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Deepening Integration in SADC

Can Malawi Meet the Challenges?

Chinyamata Chipeta, SAIER

SOUTHERN AFRICAN INSTITUTE FOR ECONOMIC RESEARCH

FRIEDRICH EBERT STIFTUNG

A study conducted for the Friedrich Ebert Foundation

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Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community, SADC is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation through its office in Botswana and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries followed the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana and in April 2005 in Stellenbosch, South Africa the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study on the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of businesses and non-state actors vis a vis SADC. A study on

South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussion among the participating institutions as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled "Regional Integration in Southern Africa".

The 3th volume, presented here, contains the findings of the Country Study and Survey from Malawi by the *Southern African Institute for Development Policy Economic Research, SAIER* in Malawi. My special thanks go to the authors, to Prof. Chinyamata Chipeta and his team for writing and revising the document, to Mompoloki Bagwasi for editing as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, October 2006

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Resident Representative
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Zomba, October 2006

Prof. Chinyamata Chipeta
Director, SAIER, Malawi

Table of Contents

Preface **3**
Acknowledgements **5**

Part 1: Macroeconomic Policies and Their Impact in Malawi

List of Tables 12
List of Annex Tables 12
List of Figures 12
List of Abbreviations 13
Executive Summary **15**
1 Introduction **41**
1.1 Background 41
1.2 Objectives of the Study 41
1.3 Structure of the Report 42
2 RISDP Goals and Objectives **43**
3 Macroeconomic Convergence and other SADC Policies **45**
3.1 Memorandum of Understanding on Macroeconomic Convergence 45
3.2 Finance and Investment Protocol 45
3.2.1 Investment 46
3.2.2 Taxation and Related Matters 47
3.2.3 Financial and Capital Markets 49
3.3 Trade Protocol 51
3.4 Labour Market Policies 52
4 Macroeconomic Stability Indicators **53**
5 Malawi's Progress Towards Macroeconomic Convergence **57**
5.1 Basic Elements and Targets 57
5.2 Government's Expectations about Future Economic Developments 58
5.3 Malawi's Basic Macroeconomic and Development Framework 60
5.3.1 Fiscal and Monetary Policies 60
5.3.2 Policies for Economic Growth and Development 62
5.3.3 Policies for Attaining Millennium Development Goals 66
6 Detailed Assessment of the Progress Towards Macroeconomic Convergence **71**

6.1 Main Linkages Between Policy Frameworks and Socio-Economic Impacts..... 71
6.2 Macroeconomic Conditions Prevailing within Malawi..... 72
6.2.1 Economic Structure and Growth..... 72
6.2.2 Investment Flows to and from Malawi..... 74
6.2.3 Domestic Savings..... 76
6.2.4 Budgetary Trends and Frameworks..... 76
6.3 Trade Policies of Malawi..... 79
6.3.1 Existing Unilateral Regional and Multilateral Commitments..... 79
6.3.2 Malawi's Trade with other SADC Member States..... 82
6.3.3 Macroeconomic Consequences of Trade Policies..... 86
6.3.4 Implications of Overlaps for the Integration Processes in SADC..... 91
6.3.5 Areas Requiring Improved Co-ordination with other SADC Member Countries..... 94
6.4 Elements of the Labour Market Policy Framework..... 95
6.4.1 National Wages and Salaries Policy..... 96
6.4.2 Labour Migration..... 97
6.4.3 Manpower Development and Localisation Policy..... 97
6.4.4 Labour Relations Policy..... 98
6.4.5 Structure and Composition of the Labour Force..... 100
7 Social Impact Analysis..... 103
7.1 Economic, Social and Environmental Indicators..... 103
7.2 Analytical Tools Used for the Social Impact Assessment..... 104
7.3 Social Impact Assessment..... 104
7.3.1 Income Poverty and Hunger..... 104
7.3.2 Achieving Universal Primary Education..... 105
7.3.3 Promoting Gender Equality and Empowering Women.... 107
7.3.4 Reducing Child Mortality..... 110
7.3.5 Reducing Maternal Mortality..... 111
7.3.6 Combating HIV/AIDS, Malaria and Other Diseases..... 113
7.3.7 Ensuring Environment Sustainability..... 114
7.3.8 Developing a Global Partnership for Development..... 115
7.4 Social Impact Issues and the Decision-Making Process in Malawi..... 117
7.5 Monitoring and Evaluation of the RISDP at National Level.... 118

8 Macroeconomic Challenges Facing Malawi..... 119
9 Special Issues, Data Requirements and Future Research.... 131
10 Conclusions and Recommendations..... 135
Annex..... 139
References..... 143

Part 2: Perceptions of Business and Non-State Actors in Malawi

List of Tables..... 146
List of Figures..... 148
List of Abbreviations..... 148
Executive Summary..... 149
1 Introduction..... 155
1.1. Background..... 155
1.2. Objective of the Study..... 155
1.3. Structure of the Report..... 156
2 Methodology..... 157
3 Characteristics of Respondents..... 159
3.1. Businesses..... 159
3.2. Non-State Actors..... 161
4 Perceived Impacts of Regional Integration within SADC..... 163
4.1. Impacts of Regional Integration on Various Aspects..... 163
4.2. Impacts on Domestic Businesses..... 164
4.2.1 Quantifying Impacts..... 165
4.2.2 Expectation of Business..... 165
4.2.3 Expected Gains and Losses..... 166
4.3. Rating of Trade Barriers 167
5 Perceived Business Climate in the Region and Beyond..... 171
6 Policy Debate about Regional Integration and the Way Forward..... 173
7 Conclusions..... 177
Appendix: Tables..... 179

Deepening Integration in SADC

Can Malawi Meet the Challenges?

Part: 1

Macroeconomic Policies and their Impact in Malawi

List of Tables

Table 1: Macroeconomic Convergence Indicators in SADC..... 54
Table 2: Macroeconomic Convergence Indicators for Malawi..... 59
Table 3: Multilateral, Regional and Bilateral Trade Agreements of Malawi.....84
Table 4: Malawi's Total Imports from and Exports to SADC at Current Prices..... 85
Table 5: Malawi's Trade with other SADC Member States 1999 and 2004..... 86
Table 6: Malawi: Growth of Real Exports and Imports 1971-75 to 1998-2004.....87
Table 7: The Shares of Malawi in Global Trade, Capital Flows and Foreign Direct Investment 1990, 2002 and 2003..... 90
Table 8: Overview of MFN Tariff Schedules..... 93
Table 9: Labour Force by Economic Status and Gender (Percentage Shares) 1987-2005..... 102
Table 10: Trends in the Malawi Corruption Perception Index 126
Table 11: Malawi: Selected External Debt Indicators..... 128
Table 12: Malawi: Selected Indicators of the Debt Burden..... 129

List of Annex Tables

Table 1: Key Macroeconomic Indicators for Malawi..... 139
Table 2: Trends in Other Key Macroeconomic Indicators..... 139
Table 3: Human Development Indicators for Malawi..... 140
Table 4: Government Budget Deficits as Percentage of GDP And Growth of Expenditure and Revenue..... 140
Table 5: Malawi Medium-Term Macroeconomic Objectives..... 141

List of Figures

Figure 1: Reaching the MDG on net Enrollment..... 106
Figure 2: Trends in the Dropout Rate..... 107
Figure 3: Drop-out rates in Primary Education (2000)..... 109
Figure 4: Reaching the MDG: Under-5 Mortality Rate..... 111
Figure 5: Trend in Maternal Mortality Rate..... 112
Figure 6: Reaching the MDG: Maternal Mortality Rates..... 113

List of Abbreviations

ACP	African, Caribbean and Pacific
AGOA	African Growth Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
BWIs	Bretton Woods Institutions
CET	Common External Tariff
COMATU	Congress of Malawi Trade Unions
COMESA	Common Market of Eastern and Southern African States
CPI	Consumer Price Index or Corruption Perception Index
CU	Customs Union
EBA	Everything But Arms
ECAMA	Economics Association of Malawi
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
FIP	Finance and Investment Protocol
FRDP	Fiscal Restructuring and Deregulation Programme
FTA	Free Trade Area or Agreement
GABLE	Girls Attainment in Basic Literacy and Education
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
HIV	Human Immune-Deficiency Virus
IDA	International Development Association
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management Information System
IHS	Integrated Household Survey
ILO	International Labour Organisation
IMF	International Monetary Fund
ITA	International Trade Agreement
ITPAC	Industrial and Trade Policy Adjustment Credit
MDG	Millennium Development Goal
MEGS	Malawi Economic Growth Strategy

MFN	Most Favoured Nation
MGDS	Malawi Growth and Development Strategy
MIPA	Malawi Investment Promotion Agency
MK	Malawi Kwacha
MMTZ	Malawi, Mozambique, Tanzania and Zambia
MOEST	Ministry of Education, Science and Technology
MOU	Memorundum of Understanding
MPRSP	Malawi Poverty Reduction Strategy Paper
MSCE	Malawi School Certificate of Education
MSPU	Macroeconomic Monitoring, Surveillance and Performance Unit
NGOs	Non-Governmental Organisations
ODA	Official Development Assistance
PAP	Poverty Alleviation Programme
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSLC	Primary School Leaving Certificate
PTA	Preferential Trade Agreement
RIFF	Regional Integration Facilitation Forum
RISDP	Regional Indicative Strategic Development Plan
RTA	Regional Trade Agreement
SADC	Southern African Development Community
SACU	Southern African Customs Union
SAL	Structural Adjustment Loan
SAPs	Structural Adjustment Programmes
SOCAM	Society of Accountants in Malawi
TEBA	Temporary Employment Bureau of Africa
TEP	Temporary Employment Permit
TOR	Terms of Reference
UNDP	United Nations Development Programme
US	United States
WTO	World Trade Organisation

Executive Summary

The purpose of the study is to provide the SADC Secretariat and national policy makers with macroeconomic policy advice on how the processes of SADC integration can be facilitated, as well as information on the various options that could be pursued on the path of integration. The study examines four broad areas that are related to the strategies contained in the SADC Regional Indicative Strategic Development Plan (RISDP); namely, the basic macroeconomic policy framework, especially fiscal and monetary policies; the trade policy framework; the labour market policy framework; and the social impacts of the various policy frameworks aimed at achieving macroeconomic convergence and deepening SADC integration. In addition, the study seeks to identify the critical policy issues in each of these areas for the purposes of accelerating the deepening of integration among SADC member states, in line with the RISDP.

SADC adopted a Regional Indicative Strategic Development Plan (RISDP) in 2004 with the ultimate objective of deepening regional integration in order to accelerate poverty eradication and to attain other economic and non-economic development goals. The RISDP is intended to give SADC structures clear guidelines on what are the approved SADC social and economic policies and priorities, as well as provide member states with a coherent and comprehensive development policy agenda, for both social and economic development. Thus, it provides strategic direction in the design and formulation of SADC programmes, projects and activities.

Macroeconomic Convergence and Other SADC Policies

SADC member states have agreed that a substantial degree of macroeconomic convergence is necessary for effective policy coordination and deepening regional integration. For this purpose, they have signed a Memorandum of Understanding (MOU) on Macroeconomic Stability and Convergence. The basic aim of macroeconomic convergence is to create regional macroeconomic stability in terms of low inflation, sustainable debt, stable and realistic

exchange rates, prudent and efficient fiscal and monetary management, etc. This is necessary for economic growth and development.

In order to achieve macroeconomic convergence, member states must converge on stability-oriented economic policies. To this end, they have identified economic indicators that will be used to measure macroeconomic convergence and decided upon appropriate numerical values for the chosen indicators for 2008, 2012 and 2018, which are: core inflation, budget deficit as percentage of gross domestic product (GDP), external debt as percentage of GDP, current account deficit as percentage of GDP, external reserves, domestic savings rate and central bank credit to the government. Other macroeconomic target indicators are:

- domestic investment rate;
- payments and clearing systems;
- currency convertibility ;
- legal and regulatory framework for dual and cross listing on the regional stock exchanges;
- exchange controls; and
- current and capital account transactions between member states.

Malawi has so far not formulated a macroeconomic convergence programme. But preparatory work for this has started. In the absence of a national macroeconomic convergence programme, progress or lack of progress towards convergence against the background of the benchmarks agreed upon by SADC member states has to be determined in other ways.

Prudent fiscal management since 2004 has helped to stabilise government expenditure, thereby permitting increased expenditure on poverty reducing social programmes; reducing domestic borrowing by the government, leading to a reduction in interest rates and an increase in borrowing and investment by the private sector; and improving donor confidence in the country. In this connection, Malawi has met the 2008 target with respect to the budget deficit and central bank credit to government as a percentage of previous year's tax revenue. That Malawi has achieved these targets is due to buoyancy or productivity of the tax system, government expenditure control

and aid inflows. For each of these target variables, the country needs to stick to its stabilisation programme to ensure that they do not get off track. Malawi is expected to satisfy the target for core inflation for 2008 owing to prudent fiscal and monetary policies. But it is off target with respect to the other target variables, which it is not expected to meet in 2008 and possibly thereafter, given that they are ambitious. For these variables, which are external debt, current account balance, economic growth rate, external reserves and domestic savings rate, Malawi needs to take measures to achiev their targets.

Malawi appears to be off target with respect to some of the other macroeconomic target indicators as well. In light of the extent of divergence between the target and actual values, it needs strong measures for increasing the domestic investment rate. There is no problem with current account transactions, which are liberalised. Capital account controls still exist, implying that the currency is not convertible internationally. Regionally, currency convertibility by 2008 is possible, given expected macroeconomic stability. It is not known what progress has been made towards effecting gradual interconnection of payments and clearing systems in SADC by 2008. For the purpose of finalising the legal and regulatory framework for dual and cross listing on regional stock exchanges by 2008, the country needs to pass relevant legislation.

