or activity requires to produce all the resources it consumes and to absorb the waste it generates, and compares this measurement to how much land and water area is available.</p> <p><i>Source:</i> Global Footprint Network, based on international data (UNSD, FAO, IEA, IPCC).²²⁷</p>	Malawi	0.73	0.8	
	Mozambique	0.77	0.8	
	Tanzania	1.18	1.2	
	Zambia	0.91	0.8	
	World	2.7	2.7	
		Lower value= better performance. For 2005, humanity's total ecological footprint was estimated at 1.3 planet Earths - in other words, humanity uses ecological services 1.3 times as fast as Earth can renew them.		

²²⁴ United Nations Development Programme (UNDP). 2012. Integrating energy access and employment creation to accelerate progress on the MDGs in Sub-Saharan Africa, Poverty Reduction, April 2012, (New York). Accessed on 16 May 2012, available at:

http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/MDG%20Strategies/EnergyAccessAfrica_Web.pdf

²²⁵ Bass et al. 2011.

²²⁶ <http://www.yale.edu/esi/> & <http://sedac.ciesin.columbia.edu/es/esi/archive.html>

²²⁷ http://www.footprintnetwork.org/en/index.php/GFN/page/ecological_footprint_atlas_2008

Other Useful Indicators

Environmental Performance Index (EPI)	2010	2012	
<p>The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals. The EPI has only been published for 2006 and 2008.</p> <p><u>Source:</u> Yale University's Center for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum.²²⁸</p>	Malawi	-	
	Mozambique	47.8	47.8
	Tanzania	54.3	54.4
	Zambia	55.6	55.6
	The higher the score the better the environmental performance of the country (range of 0-100)		

²²⁸ <http://epi.yale.edu/> & <http://epi.yale.edu/ResultsAndAnalysis>

6. Assessment results and ways forward

The final results of the overall assessment on an enabling environment for sustainable enterprises in Malawi based on primary and secondary data, focus group discussions and in-depth interviews, workshop discussions, and a thorough literature review indicate that there is space for improving the situation in all of the 17 conditions.

In order to focus attention and concentrate efforts toward a deep analysis of emerging issues, some of the 17 conditions were prioritized by tripartite constituents at the consultative workshop held in May 2012 in Lilongwe. These areas were perceived as those where interventions for improvement are most needed. The selected conditions are as follows:

- access to financial services;
- sound and stable macroeconomic policy and good management of the economy;
- enabling legal and regulatory environment;
- social dialogue;
- entrepreneurial culture;
- education, training and lifelong learning.²²⁹

This preliminary selection became the focus of discussions and interviews that were organized with certain relevant national stakeholders in July 2012 to better understand the constraints and possible ways forward in these specific areas.²³⁰ The information obtained contributed to enriching the quality of the evidence considered for the final EESE assessment.

The preliminary findings of the overall evaluation were presented, discussed and validated at a tripartite workshop held in Lilongwe in December 2012. There it was agreed that efforts should be concentrated on areas which are key for the ILO and its constituents, and which are not the focus of actions already being undertaken by national stakeholders and international donors. Emphasis for future action toward improvement was hence placed on only three of the priority conditions listed above:

- entrepreneurial culture
- enabling legal and regulatory environment;
- education, training and lifelong learning.

In general, it was considered that entrepreneurial culture ought to be fostered in the country and that this should be done primarily through education and skills development. Consensus was reached on the need to introduce secondary school curricula focusing on entrepreneurial culture. In addition, it was suggested that business development training be provided on a large scale and that business development service providers be assisted with capacity building.

²²⁹ These priority conditions largely correspond to the barriers to business growth identified in the draft MSME Policy Strategy for Malawi.

²³⁰ Focus group discussions and in-depth interviews were held with representatives of the Ministry of Industry and Trade, the Ministry of Labour, the Malawi Chambers of Commerce and Trade (MCCI), the National Association of Business Women, and UNDP.

On the enabling legal and regulatory environment, a strong need emerged for the MSME draft policy to be adopted as soon as possible. This would allow for the harmonization and revision of existing laws that sometimes conflict with one another when it comes to regulating MSMEs in the country.

An action plan with specific outputs stemming from outcomes linked to priority areas and key players for action has been drafted by tripartite participants at the December 2012 workshop. The action plan will be finalized and adopted at a dissemination workshop to be held in March 2013 in the presence of high-level policy makers. The implementation of the action plan will address some of the main issues emerging from this assessment and will contribute to the improvement of the enabling environment for sustainable enterprises in Malawi. Some elements of the action plan as discussed at the tripartite workshop held in December 2012 are presented in the table below. The action plan covers the period 2013-16.

Condition for action	Outcome	Output	Entities involved
Entrepreneurial culture; Education and training	Widespread culture favourable to entrepreneurship established	Introduction of a secondary school curriculum on entrepreneurship	MOIT, MOEST, MIE, ILO, training institutions
		Implementation of capacity building for business development service providers, and especially for women entrepreneurs	MOIT, MOF, ILO, social partners
		Capacity building in value-chain development and management	MOIT, ECAM, MCCCCI, training institutions, ILO
Enabling legal and regulatory environment	Legal framework favourable to MSMEs	Adoption of a MSME policy	MOIT, Cabinet, Parliament
		Laws are harmonized and favourable to MSMEs	MOIT, MOJ, ILO, social partners
		Making the legal and regulatory environment work for value chains	MOIT, ECAM, MCCCCI, ILO

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