In the medium term, the government expects economic growth to pick up and average 6.2 percent between 2005 and 2008. The main underlying assumption is that the weather will be more favourable and so agriculture will register an average growth rate of 7 percent. The other assumptions are that the country will achieve food security, that the response of the private sector to policy initiatives will be positive, that there will be an increase in the rate of investment, that macroeconomic stability will be restored, and that the IMF supported economic programme will trigger a balance of payments inflows from donors.

The government's is expectations are based on two main policy frameworks. One, the Poverty Reduction and Growth Facility (PRGF) arrangement (2005-2008), which has the following objectives that promote economic growth and stability:

- Raise the rate of economic growth to 6 percent per year, with an emphasis on rural incomes;
- Increase health services and educational opportunities;
- Reduce core inflation to the 5-8 percent range;
- Build international reserves to at least two months of imports; and
- Run a fiscal surplus to reduce the government's domestic debt to less than 15 percent of GDP from over 24 percent.

Two, the Malawi Growth and Development Strategy (2006-2011), which aim to:

(a) Resume economic growth fast enough to bring about the Government's vision;
(b) Create new wealth and more jobs for the people.
(c) Gradually turn Malawi into an industrial nation capable of transforming agricultural primary commodities, other raw materials and minerals;
(d) Transform Malawi from a predominantly importing and consuming country to a producing and exporting country;
(e) Increase supply of goods and services for domestic and international markets; and
(f) Increase domestic and foreign financing and investment in agricultural processing, industrial production and manufacturing.

The ultimate goal is to achieve the Millennium Development Goals. The above policy frameworks reflect national priorities and they are endorsed by donors. Their formulation did not consciously take into account the SADC convergence programme. Nevertheless, to some extent they are consistent with it. So their implementation should help to achieve the SADC policy objectives. Out of the eight main SADC macroeconomic targets, the PRGF and the MGDS have targets for only four; namely, core inflation, growth rate, fiscal balance and gross reserves. But they need to align their target values to those of SADC. They leave out central bank credit to government, current account deficit, external debt and domestic savings rate, which must be incorporated in them. They have a target for domestic debt, which can be considered to be a proxy for central bank credit to government.

The MOU on Macroeconomic Stability and Convergence is an aspect of a broader Finance and Investment Protocol (FIP) whose objectives include providing a framework for co-operation in the area of finance, promoting the development of sound investment policies and encouraging savings, facilitating and stimulating investment flows and technology transfer and innovation. The FIP is essentially an instrument for co-ordinating and harmonising the financial policies of SADC member states. The authors of the FIP draft have clearly explained the rationales for and objectives of the FIP, which are consistent with the objectives of SADC as stated in the RISDP.

The part of the FIP dealing with investment provides for investment incentives, investment protection and administration of investment incentives. It also explains the rationales for co-operation on investment. There are special measures that favour the participation of least developed member states in the economic integration process based on principles of non-reciprocity and mutual benefit. One of them is a proposal for the inclusion of double taxation agreements to encourage cross-border investment in least developed member states. Another measure is the agreement to investigate the establishment of market openings as well as the setting up of programmes and specific forms of co-operation for least developed member states, that relate to derogation in respect of investment incentives.

On Taxation and Related Matters, the FIP contains detailed provisions for co-operation in taxation and related matters. But it is not stated how co-operation in taxation will promote regional integration or assist SADC member states to achieve economic growth; sustainable, equitable and balanced economic development; poverty eradication; and human and social development. At the very least, this part of the FIP should have created an appropriate synergy with the Trade Protocol under which member states are reducing and harmonising their tariffs. But, unlike the part dealing with Investment, it has not done so. There is also no provision for cooperation in government expenditure, which, for example, can be done through joint provision of public goods in order to effect economies, and that would be consistent with the functional co-operation component of development integration.

As the economies of SADC member nations increase their degree of integration, co-ordination and harmonisation of fiscal policies will

become increasingly essential. This is because, the impact of changes in domestic tax policy will be transferred to other member states through changes in the price of exports relative to the price of imports (terms of trade), and that will effect changes in the after-tax returns on international capital in different locations. The impact of changes in government expenditure will be transferred to other member states through changes in demand for imports. In these circumstances, coordination and harmonisation of tax and government expenditure policy will be required so that changes in one country do not adversely affect the exports and imports of other countries and the relative profitability of investment in other countries.

On financial and capital markets, the FIP focuses on central banks, development finance institutions, commercial banks, non-banking financial institutions and stock exchanges. The main objectives are to improve the operational efficiency of these institutions, integrate non-banking financial institutions across countries, and effect internationalisation and standardisation of their practices. Among other things, the FIP ignores the informal financial sector, which is the main source of credit for poor and non-poor households in low-income member states of SADC; the micro-finance sector, which, along with the informal financial sector, is the main source of credit for micro and small scale enterprises and the insurance industry in low-income countries. The planned financial sector integration will not include micro-finance and informal financial sectors. While it may be argued that informal and micro-finance are matters for individual member states, and not for inclusion in a legally binding protocol, recognition of their existence and what can be done to enhance their role would have a lot of educational value. There is also a lack of a framework of supportive policies to induce commercial banks to undertake long-term lending and to lend to the small business sector.

As the economies of SADC member nations become more integrated, co-ordination and harmonisation of monetary policy will become increasingly essential because changes in domestic monetary policy will be transferred to others through changes in interest rates and changes in the exchange rate. Coordination and harmonisation of monetary policy will be necessary so that changes in one country do not necessitate interest rate adjustments in other countries, which

may be undesirable; and currency devaluations in other countries, which may offset the impact of the initial devaluation and lead to beggar my neighbour policies.

Trade Policies of Malawi

Malawi has liberalised its foreign trade unilaterally through structural adjustment programmes (SAPs), bilaterally with a number of other Southern African nations, regionally through SADC and the Common Market for Eastern and Southern African States (COMESA), and multilaterally through the World Trade Organisation (WTO), EU-ACP Cotonou Agreement and EBA, and through the Regional Integration Facilitation Forum (RIFF), formerly known as the Cross-Border Initiative. The relative costs and benefits of the various initiatives have not been ascertained. This section summarises the ramifications of the various trade initiatives, with emphasis on SADC.

For the purpose of implementing its trade agreement, SADC has adopted a linear tariff reduction approach, according to which each country will reduce its tariffs on intra-regional trade by given percentages over the eight-year period guided by agreed criteria on classification of products. Products for immediate liberalisation are listed under Category A. This category covers capital goods and raw materials. Category B consists of products planned for gradual liberalisation and cover mainly intermediate goods, which constitute the majority. The reduction of tariffs on these goods was supposed to start immediately after entry into force of the Trade Protocol. The duties on these goods are higher than the ones on capital goods and raw materials. Apart from revenue consideration, there is also fear of competition from other countries. Sensitive products are covered in Category C. These will start to be liberalised from year 5 after implementation of the Trade Protocol. These are finished goods that attract the highest duties. Hence, they are important as sources of tax revenue. They are widely produced in the region, and part of their sensitivity derives from their importance in employment creation.

Malawi implemented Category A phase down in 2001, but it has not started implementation of Category B reductions for budgetary reasons. Other possible explanations are fear of competition from other countries, and the fact that Malawi is on the list of countries that have

been allowed to "back load" the phased reduction of tariffs on Category B products. In 2003, Malawi also implemented 14 of the reductions requested as part of the bilateral agreements with Botswana, Lesotho, Namibia and Swaziland (BLNS). Furthermore, it is implementing the Revised Rules of Origin, with the Malawi Revenue Authority as the agency that issues the certificates. But it has not gazetted the Revised Rules of Origin, and, in theory, the certificates can be rejected in other member states.

Between 1998 and 2001, in nominal terms imports from SADC grew at an average annual rate of 125.9 percent, against 39.0 percent between 2001 and 2004. Between the same time periods, in nominal terms, exports grew at average annual rates of 15.3 percent and 42,0 percent, respectively. The appreciation of the real effective exchange rate between 1998 and 2002 partly explains why imports grew faster between 1998 and 2001 than between 2001 and 2004 when the real effective exchange rate depreciated. These movements in the real effective exchange rate also partly explain why exports grew faster between 2001 and 2004 than between 1998 and 2001. But, there are other explanations, including changes in income and other non-price factors, such as trade liberalisation and quality of goods that are exported and imported. In the process, the share of SADC in the country's total exports, imports and trade has increased. However, the trade deficit that Malawi incurs with its SADC trading partners and the SADC as a whole has also increased.

A possible explanation for the trade deficit with SADC is that it is caused by non-tariff barriers, including; rules of origin, sanitary and phyto-sanitary measures, in the other SADC members states; the difficulty of developing trade in Malawi because of an unfavourable business climate; and inadequate trade promotion measures. Trade with other SADC member states is also limited by the choice member countries of eligible products make and the existence of those non-tariff barriers, such as border procedures, lack of information, import licences, surcharges, subsidies, transport problems, foreign exchange shortages, customs procedures, export licensing, etc., which are not covered by the trade protocol.

During the pre-SAP period up to 1980, in real terms total exports grew rapidly due to favourable demand and prices. The rate of growth

of total exports during the early phase of SAPs (1981-85) declined due to a worsening in the country's terms of trade. Trade liberalisation seems to have reversed the declining trend in the rate of growth of total exports. But over the entire post-SAP period, the rate of expansion was lower than during the entire pre-SAP period. The rate of growth of real total imports has followed a similar trend, falling during the half-decade before SAPs, being negative during the early phase of SAPs, rising and remaining fairly high until 1991-97, before falling again.

Malawi has made frequent use of exchange rate adjustments to stimulate exports and control imports. But, this policy has encountered difficulties as evaluation-induced inflation has eroded the very relative price advantage which currency adjustment was designed to achieve. The country's elasticity of domestic inflation with respect to currency devaluation was recently estimated at 1.00, and with respect to foreign import prices at 0.57. The high import content of production and consumption accounts for these high numbers. Apart from the erosion of the relative price advantage of currency adjustment, the small increase in the domestic price of exports following a currency adjustment (the so-called pass-through) does not offer much incentive. The value of the pass-through for Malawi was estimated at only 0.14 (African Development Bank, 1995). Other key coefficients are not favourable either. Price and income elasticities of demand for Malawi's exports were estimated at only -0.18 and 0.4, respectively, meaning that price and income changes will bring about a less than proportionate change in demand. Price elasticity of export supply was estimated at 1.08 for Malawi. This unitary elasticity of export supply implies that price and quantity exported change by the same proportion, leaving revenue unchanged.

Even if a devaluation might have a positive impact on the volume of exports in the short run, such a remedy is ineffective as a long-term solution as it tends to concentrate more on expanding the exports of a few existing agricultural products which gave rise to the structural weakness of the balance of payments in the first place. The view is also held that it is ineffective to make price manipulation the prime driving force in the reform process because, on the supply side, price factors explain only a small proportion of the change in export supply;

and, on the demand side, they explain only a small proportion of the growth of export market shares in international trade. Attention should also be paid to non-price factors. For the supply of exports, these factors are institutions, infrastructure, inputs, information and innovations. For demands export, they are sales and marketing, including marketing arrangements; the export-excellence of the product, including packaging, quality, preservation and delivery time for agricultural exports; ease of maintenance, reliability, delivery-time and after-sale services for manufactured goods.

Malawi's balance of payments has generally become unfavourable. During the past five years, for example, the trade imbalance deteriorated from a deficit of MK3.2 billion in 2000 to MK23.9 billion in 2004. Over the same time period, the current account imbalance worsened from a deficit of MK11.2 billion to MK39.8 billion. In 2000 and 2002, large capital inflows more than offset these deficits, as a result the country realised overall balance of payments surpluses after a debt relief of MK5.4 billion and MK8.1 billion, respectively. In the other years, Malawi's overall balance of payments after debt relief was in deficit. Progressively, gross official reserves measured in months of import cover declined from 4.7 in 2000 to less than 2.0 in 2004. In other words, trade policy has resulted in a widening in the trade and current account deficits, recurring overall balance of payments deficits, a significant decline in the level of gross foreign reserves, and depreciation of the exchange rate.

Being a member of both SADC and COMESA means that Malawi belongs to two regional integration arrangements whose economic mandates are similar. But they differ in the number of members and geographical configuration. Furthermore, SADC has a political agenda in addition to the economic one. This makes assessment of the relative merits of belonging to both organisations problematic. This caveat aside, in the absence of careful planning and management, these diverse arrangements cause confusion both in the government and in the private sector in Malawi. There is clearly divided commitment to the integration agendas of the SADC and COMESA, which means that the support of Malawi to these agendas is half-hearted, thus weakening its commitment to either of the two organisations.

Instead of making a single payment in membership contributions, Malawi makes two payments, resulting in higher than necessary budgetary commitments and the use of scarce foreign exchange for two institutions that are essentially aimed at the same goals. The annual fees and participation in similar activities of two institutions is costly to Malawi, which is one of the poorest countries in the world.

Membership in two overlapping integration schemes also creates, for Malawi, severe strains on the workload of scarce specialised human resources. This impairs their effectiveness in contributing to the two integration agendas. What more when the same people must handle not only SADC and COMESA, but also WTO, ACP/EU, AGOA, EBA, RIFF, IMF, World Bank, African Development Bank, etc. on related matters! Their attention to policy details and policy implementation is therefore constrained.

As SADC and COMESA deepen the integration process, incompatibilities of their integration strategies are bound to grow. Examples include differences in time frames and scheduling of tariff reductions and in the rules of origin to be applied. For Malawi, which is caught on the divide between the two, this will complicate its already problematic customs administration.

If SADC is to move towards a customs union by 2010, all the strategies used must take into account the extent of harmonisation among SADC member states. In particular, in order to consider the adoption of a Common External Tariff (CET), the compatibility of the current external trade regimes of the member states will be an important factor. At present, there is wide variation in the current tariff schedules across member states. So the establishment of any CET is likely to involve substantial changes in tariff regimes for some or all of the member states. A possible strategy for the selection of a CET is to select one of the extremes, thus either a SACU tariff schedule (the highest) or one similar to that of Malawi, Mozambique, Zambia and Zimbabwe (the lowest).

Any consideration of a SADC Customs Union must also take into account the evolution of COMESA, which is establishing its own customs union. The COMESA Customs Union will include some SADC member states (Malawi, Mauritius, Swaziland, Zambia and Zimbabwe) and adopt CETs that are much closer to those of the MMTZ countries.

The chosen CET will rule out multiple membership. As a solution, SADC can either establish a CET that is closer to that of COMESA or force members to choose between the SADC Customs Union and the COMESA Customs Union.

Malawi's interest in negotiating bilateral trade arrangements with its neighours is a reflection of its disenchantment with some aspects of the Trade Protocol, particularly the burdensome Revised Rules of Origin with their restrictive local content requirement of 35 percent of value added, the choice of eligible products by member states, and the existence of non-tariff barriers that are not covered by the Trade Protocol. In addition, the SADC Trade Protocol covers a wide range of issues that are not covered in bilateral trade arrangements. SADC member nations will need to consult further on all these issues and co-ordinate implementation of agreed actions.

Malawi has delayed implementation of trade liberalisation affecting Category B because of fears of losing tax revenue. Consideration of loss of tax revenue is likely to delay its implementation of liberalisation of Category C products as well. In the light of this predicament, Malawi will need to consult with other SADC member states about the pace at which it can liberalise trade in these products.

Labour Market Policy Framework

Malawi's labour market policy framework is basically consistent with that of SADC. It aims at developing harmonious relations in the labour market trough promotion and maintenance of industrial peace, provision of social security, employment and job placement services, maintenance and enforcement of occupational safety and health in the workplace, and the development of requisite skilled human resources for national development. The goal of the framework is to create an environment that is conducive to sustainable social and economic development that will improve the standard of living of Malawians in general and workers in particular.

From independence in 1964 to 1992, government pursued minimum wage and wage restraint policies. A comprehensive review of the wages and labour policy in 1992 showed that the minimum wage policy did not achieve its objective as most of the employers

treated it as maximum while small employers were paying below the stipulated statutory minimum wage since the Ministry of Labour had no capacity to enforce the minimum wage legislation. This also meant that those employers who could afford to pay more ended up paying less due to the policy while those who could not afford the minimum wage due to infrequent but lump sum wage reviews did in fact pay less than what they would have done if they had negotiated wages with their employees. In the absence of a collective bargaining machinery, and due to the ineffectiveness of the Wages Advisory Board and Councils, the government served as the pace leader in setting wages and salaries and other conditions of employment in the economy. Even the formal private sector, though offering higher wages and better conditions of service than government, followed the example of government in reviewing its wages and salaries.

Realising these shortcomings, in 1992 the government revised the basis for minimum wage, fixing it from static and ad hoc reviews to wage indexation where a review would be called for when either the cumulative retail price index as measured by the Consumer Price Index (CPI) rose by 20 per cent or at least every two years, whichever comes earlier. Under this arrangement the Wages Advisory Board was required to meet at least once a year. The private sector was supposed to follow the same procedure.

The 1992 Wages and Labour Policy study also noted that the top down administered wage was distortionary and caused rigidities in the labour market. It recommended that government put in place a conducive environment for market forces to play. It argued that collective bargaining machinery needed to be established by allowing industrial and enterprise level-trade unions to grow and negotiate for wages and other conditions of employment.

Concerning labour migration, the independent government inherited a colonial legacy of sending Malawians, mostly unskilled labour, to South Africa through what was popularly known as Temporary Employment Bureau of Africa (TEBA), and to other countries, such as Zimbabwe and Zambia. Labour migration did help to ease the problem of unskilled unemployment. However with the expansion of estate crop production from the early 1970s, the government was faced with a conflict of interest between earning foreign exchange

through external remittances and the need to have an adequate pool of unskilled labour, which could be readily tapped. Thus the government suspended recruitment of Malawians to South Africa, though the ban was lifted later. The final blow to this employment avenue occurred in 1989 when the government banned TEBA employment in reaction to allegations of discriminatory testing for AIDS of Malawian migrant employees in South Africa. Malawians now go to South Africa in search of employment on their own account.

In pursuing the policy objective of attaining self-sufficiency in skilled workers, the government embarked on massive formal training of its people within and outside the country. The emphasis was on creating adequate skilled, middle and high-level human resources to replace non-Malawians in employment. Apart from academic institutions, the government set up management and skills upgrading institutions in order to enhance managerial capabilities of its skilled human resources. Thus, training was geared towards white-collar jobs in the expanding public and private sectors. But, despite these efforts, the country is still short of managerial and technical personnel, partly due to brain drain. In addition to this policy strategy, the government adopted a training and localisation policy, which aimed at a gradual localisation of posts being filled by expatriates. For the purpose of implementing this policy, it required expatriates to obtain temporary employment permits. A temporary employment permit was supposed to be issued only for the required expertise that was not locally available save for key posts that represented shareholders' interests. Companies were expected to designate understudies to expatriates and initiate in-service training programmes so as to localise the posts once the expatriates leave.

During the labour market deregulation period in the 1990s the localisation policy was adjusted substantially to ensure that it did not stifle expatriate labour acquisition as well as to ensure that it became investor friendly. A new temporary employment permit policy was instituted in the late 1990s, which rationalised the Temporary Employment Permit (TEP) processing period and reduced the period drastically. A technical committee was established comprising of the Ministry of Labour, Immigration, Commerce and Industry, and the Malawi Investment Promotion Agency (MIPA), among others, to

consider applications. The Minister of Labour is no longer required to clear the applications as was previously the case. Between 2000 and 2001, the total number of employment permits issued was 2,455. Of these permits, 539 or 22 percent were issued to workers who came from other SADC member states; namely, South Africa, Zimbabwe, Zambia and Tanzania, in terms of importance.

With respect to industrial relations, before independence in 1964, the colonial authorities allowed several trade unions to exist. They also permitted decentralised collective bargaining to be used in setting pecuniary and other conditions of employment. After independence, however, it was the new government's policy to stifle the labour movement and trade union activities in the quest to consolidate its political power and in pursuit of the government's wages and incomes policy, which aimed at minimising labour costs. Employers, on the other hand, have been relatively well organised in various associations and formed a confederation in 1963 called the Employers Consultative Association of Malawi. It was formed at the request of government to act as the negotiating body with government. This institutional set up of weak and ineffective trade unions and strong employers organisations resulted in employees being totally marginalised in making decisions on matters that affect them.

After the end of the one-party system of government in 1994, the new government committed itself to promoting tripartism and thus decentralised collective bargaining by encouraging the formation and strengthening of trade unions. The number of trade unions has since increased. As of 2004, there are 26 registered trade unions under a reformed mother body, the Malawi Congress of Trade Unions, and a second trade union confederation, the Congress of Malawi Trade Unions (COMATU). Trade unions are currently participating in almost all issues that affect them in tripartite forums organised by government. However, due to limited membership, they are comparatively weak. As a result, the government and private sector employers still have a larger influence over conditions of employment.

A Labour Relations Act was enacted in 1996 as a way of regulating the affairs of workers, employers and their organisations with the purpose of enhancing industrial peace necessary for accelerated growth, social peace and justice in a pluralist political system. Later,

the government enacted the Employment Act in 2000. The Employment Act has similar objectives as the Labour Relations Act. It seeks to reinforce and regulate minimum standards of employment with the purpose of ensuring equity necessary for enhancing industrial peace, accelerated economic growth and social justice. The Act has done away with the statutory wage fixing system in favour of the voluntary collective bargaining system except in cases where it is deemed necessary.

Between 1987 and 2005, there was an increase in the proportion of the labour force accounted for by family business workers, self-employed, employers and the unemployed but a decrease in the proportion accounted for by smallholder farmers and employees was noted. There were also interesting changes in the structure of the labour force in relation to its gender composition over the same time period. The share of women in smallholder agriculture declined while the share of males increased. The males appear to have displaced women from agriculture, especially with the liberalisation of burley growing since the mid 1990s.The share of women in all other employment categories has increased, as has that of males, except in the employee category. The increased share of women in the employee, family business worker, self employed and employer categories may signal a positive movement towards less discrimination of women in the labour market. The interesting finding is the increase in the share of females in the employer category. With liberalisation, many women are involved in trading within Malawi and across the borders with neighbouring countries. However, the percentages of both males and females in the unemployed category have increased.

The limited data available on earnings of workers seem to suggest that both urban and rural minimum wages have increased over the past decade, from daily rates of MK1.59 and MK1.28 in 1993 to MK50.87 and MK38.66 in 2004, respectively. For workers who are employed in large and medium scale establishments, their real average earnings also rose over a similar time period. In conclusion, flexible wage and labour market policies have helped to increase real earnings of workers, and contributed to economic growth and poverty alleviation. They have also resulted in a decrease in the rate of formal employment, resulting in an increase in the rate of self-employment

in the informal and other sectors, including cross-border trading, migration to South Africa and other countries and increased employment of expatriates from other SADC countries, which are consistent with regional integration.

Social Impact Analysis

As a member of SADC, Malawi is supposed to incorporate the strategies and policies of SADC into its own programmes or to align them with its own strategies and policies. As we have noted above, Malawi has not yet developed a macroeconomic convergence programme. But it is implementing a Poverty Reduction and Growth Facility programme that is essentially addressing similar concerns. This study notes the progress that the country has made towards implementing the SADC Trade Protocol and the Labour Policy Framework. Furthermore, the country is implementing most of the policies related to the priority intervention areas identified in the RISDP. Hence, the following social impact assessment is a fair evaluation of the potential impact of the various SADC strategies and policies.

With respect to the MDGs, Malawi is off target with respect to the following goals:

- Halving, between 1990 and 2015, the proportion of people living in extreme income poverty.
- Ensuring that, by 2015, children, boys and girls alike, will be able to complete a full course of primary schooling.
- Promoting gender equality and empowering women.
- Reducing child mortality rate by two-thirds between 1990 and 2015.
- Reducing maternal mortality rate by three-quarters between 1990 and 2015.
- Ensuring environmental sustainability.
- Halving, between 1990 and 2015, the proportion of people without access to sanitation facilities.

But it is on target with respect to the following goals:

- Halving, between 1990 and 2015, the proportion of people who are hungry.

- Halting, by 2015, the spread of HIV/AIDS, malaria and other diseases, and beginning to reduce their incidence.
- Eliminating gender disparities in primary and secondary education, preferably by 2005, and at all levels of education by 2015.
- Halving, between 1990 and 2015, the proportion of people without access to safe drinking water.

Assessing progress towards meeting the income poverty target is difficult because there are no data on the proportion of people living on less than US$1 per day for 1990. On the basis of the national poverty line, 54 percent of the population lived below this line in 1990. Applying the target to this figure implies that the incidence of poverty should be reduced to 27 percent by 2015. The incidence of poverty between 1990 and 1998 decreased only slightly to 53.9 percent. Between 1998 and 2005, there has been a further decline to 52.4 percent. Therefore, reducing it to 27 percent by 2015 will require an annual linear rate of reduction of about 2.5 percent, which is clearly ambitious for the country. The challenges include how to sustain high rates of economic growth; how to increase the assets of poor people and their returns; how to increase productive employment; and how to reduce vulnerability of the poor to shocks.

Progress towards reducing the proportion of people who are hungry is captured by changes in the proportion of people below the minimum level of dietary energy consumption or prevalence of under-nourishment. The relevant 1990-92 proportion for Malawi was 49 percent, implying that the 2015 target is 24.5 percent. In other words, the proportion of people who are undernourished would have to decline at an annual linear rate of 0.98 percent. By 1999-2001, the proportion had declined to 33 percent. To reach the 2015 target from this level would therefore need a lower annual linear rate of reduction of 0.61 percent. However, progress on reducing the percentage of under- five children who are underweight has been slower. Their proportion declined from 28 percent in 1990 to 25 percent in 2002, meaning that the rate of decline would have to increase during the remainder of the period.

To achieve universal primary schooling by 2015 will require 100 percent enrolment and completion rates, meaning that the dropout rate should be reduced to zero. These rates are far from ideal because

there are several factors that keep children out of school like lack of physical infrastructure and overcrowded classes. The introduction of Free Primary Education led to a marked increase in net enrolment rates starting from 1994. But from 1998 there was a marked decrease. Gains in net enrolment were negated by relatively high dropout rates especially between Standards 2 and 3. Many reasons have been cited such as negative attitudes of certain communities towards education especially for girls; long distances covered by pupils when going to school; early pregnancies; lack of food and clothes, general levels of poverty and lack of resources for quality education.

The third MDG challenges discrimination against women and seeks to ensure that girls as well as boys have the same chance to go to school. Indicators linked to this goal aim at measuring progress towards ensuring that more women become literate, have more voice and representation in public policy and decision-making and have improved job prospects. However, although women constitute about 52 percent of the population, serious gender disparities still exist in terms of access to and control over productive resources and opportunities for participation in the development process. Malawi's Gender-related Development Index of 0.374 indicates large disparities between men and women. Education is key to women's empowerment; however, gender disparities remain in the education sector. The 1998 Census Report shows a literacy rate of 51 percent for women as compared to 64 percent for men. Enrolment for both girls and boys at primary school level increased almost to parity as a result of introduction of free primary education in 1994 and other interventions such as the Girls Attainment in Basic Literacy and Education (GABLE) project. However high drop out rates among girls in higher classes imply that more boys are completing primary education.

Fewer women participate in decision making as compared to men. The 1995 Civil Services Census revealed that out of the 112,975 civil service employees, only 25.4 percent were females. The majority of women are in supporting positions. Out of 698 officers in decision-making positions, only 12.32 percent are women. In the political domain, only 17 (8.7 %) of the 194 members elected to the legislature in 1999 were female. In 2004, the number of women members of Parliament increased to 14 percent, which is still below the SADC target

of thirty-three percent or a third. For lack of suitable time series data, it is difficult to assess progress towards increasing the share of women in non-agricultural employment. For the 2000-02 period, the share of women in that employment was 12.2 percent.

According to World Development Indicators, Malawi had a child mortality rate of 241 per thousand in 1990. Therefore, achieving the target requires that child mortality rate should be reduced to 80 by the year 2015. The implied rate of decline is about 6 per thousand per year. Between 1990 and 2002, Malawi achieved a rate of reduction in child mortality of about 5 per thousand per year. Hence, in order to attain the 2015 target, the rate of reduction will have to go up to about 8 per thousand per year.

According to the World Development Indicators, the maternal mortality rate was estimated to be 620 deaths per 100,000 live births in 1990. The millennium development goal for maternal mortality calls for the reduction of the rate by seventy–five percent by 2015. In other words, the maternal mortality rate is to be reduced by 465 i.e. from 620 to 155 deaths per 100,000 live births. However, the current situation depicts the opposite is happening. Instead of reducing the rate, the trend shows that the rate is increasing. According to recent estimates, the rate has nearly doubled to 1,120 deaths per 100,000. Thus while it would have been easier to achieve the MDG target based on the 1990 levels, the challenge to achieve the objective of reduced maternal mortality rate has increased significantly. The challenges include the relatively low numbers of skilled birth attendants, poor diet, low access to general and maternal health care services, high incidence of malaria compounded by limited availability of free drugs at community level, high HIV/AIDS incidence among pregnant mothers, increase in teenage pregnancies, attempted abortions and increased demand on maternal health care services due to low uptake of modern family planning measures.

Although HIV/AIDS prevalence has remained relatively stable over the past five years, new infections are still occurring at rate of about 80,000 per year. Some of the reasons include the fact that despite almost universal awareness of the modes of transmission and prevention of HIV/AIDS, people are still not practising preventive behaviour. Another challenge is that most Malawians do not know

their HIV serostatus. According to the 2003 Joint Annual Review Report of the National Strategic Framework, less than 3% of Malawians are aware of their HIV serostatus. Data on the other infectious diseases are scarce. Malaria is the leading cause of morbidity and mortality in the country. The proportion of children sleeping under treated bednets during 1999-2001 as percentage of under five children was 2.9 percent, according to the World Development Indicators. This implies that the level of prevention is low. In 2002, the incidence of tuberclosis was 431 per 1000,000 people or 0.4 percent. The incidence of this disease appears to have increased during the past decade partly due to the prevalence of HIV/AIDS. The challenge for the prevention of malaria is how to increase the use of treated bednets. And the way to prevent tuberclosis is knowing how to improve the home environment.

According to World Development Indicators, 51 percent of Malawi's population was without access to safe drinking water in 1990. Halving this proportion by 2015 would mean reducing this ratio to 25.5 percent. In other words, the proportion would have to decline at an annual linear rate of 1.02 percent per annum. Between 1990 and 2000, the proportion declined from 51 percent to 43 percent, or at 0.8 percent per year, which is smaller than 1.02 percent. Therefore, between 2000 and 2015, the proportion will have to decline at a higher rate of 1.17 percent per year if the target is to be achieved. This rate of reduction in the proportion of people without access to safe water for drinking is achievable since government is planning to increase the number of boreholes and water schemes, intensify the maintenance of existing boreholes and water schemes through more intensive involvement of the communities in water management. The challenge here is to ensure continued community commitment, continuous training of community committees and availability of spares for the repair teams.

In terms of per capita income, gross national product per capita has fallen since about 1997. The Human Development Index has increased slightly, although it is lower than it was in 1995.

Concerning the macroeconomic programme, the problem area for Malawi is the feasibility of the targets for the current account, the growth rate, international reserves, and domestic savings and investment rates; as well as the time frames for removing controls on capital account transactions, achieving interconnection of payments and clearing systems, and for finalising the legal and regulatory framework for dual and cross listing on the regional stock exchanges.

As regards the Trade Policy Framework, the problem areas include: the complicated Rules of Origin; the liberalisation of Category C products; non-tariff barriers; overlap in membership of regional integration schemes; and incompatibility and divergence in external trade regimes, which will complicate the choice of a common external tariff.

With respect to social impacts, the main problem targets include: halving the proportion of the population living in income poverty between 1990 and 2015; attaining gender equality in decision-making positions by 2015; reducing child mortality rate by two-thirds between 1990 and 2015; reducing by three-fourths the maternal mortality rate between 1990 and 2015; halting the spread of malaria and other infectious diseases; raising the level of aid and developing an open, rule-based trading and financial system.

Research is required on the following subjects in order to inform the development of the FIP:

- Taxation and economic growth, development and poverty reduction in the SADC region.
- Government expenditure and economic growth, development and poverty reduction in the SADC region.
- Comparative models of financial intermediation and performance in the SADC region.
- Foreign institutional barriers to access financial service industries.
- Impediments to financial market integration within and across countries.
- Level of development of financial services industries, including commercial banking ad insurance services, in the region, with a

focus on the supply and use of financial products and services, level of co-operation and competition and barriers to financial sector development.

In relation to macroeconomic convergence, issues that require research include:

- Economic growth and convergence in the economies of SADC member countries, emphasizing their determinants.
- The behaviour and determinants of current account deficits in the economies of SADC member countries.
- The determinants of domestic savings and investment.
- The potential and problems of currency convertibility in the SADC.

A number of other issues covered in this study also require further research. These include:

- Economic and social impacts of the macroeconomic convergence programme, the trade protocol and the labour market policy framework.
- The potential impact of co-ordination of tax policies, liberalization of current and capital accounts, and integration of financial markets.
- Determinants of employment in the country, in urban and rural areas, and by employment status, age and gender.
- Determinants of intra-SADC trade in services.
- Cost-benefit analysis of dual membership in SADC and COMESA; and of unilateral, bilateral and multilateral trade liberalisation.

Conclusions and Recommendations

The main factors identified in the study that might constrain achieving the SADC convergence targets are:

- Relatively low rate of domestic investment, HIV/AIDS, human capital constraints, landlockedness and transport problems, environmental degradation, gender discrimination and external debt in relation to the rate of economic growth.
- Droughts, oil prices, other import costs and currency depreciation in relation to inflation.

- High import demand and inadequate trade development, its promotion and facilitation, as well as inadequate domestic savings, in relation to the current account balance.
- An unsustainable level of foreign debt and uncertainties about the level of export receipts and inflows of foreign aid and loans in relation to foreign reserves.
- High rate of time preference in relation to the domestic savings rate.
- Corruption, low levels of savings and foreign capital inflows, as well as an unfavourable business environment in relation to investment.
- Economic instability in relation to currency convertibility.
- The adverse balance of payments position in relation to exchange controls.

Concerning the convergence programme, It is recommended that Malawi should align its policies and targets to those of SADC and that the IMF should take the country's regional obligations into account in formulating stabilisation programmes for it. Besides, the values of a number of macroeconomic convergence target indicators are ambitious for Malawi and probably for other countries as well. Therefore, it is recommended that they should be reviewed.

The affected target values are:

- The values of the target indicators for the current account deficit and domestic savings rate.
- The values of the external reserves target.
- The values of the growth rate target and the external debt target.
- The time frame for the finalisation of the legal and regulatory framework for dual and cross-listing on regional stock exchanges ; and
- The time-frame for the gradual interconnection of payments and clearing systems in SADC.

General recommendations about necessary actions from all SADC member states are about:

- Expanding the rationales for the FIP and elaborating rationales for co-operation on taxation and related matters, including government expenditure, and for co-ordinating and harmonising fiscal policies.
- Making provision for differential treatment in favour of the least developed member states in all the components of the FIP.
- Including a provision for co-ordination in exploration of natural resources so as to improve opportunities for investment in the SADC region.
- Reducing the complexity and discretionary nature of investment incentives.
- Reviewing the feasibility of some of the macroeconomic convergence targets.
- Reviewing the need for a common approach to taxation in light of uneven and unequal development between member states.
- Elaborating rationales for co-ordinating and harmonising monetary policies.
- Including commercial banks, insurance, microfinance institutions and informal financial sector in the FIP.
- Making provision for linking commercial banks across the region.
- Promoting the integrated development of formal, microfinance and informal financial sectors within member states.
- Promoting a suitable model of financial intermediation.
- Drawing on existing studies on financial sector development and on taxation and economic growth in finalising the FIP, or conducting fresh studies on which to base the FIP.

Others are about reviewing the following features of the Trade Policy Framework:

- The complicated Rules of Origin;
- The liberalisation of Category C products;
- Non-tariff barriers;
- Overlap in membership of regional integration schemes; and
- Incompatibility and divergence of external trade regimes that will complicate the choice of a common external tariff.

The Foundation held a third workshop from 3rd to 6th April, 2006, in Livingstone, Zambia, to review draft reports from researchers.

1 Introduction

1.1 Background

In consultation with the SADC Secretariat, the Friedrich Ebert Foundation held a workshop from 6th to 7th December 2004 in Gaborone on "Deepening Integration in SADC - Macroeconomic Policies and Their Impact". The purpose of this workshop was to develop a concept and terms of reference for a study on deepening integration in SADC. Regional macroeconomic researchers and policy analysts attended the workshop. The Friedrich Ebert Foundation organised a second workshop, which was held from 13th to 14th April 2005 in Stellenbosch, to develop further a research programme for a study on macroeconomic policies and their impact in the SADC region. The Foundation held a third workshop from 3rd to 6th April, 2006, in Livingstone, Zambia, to review draft report from researchers. The purpose of the study is to provide the SADC Secretariat and national policy makers with macroeconomic policy advice on how the processes of SADC integration can be facilitated, as well as information on the various options that could be pursued on the path of integration.

1.2 Objectives of the Study

This country study examines four broad areas that are related to the strategies contained in the Regional Indicative Strategic Development Plan (RISDP); namely, the basic macroeconomic policy framework, especially fiscal and monetary policies; the trade policy framework; the labour market policy framework; and the social impacts that the various policy frameworks aimed at achieving macroeconomic convergence and deepening SADC integration have. In addition, this study seeks to identify the critical policy issues in each of these areas for the processes of accelerating the deepening of integration amongst SADC states, in line with the RISDP.

1.3 Structure of the Report

The rest of the report is presented in the following nine sections. RISDP Goals and Objectives are presented in Section 2, Macroeconomic Convergence and SADC Policy in Section 3, Macroeconomic Stability Indicators in Section 4, Macroeconomic Convergence Programme of Malawi in Section 5, Detailed Assessment of Malawi's Macroeconomic Convergence Programme in Section 6, Social Impact Anaysis in Section 7, Macroeconomic Chalenges Facing Malawi in Section 8, Special Issues, Data Requirements and Future Research in Section 9, and Recommendations in Section 10.

2 RISDP Goals and Objectives

The Southern African Development Community (SADC) adopted a Regional Indicative Strategic Development Plan (RISDP) in 2004 in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities. The RISDP is intended to give SADC structures clear guidelines on what are the approved SADC social and economic policies and priorities, as well as provide member states with a coherent and comprehensive development policy agenda, for both social and economic development. The ultimate objective of the RISDP is to deepen the integration of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals (SADC, 2003).

Towards attaining its ultimate objective, the RISDP focuses on facilitating trade (goods and service market integration), economic liberalization (tariff phase down schedules and financial liberalization), competitive and diversified industrial development and increased investment for deeper regional integration and poverty eradication. The major milestones are the establishment of a free trade area (FTA) by 2008, under which intra-regional trade will be free from barriers but each country will maintain its own external tariff; a customs union by 2010, under which there will be free intra-regional trade as well as a common external tariff; a common market by 2015, which will combine the features of a customs union with free movement of factors of production; and a monetary union by 2016, under which there will be a common currency and a common central bank.

The RISDP also focuses on a number of other priority intervention areas that are critical for the achievement of SADC's objectives, in particular in promoting deeper regional integration; integrating SADC into the world economy; promoting sustainable, equitable and balanced development; and promoting gender equality. The selected priority intervention areas are poverty eradication, combating HIV/AIDS pandemic, promoting gender and development, science and technology, information and communications technologies, environment and sustainable development, public/private sector partnership and dialogue, statistics, infrastructure support for regional integration and poverty eradication, sustainable food security, human and social development, and combating illicit drugs.

3 Macroeconomic Convergence and other SADC Policies

3.1 Memorandum of Understanding on Macroeconomic Convergence

SADC member states have agreed that a substantial degree of macroeconomic convergence is necessary for effective policy coordination and deepening regional integration. To this end, they have signed a Memorandum of Understanding (MOU) on Macroeconomic Stability and Convergence. The basic aim of macroeconomic convergence is to create regional macroeconomic stability in terms of low inflation, sustainable debt, stable and realistic exchange rates, and prudent and efficient fiscal and monetary management. Macroeconomic stability will, among other things, stabilise government expenditure, thereby permit increased spending on poverty reducing social programmes, reduce interest rates, facilitate job creating investment and growth, and increase confidence in the economies of member states (Senaoana, 2005). The MOU addresses the following issues:

- The principles of macroeconomic stability and convergence;
- Indicators to measure macroeconomic stability and convergence;
- The provision of data and information on member states;
- The estalishment of a collective surveillance procedure;
- The presentation of annual convergence programmes by member states to the Committee of Ministers; and
- The allocation of responsibility for implementation.

3.2 Finance and Investment Protocol

The MOU on Macroeconomic Stability and Convergence is an aspect of a broader Finance and Investment Protocol whose objectives include providing a framework for co-operation in the area of finance, promoting the development of sound investment policies and encouraging savings, facilitating and stimulating investment flows and technology transfer and innovation. The strategies for achieving these objectives include co-ordination of direct and indirect taxes,

liberalisation of current and capital accounts, reform of payments systems, resource mobilisation through development finance institutions and other financial entities, and improving financial incentives for investment.

The Finance and Investment Protocol (FIP) is essentially an instrument for co-ordinating and harmonising the financial policies of SADC member states. The authors of the draft FIP have stated rationales for and objectives of the FIP, which are consistent with the objectives of SADC as stated in the RISDP. But, in addition, SADC needs to co-ordinate and harmonise financial policies of member states in order to make them consistent with those of the organisation (SADC); and to ensure that changes in financial policies in one country do not have spillover effects on other countries, which necessitate adjustments that are not necessarly there.

3.2.1 Investment

This part of the FIP adequately provides for investment incentives, investment protection and administration of investment incentives. It also adequately explains the rationales for co-operation on investment.

There are special measures that favour the participation of least developed member states in the economic integration process based on principles of non-reciprocity and mutual benefit. One of them is a proposal for the inclusion of double taxation agreements to encourage cross-border investment in least developed member states. Another measure is the agreement to investigate the establishment of market openings as well as the setting up of programmes and specific forms of co-operation for least developed member states, including a to derogation that is related to investment incentives.

One pertinent issue that has not been dealt with comprehensively is the question of investment opportunities. Firms invest where and when there are opportunities in the form of natural and other resources, a local or regional market, and possibilities of producing at least cost. SADC member states can therefore attract investment by investing in exploration of unknown natural resources, and creating conditions for increasing the size of the domestic and regional market and for

minimising transactions costs. The FIP does not provide for extending the frontier of known natural resources. It talks about increasing the size of the regional, but not the domestic market. It has measures for minimising transactions costs in terms of investing in supporting infrastructure, and other supply-side measures and policies, which are necessary to enhance competitiveness.

Two undesirable features of current investment incentives that have not been dealt with are their complexity and discretionary nature, which are believed to be discouraging investors in the region. In some countries, the different schemes under which similar incentives can be assessed create complications, as do the multiplicity of implementing agencies, lack of automaticity in accessing incentives, the time it takes to access incentives and delays in processing tax refunds. There are no objective criteria for granting incentives. In the absence of these criteria for granting incentives, government agencies use their discretion to decide who should get the incentives, thus reducing transparency in the way that they are administered.

3.2.2 Taxation and Related Matters

The relevant section of the FIP contains detailed provisions for co-operation in taxation and related matters. But it is not stated how co-operation in taxation will promote regional integration or assist SADC member states to achieve economic growth; sustainable, equitable and balanced economic development; poverty eradication; and human and social development. At the very least, this part of the FIP should have created an appropriate synergy with the Trade Protocol under which member states are reducing and harmonizing their tariffs. But, unlike the part dealing with Investment, it has not done so.

This part of the FIP does not seem to have benefited from background studies that examine the relationship between taxation and economic growth and other development objectives. By increasing the cost of inputs, reducing the resources available for investment, and distorting the link between reward and effort, taxation acts as a drag on economic growth. The question for SADC is how co-operation in taxation etc. Can minimise this effect on economic growth.

If SADC has found it necessary that member states should co-operate on taxation, why should they not co-operate on government expenditure as well, perhaps through joint provision of public services in order to effect economies?

As the economies of SADC member nations increase their degree of integration, co-ordination and harmonisation of fiscal policies becomes essential because, for example, the impact of changes in domestic tax policy can be transferred to other member states through:

- Changes in the price of exports relative to the price of imports (terms of trade); and through
- Changes in the after-tax returns on international capital in different locations.

And the impact of changes in government expenditure can be transferred to other member states through:

- Changes in demand for imports.

Harmonisation of tax and government expenditure policy is required so that changes in one country do not adversely affect:

- The exports and imports of other countries; and
- The relative profitability of investment in other countries.

Agreements to create a database and promote capacity building are useful aspects of co-operation in taxation and related matters. So are agreements to develop a framework for evaluating tax incentives, to develop guidelines for tax incentives and to avoid harmful tax competition.

The one issue that needs to be assessed relates to committing member states to endeavouring to achieve a common approach to treatment and application of tax incentives. This may not the best way to deal with differences in levels of development. The least developed member states should adopt more generous tax incentives than the more developed ones because they need capital more than the latter to develop their economies.

3.2.3 Financial and Capital Markets

The part of the draft protocol dealing with Non-Banking Financial Institutions, along with the parts dealing with Central Banks, Development Finance Institutions and Stock Exchanges, illustrates common weaknesses in the approach to the development and strengthening of financial and capital markets in the region. Given the intermediate objectives (e.g., to increase productive capacity partly through loan finance) and the ultimate objective to eradicate poverty, the common weaknesses are:

- Inability to appreciate that the regional financial system comprises of a formal financial sector (which is emphasized in the FIP), a micro-finance sector and an informal financial sector.
- Disregard for the informal financial sector, which is the main source of credit for poor and non-poor households alike in low-income countries, and existence of which undermines the efficacy of monetary policy.
- Disregard for the informal financial sector and the micro-finance sector, which are the most important sources of credit for micro and small-scale business enterprises in low-income countries.
- Absence of a framework of supportive policies to induce commercial banks to undertake term lending.
- Absence of policies to induce banks to lend to the small business sector, a key engine of economic growth and employment creation.
- Disregard for the insurance industry, which does not serve the poor, but which should.
- Absence of proposals for the development of the entire financial system because of the biases noted above.

Where the FIP talks about market integration in the region, it is referring to integration of non-banking financial institutions across countries. The equally desirable task of integrating formal, informal and micro-finance sectors in order to enhance financial intermediation within countries is not addressed. While this is seen as a national rather than a regional issue that can be put down in a legally binding protocol, it should be recognised as a desirable course of action that member states should follow. Certainly, it has its educational value. Furthermore,

the FIP does not consider what model of financial intermediation would be ideal for the region, given the objectives of SADC to promote sustainable, equitable and balanced economic growth and development and to eradicate poverty.

The FIP emphasizes cooperation in ICT among commercial banks, with a view to improving their operational efficiency. But, there is nothing in the protocol that addresses their financial efficiency. It also emphasizes internationalisation and standardisation, and not localisation, regionalisation or indigenisation. The assumption implicit in this preference is that international practices associated with developed countries are the best and most appropriate for the SADC region.

The priority accorded to stock exchanges is probably misplaced, given that in most countries only a handful of companies qualify to trade in them, leaving the vast majority of businesses, including small-scale enterprises owned by the poor, out of reach.

Lastly, but not least, this part of the FIP also shows that not much background work or study was done before drafting it. The FIP leaves the task of carrying out the background work to the future. For example, in relation to the Promotion of Market Integration and Access, the FIP says that the member states have agreed that the Authorities (the financial regulatory bodies) should identify foreign institutional barriers that impede access to financial service industries; identify impediments to market integration throughout the region; and formulate and introduce appropriate strategies to address the identified barriers and impediments. And concerning the Development Programme, the FIP says that member states have agreed that the Authorities should assess the level of development of their financial services industries so that they can develop focused programmes for them. The assessment should address:

- Supply and use of financial products and services;
- Level of competition (but not level of co-operation and linkage); and
- Any barriers to development.

In other words, this part of the FIP is vague and incomplete, requiring a lot of work before it can be brought to a stage where it can be implemented.

As the economies of SADC member nations become more integrated, co-ordination and harmonisation of monetary policy will become increasingly essential because changes in domestic monetary policy will be transferred to others through:

- Changes in interest rates; and
- Changes in the exchange rate.

Harmonisation of monetary policy will be necessary so that changes in one country do not necessitate:

- Interest rate adjustments in other countries, which may be undesirable; and
- Currency devaluations in other countries, which may offset the impact of the initial devaluation and lead to begging in neighbouring policies.

3.3 Trade Protocol

As amended, the SADC Trade Protocol aims at establishing a Free Trade Area in the region by 2008. Its objectives are to further liberalise intra-regional trade in goods and services; ensure efficient production; contribute towards the improvement of the climate for domestic, cross-border and foreign investment; and enhance economic development, diversification and industrialization in the region. The specific strategies that have been adopted to achieve these objectives are:

- The gradual elimination of tariffs;
- Adoption of common rules of origin;
- Harmonisation of customs rules and procedures;
- Attainment of internationally acceptable standards, quality, accreditation and metrology;
- Harmonisation of sanitary and phyto-sanitary measures;
- Elimination of non-tariff barriers; and
- Liberalisation of trade in services.

3.4 Labour Market Policies

According to the draft policy document entitled "Policies, Priorities and Strategies: Working Draft", adopted by SADC Ministers of Labour in 2001, the issues of concern in the labour market are unemployment and underemployment, labour standards and regulatory considerations, and the implications of these for regional integration. In the light of these problems, the draft policy document proposes a number of broad objectives, priorities and strategies under the sub-headings of employment promotion and labour market regulation, which SADC member states should adopt.

Among the objectives identified under employment promotion are creating productive employment, expanding wage employment, promoting economic growth, promoting equity and social protection and reducing poverty. The proposed strategies for achieving these objectives include increasing the labour intensity of production, enhancing the labour absorptive capacity of the economy, and increasing effective demand in the economy.

With respect to labour market regulation, the main objectives include developing common employment and labour market regulations and policies that reflect the common vision of SADC; developing migrant labour policies in keeping with the aim to liberalise the movement of persons and labour in the region, and promotion of equity and social protection of vulnerable groups.

4. Macroeconomic Stability Indicators

In order to achieve macroeconomic convergence, member states must converge on stability-oriented economic policies whose aims are to restrict inflation to low and stable levels; maintain a prudent fiscal stance based on avoidance of large fiscal deficits, monetisation of deficits, and high or rising ratios of public debt to gross domestic product (GDP); avoid large financial imbalances in the economy; and minimise market distortions (Senaoana, 2005). The economic indicators that will be used to measure macroeconomic convergence and their numerical values are shown in Table 1 below. Other macroeconomic target variables are:

- Increase domestic investment levels to at least 30 percent of GDP by 2008;
- Gradual interconnection of payments and clearing systems in SADC by 2008;
- Achieve currency convertibility by 2008;
- Finalise the legal and regulatory framework for dual and cross listing on the regional stock exchanges by 2008;
- Liberalise exchange controls; and
- Liberalise current account transactions between member states by 2006 and the capital account by 2008.

Table 1: Macroeconomic Convergence Indicators in SADC

Target Variables	2008 Numeric Values	2012 Numeric Values	2018 Numeric Values
Core Inflation	9%	5%	3%
Budget Deficit as a percentage of GDP	5%	3%	1%
External Debt as a percentage of GDP	60%	60%	60%
Current Account Deficit as a percentage of GDP	9%	9%	3%
Growth Rate	7%	7%	7%
External Reserves (Import Cover in months)	3	6	6
Domestic Savings Rates Central Bank Credit to	25%	30%	35%
Government	10%	5%	5%

The primary sources of data that have been used above are the IMF and other multilateral organisations, most notably the World Bank. Data provided by Malawi to these organisations are in accordance with internationally acceptable standards as defined by the IMF. The data on external reserves, which are the foreign assets of the banking system, and data on central bank credit to government are of an acceptable quality and comparable with those of other countries. Data on other variables are believed to be less reliable. For example, the core inflation data are based on a consumer price index (CPI) that is comprehensive in terms of geographical and household coverage, but it excludes tax payments, gifts and dowry payments. As such, strictly speaking it is not a cost of living index. The reliability of the current account deficit depends on the accuracy of the merchandise trade account balance, the factor and non-factor services account balance, and the private transfers account balance. In all these accounts, the fact that many transactions are not recorded officially means that the data are not accurate. The reliability of GDP data is adversely affected by not fully measuring incomes originating in the informal sector. Lastly, domestic savings data are can also be said to be unreliable because saving is estimated as a double residual in the national accounts. It is defined as the difference between gross domestic product and total consumption, which is itself the residual expenditure category.

A Macroeconomic Monitoring, Surveillance and Performance Unit (MSPU), established under the authority of the SADC Macroeconomic Convergence MOU, is monitoring the implementation of the macroeconomic convergence programme. The MSPU will operate under the authority of the Finance and Investment Protocol once it is adopted. Thus, it has legal authority. The Committee of Ministers of Finance has established macroeconomic indicators to be used and it has set the target values that will apply to all member states. The success of the programme will ultimately depend on the political will and commitment of member states, which have agreed to prepare their national convergence programmes.

5 Malawi's Progress Towards Macroeconomic Convergence

5.1 Basic Elements and Targets

Malawi has so far not formulated a macroeconomic convergence programme it proposes to implement in order to achieve the SADC macroeconomic convergence targets. But preparatory work for this has started. Earlier in 2006, the SADC Secretariat recruited a consultant and sent him to Malawi to explore a national macroeconomic convergence programme framework with the authorities. The consultant completed the assignment and submitted a report to the Secretariat. Once the final report has been submitted to the Malawian authorities by the Secretariat, the former will prepare their macroeconomic convergence programme. Since there is no national macroeconomic convergence programme, progress or lack of progress towards convergence is determinec by examining the background of the benchmarks agreed upon by SADC member states.

The progress that Malawi has made and is making towards meeting the SADC convergence targets is indicated by the data in Table 2 below, which must be read in conjunction with the data in Annex Table 5. The data in Table 2 show that Malawi has met the 2008 target with respect to the budget deficit and central bank credit to government as a percentage of previous year's tax revenue. That Malawi has achieved these targets is coincidental, since the prudent fiscal policies and aid inflows that brought it about were not responding to the SADC Macroeconomic Convergence Programme. For each of these, the country needs to stick to its Poverty Reduction and Growth Facility stabilization programme to ensure that they do not get off track. Malawi is expected to satisfy the target for core inflation for 2008. But it is off target with respect to the other target variables, which it is not expected to meet in 2008 and possibly thereafter also, given that they are ambitious. The relevant target variables are external debt, current account balance, economic growth rate, external reserves and domestic savings rate. For these, Malawi needs to devise robust policies and align its targets to those of SADC.

Malawi appears to be off target with respect to some of the macroeconomic target variables not shown in Table 2 also. Definitely, given the extent of divergence between the target and actual values, it needs to do something about increasing the domestic investment rate and aligning its target to that of SADC. The lifting of foreign exchange controls in 1994 affected current account transactions, which are liberalised. Capital account controls still exist. Hence, the currency is not convertible internationally. Anticipated macroeconomic stability will make it possible for the country to achieve currency convertibility by 2008. But little or no progress has been made towards effecting gradual interconnection of payments and clearing systems in SADC by 2008, and in finalising the legal and regulatory framework for dual and cross listing on regional stock exchanges by 2008. A Securities Bill, which would facilitate dual and cross listing on regional stock exchanges has yet to be tabled in Parliament because of opposition to it by relevant committees. There would appear to be differences in interest between the executive branch, which is championing the bill, and the legislative branch of government.

5.2 Government's Expectations about Future Economic Developments

In the short run, the government expects the rate of economic growth to decelerate to about 2.1 percent due to the 2004/2005 drought, which adversely affected the production of food and cash crops. Consequently, the rate of growth of permanent wage employment is also expected to slow down. The importation of relief maize has been fully budgeted for, so this will not cause an unplanned deficit on the Budget. However, a worsening in the current account of the balance of payments is expected due to large maize imports and reduced exports of agricultural commodities. A worsening in the rate of inflation is also expected on account of shortages of food and other agricultural products. The government further envisages a decline in the domestic savings rate and in the rate of domestic investment (Malawi Government, 2005).

In the medium term, the government expects economic growth to pick up and average 6.2 percent between 2005 and 2008. The main underlying assumption is that the weather will be more favourable and so agriculture will register an average economic growth rate of 7 percent. The other assumptions are that the country will achieve food security, that the response of the private sector to policy initiatives will be positive, that there will be an increase in domestic borrowing and the rate of investment, that macroeconomic stability will be restored, and that the IMF supported economic programme will trigger balance of payments inflows from donors (Malawi Government, 2004).

Table 2: Macroeconomic Convergence Indicators for Malawi

Target Variables	2008 Numeric Values	2005 Numeric Values for Malawi	Comments
Core Inflation	9%	16.9%	Higher than target value.
Budget Deficit as a percentage of GDP	-5%	-4.0%	Within target.
External Debt as a percentage of GDP	60%	160%	Higher than target value.
Current Account Deficit as a percentage of GDP	-9%	-18.4%	Higher than target value.
Economic Growth Rate	7%	2.1%	Below target value.
External Reserves (Import Cover in months)	3	1.6	Below target value.
Central Bank Credit to Government as a percentage of previous year's tax revenue	10%	5.6%	Below target.
Domestic Savings Rate	25%	-5.4%	Far below target value.

Sources: Senaoana as described above; World Bank, African Development Indicators 2004; and Malawi Government, Economic Report (various issues).

5.3 Malawi's Basic Macroeconomic and Development Framework

5.3.1 Fiscal and Monetary Policies

In the recent past, policies to stabilise the economy of Malawi have been implemented under a Poverty Reduction and Growth Facility (PRGF) arrangement supported by the International Monetary Fund (IMF), an IMF staff monitored programme, and an enhanced Heavily Indebted Poor Countries (HIPC) Initiative programme. Adopted in 2000 and planned to run up to 2003, the PRGF aimed at increasing the rate of economic growth, reducing the rate of inflation, improving the external financial position, and reducing poverty. The measures for attaining these objectives included reducing the rate of growth of the money supply, achieving a balanced fiscal position, improving expenditure control, deepening structural reforms, strengthening governance and prioritizing pro-poor expenditure. This programme was suspended in 2001, after Malawi had drawn only US$6.44 million out of US$45.11 million, owing to the country's inability to achieve the fiscal targets agreed to with the IMF. The staff monitored programme was adopted in 2004 in order to lay the ground upon which the country would implement a new PRGF. It was successfully completed in 2005. All the key fiscal targets were met. The target on revenues was more than met. There was also significant improvement on structural targets. The vote on special activities within the approved budget was eliminated, and ministries and departments adhered to submission of expenditure return every month. Slippages were few, mainly relating to the inflation target and the growth of net domestic and foreign assets (Malawi Government, 2005). As a result, Malawi has qualified for a new three-year PRGF programme.

The main economic objectives of the PRGF are to:

- Raise the rate of economic growth to 6 percent per year, with an emphasis on rural incomes;
- Increase health services and educational opportunities;
- Reduce core inflation to the 5-8 percent range;
- Build international reserves to at least two months of imports; and

- Run a fiscal surplus to reduce the government's domestic debt to less than 15 percent of GDP from over 24 percent.

By sheer coincidence, the core inflation target is consistent with that of the SADC macroeconomic convergence programme. The targets for economic growth and international reserves are not, but could have been made consistent with SADC targets. And those for social services and domestic debt are not relevant to it.

The strategies for achieving the above objectives include zero tolerance for corruption and pursuit of good financial, economic and political governance; improving the macroeconomic environment and pursuit of sound fiscal, monetary and exchange rate policies. Malawi also intends to more towards an independent central bank as part of a SADC wide initiative (National Action Group Forum, 2005).

Malawi did not qualify for HIPC I, which came into being in 1996, because its debt service ratio was less than the threshold of 20-25 percent. Under HIPC II, which was introduced in 1999, the threshold debt service ratio was reduced to 15 percent. This enabled Malawi to qualify. Having taken significant steps to reduce macroeconomic imbalances, broaden market-oriented reforms and improve outcomes in the social sectors, and having improved macroeconomic performance, the country reached the decision point in December 2000. Consequently, the IMF and the World Bank Group's International Development Association (IDA) agreed to support a comprehensive debt-reduction programme for Malawi. The enhanced HIPC initiative will provide total debt relief from all creditors worth around US$1 billion. This will be used for poverty reduction efforts by releasing resources for expenditure on health, education, rural development and other priority areas.

The IMF and IDA will provide full debt relief when Malawi has reached the completion point after the following conditions have been met:

- The adoption of a full Poverty Reduction Strategy Paper (PRSP) prepared through a participatory process, and satisfactory progress in implementing and monitoring the PRSP for at least a year.
- The satisfactory implementation of financial and economic policies supported by the IMF's Poverty Reduction and Growth Facility.

- The improvement of public expenditure management and governance, through quarterly expenditure reporting on spending in high priority areas and through the separation of fiscal management and audit functions under new legislation.
- The strengthening of land and credit markets.
- The implementation of specific actions in the social sectors aimed at targeting safety net programmes to protect the poorest, improving health care delivery, slowing the spread of HIV/AIDS, and raising the quality of education.
- The confirmation of the participation of other creditors in the debt relief operation.

The Malawi Poverty Reduction Strategy Paper (MPRSP) was launched in April 2002.But, the country still failed to reach the completion point because it did not meet two of the other conditions; namely, satisfactory completion of financial and economic policies supported by the IMF's PRGF, which was suspended; and improvement of public expenditure management and governance. The implementation of the new PRGF programme has met with more success, with the country satisfying almost all the conditions of the programme. Hence, it is expected that Malawi will have its foreign debt cancelled very soon.

5.3.2 Policies for Economic Growth and Development

Recent policies for economic growth and development are contained in the Malawi Poverty Reduction Strategy Paper (MPRSP), the Malawi Economic Growth Strategy (MEGS), the Malawi Growth and Development Strategy (MGDS) and other strategy documents. The Malawi Poverty Reduction Strategy Paper (MPRSP) was developed in the early 2000s at the request of the Bretton Woods Institutions (BWIs) so that the country could benefit from debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative, a Poverty Reduction and Growth Facility arrangement and other concessionary assistance. It had two key elements; namely, a set of government policies and priorities, both overall and for individual sectors; and broad expenditure allocations, covering both domestic and donor funding. Its purpose was to try and ensure that scarce resources were allocated in accordance

with government policies and priorities for poverty reduction. In varying degrees, the MPRSP drew upon and learnt from a number of previous national development strategies; namely, the 1987-1996 Statement of Development Policies, which was developed through extensive consultations within government, contained a profile of the poor, the causes of poverty and the measures for addressing the problem of poverty; the Social Dimensions of Adjustment Project to minimise the adverse effects of Structural Adjustment Programmes (SAPs) on the poor and strengthen the capacity for integrating the poor in the national development process; the Policy Framework for the Poverty Alleviation Programme (PAP); and Vision 2020.

The Malawi Economic Growth Strategy (MEGS) was formulated from 2002, completed and finally launched in 2004. MEGS aimed to complement the MPRS by stimulating private sector growth and ensuring that the poor are key participants and beneficiaries of economic growth. It owed its origin to two missing links in the MPRSP with which both the government and the private sector were concerned. The first is that while the MPRSP contained a pro-poor growth strategy for stimulating economic growth in ways that directly attack poverty, it focused on the role of micro and small-scale enterprises to the exclusion of large-scale ones. The second is that the MPRSP neither planned for a sufficiently high rate of economic growth, which is considered necessary for poverty reduction, nor gave sufficient attention to the role of the private sector, investment and trade, which are considered to be the main drivers of economic growth. Part I of MEGS set out the background to the strategy, the framework for delivering growth and the strategy for dealing with the macroeconomic constraints that affect enterprises. Part II analysed the main sectors of the economy, the strategies for the growth of the core and other sub-sectors of the economy. There was also a review of key public institutions that support and regulate the private sector.

Recently, the government has replaced the MPRSP and MEGS with a new strategy called the Malawi Growth and Development Strategy (MGDS). MGDS draws upon and combines critical issues in the MEGS, MPRSP, Vision 2020, the Millennium Development Goals and other development strategies and is consistent with the vision of the President. Like the MEGS, the MGDS focuses on achieving strong

sustainable economic growth that will enable Malawians to create their own wealth through economic empowerment. Some of the specific aims of the MGDS are to:

(i) Resume economic growth fast enough to bring about the Government's vision;
(ii) Create new wealth for the people and more jobs;
(iii) Gradually emerge as an industrial nation capable of transforming agricultural primary commodities, other raw materials and minerals;
(iv) Transform Malawi from a predominantly importing and consuming country to a producing and exporting country;
(v) Increase supply of goods and services for domestic and international markets; and
(vi) Increase domestic and foreign financing and investment in agricultural processing, industrial production and manufacturing.

The strategy is comprehensive, with five pillars (the original four pillars of sustainable economic growth, social protection, social development and good governance contained in the MPRSP, and infrastructure). Improving food security so as to ensure that Malawi is a hunger free nation features prominently, as does the achievement of other MDGs. Macroeconomic stabilisation also features, but the SADC macroeconomic target variables are not included, except the ones that are in the PRGF stabilisation programme. In addition, the strategy incorporates cross-cutting issues of HIV/AIDS, gender, environment and science and technology in the five pillars.

Volumes I and II of the strategy are both written in simple, easy-to-understand, technical language. Volume has II has more detail. When you read it, you cannot help feeling that there is insufficient selectivity and prioritisation, especially with respect to focus actions for agriculture, education, health and transport. While a national development strategy should be comprehensive, in a country like Malawi, with limited capacity, it is essential clearly to identify priorities for action. The apparent lack of selectivity and prioritisation reflects the response of individual ministries to the decision that budget submissions that either include activities outside the MGDS or exclude activities inside the MGDS will be rejected, which encouraged them to submit everything

as a hedge. This problem has been addressed through subsequent priority setting.

Secondly, in some cases there is insufficient distinction between strategies, the means adopted for addressing particular problems, and policy objectives, the aims that the strategies are intended to achieve. A policy objective is not a strategy and a strategy is not a policy objective. The two things are quite distinct. This affects the description of key strategies in both Volume I and Volume II where these terms have several times been used interchangeably.

Thirdly, the process of developing MGDS, like the process of developing MEGS, was less consultative than the one employed to develop the MPRSP. Most of the key stakeholders, namely the private sector, civil society, donors, and the three arms of government were consulted through appropriate structures. The poor, who are not represented through private sector institutions, were not consulted. Furthermore, the private sector and civil society have been involved in writing the MGDS, and will be involved in monitoring and evaluation. But the poor will not. It has been contended that civil society represents the poor. But this contention has been challenged. It has also been contended that the poor were consulted through their representatives in the preparation of the MPRSP. So it was not necessary to go through another round of consultations, which, in any case, was considered to be resource intensive and expensive. While appreciating the financial and other resource constraints, I believe that in a dynamic world where economic conditions and perceptions can change quite rapidly, it is essential to get the views of the poor themselves and, therefore, that cost effective ways of soliciting their views should be sought.

Related to the above, it is not clear whether and how government will explain the MGDS to the general population and those on the ground responsible for implementation. The MGDS is more likely to be sustainable, and to be implemented, if it is seen and accepted as a national as well as a government strategy. This is particularly important in light of the fact that consultations on the MGDS have not been extensive.

5.3.3 Policies for Attaining Millennium Development Goals

The Malawi Government signed The Millennium Declaration that was adopted in September 2000 at the Millennium Summit, which was attended by 149 Heads of State. There are eight goals in the declaration, which set minimum standards for combating poverty and hunger; attaining universal primary education and gender equality, and reducing child mortality, maternal mortality, as well as the spread of HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and promoting a global partnership for development. SADC has also adopted these goals.

Poverty Policies

The MGDS aims at decreasing poverty by 8 percent. This will be achieved through a combination of measures for promoting economic growth, economic empowerment and food security so that Malawians can become less vulnerable to economic shocks; and measures to protect those who temporarily fall into poverty by increasing their assets. The MGDS also seeks to decrease fluctuations in poverty by providing economic conditions to help keep those that move out of poverty, out, and ensure that those who are already out of poverty do not fall into poverty again due to economic shocks.

Agricultural Policies

The MGDS aims at decreasing the proportion of the population that suffers from hunger and to improve the nutritional status of the population. Hunger causes people to move into poverty. Hence, food security is one of the key priorities in the MGDS.

Accordingly, in agriculture, the priority of the government is the achievement of food self-sufficiency. To this end, among other things, government is subsidising the price of fertilizers. While measures aimed at neutralising the effects of drought cannot produce tangible results in the near term, policies for reducing the price of fertilizers for the vulnerable groups of smallholder farmers could have immediate and

discernible results for the majority of the population. Long term policies of food sufficiency such as the popularisation of irrigation as a culture in Malawi, is and will be strongly pursued as a means of neutralizing the effects of drought and increasing agricultural productivity.

Education Policies

Here, there are three priority goals: at primary level to equip students with knowledge and skills to enable them to function as competent and productive citizens in a free society; at secondary level to provide the academic basis for gainful employment; and at tertiary level to produce high quality professionals with relevant knowledge and skills. The proposed strategies assume that the main problems of education in Malawi relate to quality, access and equity. Accordingly, they focus on expanding and improving facilities, equipment, human resources, student intake, management of the education system, and the learning environment generally.

Gender Policies

The MGDS recognises that female-headed households are more likely to be poor. It addresses gender by integrating targeted programmes; e.g., programmes for business development, micro-finance, etc., for women to enable them to be part of economic growth. The MGDS also targets mainstreaming gender into government programmes and disaggregates information by gender.

Health Policies

In the field of health, the MGDS:

- Addresses child mortality through improved access to essential health care services, by increasing access to clean water and sanitation, and by improving the nutritional status of children and ensuring food security.
- Recognises that little progress has been made on reducing maternal mortality, and that economic empowerment will enable women to avail themselves of better care. It aims at improving antenatal care and basic obstetric care. The Health Sector Support Programme is taking steps to directly tackle health related issues in this area.

- Incorporates the strategies of the National Aids Framework in the fight against HIV/AIDS. Its aims are to reduce the prevalence and incidence of HIV/AIDS, decrease the negative impact of HIV/AIDS on people living with the disease, and reduce the economic and social consequences for those who care for AIDS patients.
- Is tackling malaria through improvement of essential health care services.

Environmental Policies

The MGDS notes that managing natural resources is an essential aspect of environmental sustainability. For this reason, it directly considers environmental sustainability in forestry resources and fisheries and education of environmental standards. It also seeks to identify areas, such as eco-tourism, that have a positive spillover effect on economic sustainability. Furthermore, it seeks to achieve the MGD goal of access to clean water and sanitation.

Policies for Promoting a Global Partnership for Development

Attaining the Millennium Development Goals will require an open, rule-based global economy in which all countries, rich and poor, participate for their benefit. Malawi will fight for the creation of a fair and equitable trading and financial system through its membership of the WTO, the International Monetary Fund (IMF) and other international organisations. Tariffs on many export products from Malawi and other developing nations to industrialised countries are still high. Subsidies paid to agricultural producers and exporters in industrialised countries form another type of barrier to exports from developing nations. There is a need to reduce and, ultimately, to eliminate these trade barriers.

As one of the poorest countries in the world, Malawi needs additional assistance in the form of official development assistance (ODA). Yet ODA has declined in recent years as a proportion of donor countries' gross national income (GNI). Estimates suggest that US$30-60 billion more a year would allow most of the poorest countries to achieve the MDGs, if the aid goes to those with good policies, according to the World Bank.

Malawi's official foreign debt stands at about US$3 billion (World Bank, 2005). The servicing of this debt is a major burden on the country's limited budgetary and foreign exchange resources. Moreover, the servicing of the debt diverts resources away from expenditure on education, health, water and sanitation development and other social and economic services. Therefore, it is a major obstacle to the attainment of the MDGs. Malawi did not qualify for the original Highly Indebted Poor Countries (HIPC) Initiative in 1996 as a means of reducing its debt burden because its debt-service ratio was below the threshold of 20-25 percent. But it qualified under the enhanced HIPC, which was adopted in 1999, when the qualifying debt-service ratio was reduced to 15 percent. Malawi reached its decision point in December 2000, and adopted a PRSP in April 2002. The resources saved on debt servicing, estimated at US$50 million per annum, are committed to expenditure on pro-poor activities identified in the PRSP, now incorporated in the MGDS.

6 Detailed Assessment of the Progress towards Macroeconomic Convergence

6.1 Main Linkages between Policy Frameworks and Socio-Economic Impacts

As regards linkages between macroeconomic convergence and socio-economic impacts, macroeconomic stability and fiscal prudence should help to stabilise government expenditure, thereby allowing increased expenditure on poverty reducing social programmes, reduce interest rates, facilitate job creating investment and growth, and increase confidence in the economies of member states (Senaoana, 2005).

According to the Terms of Reference for the country studies, trade policy and its implementation have an important role to play, both in overall economic performance and in the processes of SADC integration. International trade is an inherent integration process between trading partners. Hence, regional integration in SADC must encompass the trade relationships that the member states have with one another and with other countries that trade with SADC. This country study, therefore, focuses on the macroeconomic impact that the trade policies of Malawi give rise to.

Trade policy aimed at regional integration impacts on economic performance through trade creation, the effect of creating or increasing trade between member countries. This new trade results from the reduction in tariffs between the members and is generally welfare-increasing. It also impacts on economic performance through trade diversion, which is the replacement of trade with non-members by trade with members. This occurs because tariff-free prices of goods from members are lower than tariff-inclusive prices of goods from non-members who formerly supplied them. Trade diversion is generally welfare-decreasing. Trade policy is beneficial in the short run if gains from trade creation exceed losses from trade diversion, in terms of changes in production, employment, incomes and improvement in the terms of trade.

According to the same TOR, labour market policies relating to wages, incomes, human resources development, migration and related

regulatory frameworks have an important role to play in terms of macroeconomic performance. In addition, they have important implications for trade and regional integration through a variety of channels, including employment creation, informal sector growth, labour productivity, unemployment, poverty and poverty reduction, migration, and comparative and competitive advantages in production, among other things.

The various policy frameworks for fiscal, monetary, trade and labour market policies are intertwined in their relationships with one another and in their subsequent impacts on macroeconomic convergence among SADC member states. Furthermore, they have interrelated social impacts, which have important implications for deepening SADC integration.

6.2 Macroeconomic Conditions Prevailing within Malawi

6.2.1 Economic Structure and Growth

Malawi has a low and unstable per capita income. In 1997, it recorded a per capita gross national income of US$220. Since then, per capita income has been lower, remaining at or below US$170 since 2000 (World Bank, 1999, 2002, 2004). Economic activity is dominated by agriculture, whose share in GDP was 38 percent in 2003. Industry plays a comparatively smaller role. In 2003, its share in GDP was 15 percent. Of this ratio, 15 percent was on account of manufacturing. Services, which comprise distribution, transport and communications, financial and professional services, ownership of dwellings, private, social and community services, and government services, accounted for a share of 47 percent.

As shown in Annex Table 1, the rate of growth of real gross domestic product (GDP) during the first three years (2000 to 2002) of the new millennium was unsatisfactory, averaging -0.6 percent. Although the rate of growth of real GDP picked up in 2003 and rose further in 2004, it was well below the target rate of 7.0 percent required if Malawi is to halve the proportion of its population living on less than US$1 per day by 2015, which is also a target variable in the SADC Macroeconomic Stability and Convergence programme.

With agriculture accounting for about 38 percent of the country's GDP, changes in the output of this sector have a profound effect on the performance of the economy as a whole in the short run. In 2000, Malawi experienced erratic weather, dry spells and floods in some parts of the country. As a result, the rate of growth of value added in agriculture declined from 11.2 percent in 1999 to 5.7 percent. High real rates if interest rates discouraged borrowing from the banking system and hence contributed to a low rate of investment. A sharp depreciation of the local currency in the same year fuelled inflation, which dampened demand for goods and services. In response, the output of manufacturing industries declined by 2.5 percent (Malawi Government, 2001).

Unsatisfactory weather was experienced in 2001 as well. In addition to the vagaries of the weather, fiscal and monetary policies went off track from the middle of the year. There was also suspension of balance of payments support by Denmark, Norway, Sweden and the United Kingdom in December. In 2002, there was a bigger decline in balance of payments support in response to bad governance and fiscal mismanagement (World Bank, 2004). Nonetheless, the rate of economic growth turned around because of recovery in agriculture following improvement in weather conditions (Malawi Government, 2003).

In 2003 and 2004, Malawi experienced better weather conditions. Agriculture benefited from the change in weather, posting positive rates of growth of value added in both years. In turn, the recovery in agriculture stimulated agro-industry and demand for the output of other sectors. Hence, growth of output occurred in all sectors of the economy.

In the long run, economic growth in Malawi is influenced by the growth of physical capital and education per worker and by changes in total factor productivity. Between 1990 and 1994, growth in real GDP per worker averaged -0.65 percent. The contribution of education per worker of 0.20 percent was more than offset by the negative contributions of physical capital per worker of -0.11 percent and total factor productivity of -0.74 percent. During the subsequent half-decade, 1995-2000, growth of real GDP per worker averaged 3.90 percent. Only physical capital per worker had a negative contribution

of -1.29 percent. Education per worker and total factor productivity made positive contributions of 0.39 and 4.80 percent, respectively (Chipeta, 2003).

6.2.2 Investment Flows to and from Malawi

Trends in Investment Flows

One indicator of integration is the extent of investment flows. This includes both direct and portfolio investment and retained earnings. In the case of Malawi, both portfolio investment and the flow of foreign direct investment are insignificant, although major policy changes have been undertaken in liberalising the financial sector and privatisating public enterprises. There are many reasons why private investment in general, and foreign direct investment, in particular, has not increased significantly over the years. The reasons range from the poor infrastructure of the country to inappropriate government policies and general inefficiencies. A recent World Bank survey (1997) of private business cites poor infrastructure, crime and theft, inflation and corruption as major obstacles to private business. The same survey also cites tax regulation and policy instability as moderate obstacles. A survey by the United Nations (1992) shows that the problem countries such as Malawi face in attracting FDI goes beyond the existence (or absence) of pure economic returns. Perceptions and overall socio-political uncertainty play an important role in determining the direction of FDI flows. To put it differently, the premium required to compensate for the actual or perceived risks of investing in such economies is likely to be high. Besides these factors, other important considerations are the relative small size of the domestic market In Malawi and lack of huge exploitable natural resources.

Foreign Direct Investment

The stock of foreign direct investment in Malawi is small in magnitude but has been increasing steadily. As a whole it seems to be comparable to the average for African countries. From a low of $100 million in 1980, the stock of FDI reached $188.7 million in 2000 when it averaged

around 16.7 per cent of GDP. The main sources of this capital are the UK (31.9 percent) and the USA (26.6 percent). South Africa is the third biggest source overall (19.0 percent) and the main source in SADC. Mauritius and Zimbabwe are a distant second (1.1 percent).

Most of the South African FDI equity stock (74.9 percent) as of 2000 was invested in manufacturing. The rest went into distribution, financial services and other, which are not priority sectors in the country's growth and development strategy. The sectoral distribution of FDI equity stock from other countries, SADC and non-SADC, is similar. It must be noted that most of this investment is effected through mergers and acquisitions, and not through new or green field investment. Hence, it does not necessarily add to the country's stock of capital.

Portfolio Investment and Retained Earnings

Foreign portfolio equity investment stock stood at only US$1.6 million in 2000. The main sources of this investment were Zimbabwe (38.4 percent), Zambia (22.9 percent), which are fellow members of SADC. Other major sources were the European countries of Denmark (28.5 percent) and Switzerland (7.9 percent). Manufacturing accounted for 72.1 percent of this investment, with the rest in sectors that are not priorities, according to the growth and development strategy of the country. In 2000, retained earnings on account of FDI stock amounted to US$12.6 million.

Capital Outflows

Private enterprises in Malawi do lend abroad in the form of shareholder and inter-company lending, and trade credits, but the amounts involved are relatively small. For example, long-term lending increased from US$1.2 million in 1999 to US$2.0 million in 2000, implying a 58.1 percent increase. This was mainly on account of a 71.9 percent rise in inter-company loans, which accounted for 94.7 percent of total non-equity asset stocks. The major sector that lent abroad was distribution. It accounted for 88.7 percent of total long-term lending. The rest was lent by insurance, agriculture and transport, storage and

communications (National Statistical Office, Malawi Investment Promotion Agency and Reserve Bank of Malawi, 2002).

Short-term lending abroad by enterprises in Malawi increased by 27.5 percent between 1999 and 2000, from US$38.4 million to US$49.0 million. It was dominated by trade credits to unrelated companies. These accounted for 68.5 percent of total short-term lending. Shareholder and inter-company lending represented 31.5 percent of the total. Distribution of short-term lending abroad by sector involved manufacturing at 69.1 percent and distribution at 30.9 percent (National Statistical Office, Malawi Investment Promotion Agency and Reserve Bank of Malawi, 2002).

6.2.3 Domestic Savings

National income data show that in nominal terms, GDP increased at an average annual rate of 22.6 percent in the year 2000 to 2004 or from MK91, 886.9 million to MK185, 865.9 million. During the same period, the rate of consumption exceeded 100 percent, as the domestic savings rate averaged -3.0 percent of GDP. Hence, Malawi is not within the convergence domestic savings target rate of 25 percent by 2008. The average investment rate of 12.4 percent during the same time period suggests that the country is also not within the agreed convergence investment level of 30 percent of GDP by 2008. Since the average national savings rate was 3.0 percent, foreign savings financed most of the investment.

6.2.4 Budgetary Trends and Frameworks

The data in Annex Table 4 show government budget deficits for excluding grants and including grants. The former is the difference between total revenue and total expenditure and lending minus repayments, with capital grants excluded from receipts. As such, it is a measure of the ability of the government to fund its activities from its own resources. The latter is the difference between total revenue plus grants and total expenditure and lending minus repayments. It represents the net financing requirements of the government.

As indicated by government budget deficits, the internal macroeconomic financial imbalance has been an intractable problem for a long time now. The budget deficits excluding grants, which generally used to be tolerably small (below 10 percent of GDP) up to the early 1990s, have since then been uncomfortably high, averaging 14.2 percent of GDP between 1991 and 1995, 11.1 percent between 1996 and 2000 and 14.5 percent thereafter (Annex Table 4). These deficits have increased due to higher growth in expenditures than in revenues (Annex Table 4). On account of rising levels of foreign aid, government deficits including grants have decreased from an average of 6.9 percent between 1991 and 1995 to 2.5 percent between 1996 and 2000 and 4.8 percent thereafter (Annex Table 4). Thus, Malawi is within the Target of 5 percent for 2008 that is recommended in the Memorandum on Macroeconomic Convergence.

There have been two major macroeconomic effects of the large budget deficits. First, in addition to foreign loans and grants, a good part of the deficit has from the 1980s been financed by borrowing from the financial system, particularly the central bank in a number of years; and this has contributed to inflation. The last few years have seen no domestic financing of the deficit. In these years the deficits (after grants) have been wholly financed by foreign loans. Second, deficit financing from domestic financial institutions, which also lend to the private sector, have been crowding out the private sector, with consequent adverse effects on investment in productive activities.

Given the problems associated with deficit financing through local as well as foreign borrowing, a viable long-term solution lies in increasing tax revenue. Several tax reforms have been carried out, particularly after the 1983/84 fiscal year, to improve tax performance through changes in rates of existing taxes and through broadening the tax base by increasing the number of items and activities to which existing taxes apply and by introducing new taxes. In addition to raising revenue, other objectives have been to provide fiscal incentives for private sector investment and to ensure equity. The reforms have also aimed at strengthening tax administration and collection.

However, the combination of administrative reforms and the actual tax reforms has so far not been able to generate adequate revenue to meet even the recurrent expenses. And the tax revenue/GDP ratio has

fallen short of expectations. One major weakness of the Malawi tax system has been the numerous exemptions on both direct and indirect taxes, resulting in substantial loss of revenue; initiatives are now underway to cut down on exemptions. Tax evasion is another problem, partly induced by some high tax rates. A related problem is the existence of a large and still growing second/informal economy in the country the activities of which are not taxed (Chipeta, 2002). In the past, the pursuit of the short-term fiscal objective of maximising revenue collection has been at the expense of long-term development and growth of the country.

A number of fiscal reforms have also been carried out on the expenditure side of the budget, essentially aimed at restraining/cutting down expenditures and prioritising sectoral allocation of funds. For example, under the World Bank's 1995/96 Fiscal Restructuring and Deregulation Programme (FRDP) of the SAP, one of the measures introduced in April 1995 was the cash budget system. Under the FRDP, over 20,000 civil servants were retrenched in 1995/96, comprising workers in non-established positions in non-priority areas. Another 3,194 were retrenched in 1997. Retrenchment will have helped to restrain the growth in the proportion of the budget allocated to wages at the expense of capital and other recurrent items for several years. However the adverse effects on the retrenched are obvious. In the same year 1997, the number of principal secretaries was cut down by 12, and by mid 1999 the number of ministries was 23, having been reduced from 26 (Malawi Government, 1999).

As a means of improving financial accountability, the government is implementing other measures, including a computerized Integrated Financial Management Information System (IFMIS). The IFMIS is expected to strengthen financial management with emphasis on monitoring and controlling expenditure.

6.3 Trade Policies of Malawi

6.3.1 Existing Unilateral, Regional and Multilateral Commitments

Malawi has liberalised its foreign trade unilaterally through structural adjustment programmes (SAPs), bilaterally with a number of other Southern African nations, regionally through SADC and the Common Market for Eastern and Southern African States (COMESA), and multilaterally through the World Trade Organisation (WTO) and other institutions. But the relative costs and benefits of the various modes of trade liberalisation have not been assessed. This section explains the various trade initiatives.

Unilateral liberalisation of foreign trade followed the liberalisation of goods markets. From that standpoint, the sequencing is deemed to have been optimal. But, instead of following financial market liberalisation and factor market liberalisation, it was executed at the same time as these other programmes. Thus, from this standpoint, it is not considered to have been optimal.

Malawi has implemented measures for promoting foreign trade throughout the entire reform period beginning in 1981. In the early phase of the reform process, for example, both Structural Adjustment Loans I and II (SAL I and SAL II), which were approved in 1981 and 1984, respectively, set out to diversify the export base. In addition, SAL II included promotion of exports among its main objectives. In order to achieve these objectives, the authorities carried out periodic adjustments of the exchange rate to keep it competitive. They also prepared an export promotion strategy and established an export financing facility under SAL III, which was approved in 1986.

Trade liberalisation measures were first implemented under an Industrial and Trade Policy Adjustment Credit (ITPAC), which covered the fiscal years 1988 to 1990. But implementation continued under subsequent reform programmes up to 1999. The major objective of these programmes was to liberalise import and export regimes in order to promote efficiency and export expansion. Tariff protection was reduced by cutting maximum rates from 70 percent in 1988 to 25 percent by 1999. The authorities abolished non-tariff barriers by

eliminating exchange controls on imports of all non-essential commodities in 1988; abolished a negative list, which had been temporarily introduced in 1991, and in 1994; and abolished licensing requirements in 1997. They consolidated the tariff structure by combining the customs duty and the import levy into one tariff schedule and by so doing eliminating the differential in the surtax levied on imports and domestic goods, and by reducing the number of tariff bands. Furthermore, they liberalised the export regime by abolishing export taxes and the export surrender requirement. Another policy measure was the elimination of restrictions on payments for current payments and transfers (acceptance of IMF Article VIII Status in 1995).

Malawi has the biggest number of bilateral trade agreements in SADC. Those shown in Table 3 are the ones that are operational. Negotiations for a bilateral trade agreement with Zambia were concluded in 2002, but there has not been further development on the matter. Similar negotiations with Mozambique resulted in the conclusion of a preferential bilateral trade agreement at the end of 2005. Discussions are under way to enter into bilateral trade agreements with Swaziland and Tanzania. The advantage of these agreements to Malawi is that they allow for duty free access with simple rules of origin, in most cases a 25 percent value added requirement. In addition, they are less restrictive and less burdensome than the current product specific SADC Rules of Origin; and they do not cover as wide a scope of issues as the SADC Trade Protocol does.

As shown in Table 3, Malawi is a member of two regional groupings, the Common Market for Eastern and Southern African States (COMESA) where it joined some of the other member states to form a COMESA Free Trade Area in 2000 to be followed by a customs union; and SADC, where measures are being implemented to establish a Free Trade Area by 2008 and a Customs Union in 2010.

For the implementation of the trade agreement, SADC has adopted a linear tariff reduction approach, according to which each country will reduce its tariffs on intra-regional trade by given percentages over the eight-year period guided by agreed criteria on classification of products. Products for immediate liberalisation are listed under Category A. This category covers capital goods and raw materials. During the negotiations leading to the SADC FTA, there was little

contestation over this category. Only South Africa and, to some extent, Zimbabwe, have sufficient capacity to produce capital goods. The two countries will benefit from free access to the regional market. The other member states do not have a sizeable capital goods industry to protect. They will benefit from cheaper imported capital goods. Raw materials are more widely produced. Importing countries will benefit from cheaper products. Among producing countries, there is a measure of specialisation. Hence, there is little direct competition and need for protection. Perhaps more importantly, import duties on these products are already the lowest.

Category B consists of products planned for gradual liberalisation and cover mainly intermediate goods, which constitute the majority. The reduction of tariffs on these goods was supposed to start immediately after entry into force of the Trade Protocol. The duties on these goods are higher than the ones on capital goods and raw materials. Apart from revenue consideration, there is also fear of competition from other countries. Sensitive products are covered in Category C. These will start to be liberalised from year 5 after entry into force of the Trade Protocol. They are finished goods that attract the highest duties. Hence, they are important as sources of tax revenue. They are widely produced in the region, and part of their sensitivity derives from their importance in employment creation.

According to the Mid Term Review of the SADC Trade Protocol, Malawi implemented Category A phase down in 2001, but it has not started implementation of Category B reductions for budgetary reasons (The Services Group, 2004). Other possible explanations are fear of competition from other countries, and the fact that Malawi is on the list of countries that have been allowed to "back load" the phased reduction of tariffs on Category B products. In 2003, Malawi also implemented 14 of the reductions requested as part of the bilateral agreements with Botswana, Lesotho, Namibia and Swaziland (BLNS).

Concerning the revised rules of origin, in order to issue valid SADC Certificates of Origin, member states are required to gazette the Revised Rules of Origin in their official publication and notify the SADC Secretariat accordingly. Furthermore, they must notify the SADC Secretariat of the names of agencies authorised to issue the Certificates of Origin as well as specimen signatures of officials authorised to sign

the certificates. Malawi is implementing the Revised Rules of Origin and the Malawi Revenue Authority is the agency that issues the certificates. But it has not gazetted the Revised Rules of Origin thus, in theory the certificates can be rejected in other member states.

Apart from the WTO, EU-ACP Cotonou Agreement, AGOA and EBA, all shown in Table 4, Malawi is also participating in the Regional Integration Facilitation Forum (RIFF), formerly known as the Cross-Border Initiative. Here, more attention is given to the WTO as the main player in multilateral trade liberalization. Malawi's trade policy is aligned to the WTO. The country participates in WTO trade negotiations of the Doha Work Programme. As a least developed country, Malawi's concern is to safeguard her interests by focusing on trade-related development issues, such as improved market access, provision of special and differential treatment to poor countries, and review of trade rules.

As a member of the WTO, Malawi is allowed to enter into regional trade agreements (RTAs) under specific conditions spelled out in three sets of rules.

- Paragraphs 4 to 10 of Article XXIV of GATT (as clarified in the Understanding on the Interpretation of Article X) (IV of the GATT 1994), which provides for the formation and operation of customs unions and free trade areas;
- the so-called Enabling Clause (i.e. the 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries), which refers to preferential trade arrangements between developing country members; and
- Article V of GATS, which governs the conclusion of RTAs in the area of trade in services.

Malawi has notified the WTO about the RTAs in which it is participating. The WTO has informed her that the agreements are in conformity with the relevant WTO rules.

6.3.2 Malawi's Trade with Other SADC Member States

The data in Table 4 show recent trends in trade between Malawi and other SADC member countries. Since the data are shown in nominal terms, export and import values and growth in those values

partly reflect movements in the official exchange rate. The movement in the official exchange rate from about MK31 in 1998 to about MK 109 in 2004 implies that currency depreciation is a major factor in explaining changes in the nominal values of exports and imports between 1998 and 2004.

The appreciation of the real effective exchange rate between 1998 and 2002 partly explains why imports grew faster between 1998 and 2001 than between 2001 and 2004 when the real effective exchange rate depreciated. These movements in the real effective exchange rate also explain why exports grew faster between 2001 and 2004 than between 1998 and 2001. But, there are other explanations, including changes in income and other non-price factors, such as trade liberalization and quality of goods that are exported and imported.

The data in Table 5 show that there has been marked growth in the trade of Malawi with the SADC member countries, which are Malawi's main regional trading partners. The country seems to have benefited from liberalisation of trade under both the SADC FTA and the COMESA FTA by increasing the share of its trade accounted for by SADC. In nominal terms, it has increased exports significantly to all SADC member states shown in Table 5, except Zimbabwe because of lack of foreign exchange there, and Tanzania. It has also significantly increased imports from all the countries shown in Table 5. Bilateral trade agreements are not a major factor in explaining the recent surge in trade as they entered into force long before 2000. Furthermore, the data in Table 5 show that Malawi incurs a trade deficit with individual trading partners in the region (and with SADC as a whole, with the trade deficit rising from MK14.7 million in 2001 to MK36.5 million in 2004). The government's view is that this state of affairs is caused by non-tariff barriers, including rules of origin, sanitary and phyto-sanitary measures, in the other SADC members states; the difficulty of developing trade in Malawi because of an unfavourable economic climate; and inadequate trade promotion measures (Malawi Government, 2005). Trade with other SADC member states is also limited by the choice

Table 3: Multilateral, Regional and Bilateral Trade Agreements of Malawi

Agreement	Type (by number of members)	Reciprocity	Degree of liberalisation	Phase-out schedule
WTO	Multilateral	Non-reciprocal	ITA	Malawi's has been a members of WTO since 1995
EU-ACP Cotonou Agreement	Multilateral	Non-reciprocal (possibly shifting to reciprocal	PTA to FTA	Signed 2000, preparing for negotiations until 2002, negotiating until 2008, implement by 2018
AGOA	Multilateral	Non-reciprocal	PTA	
EBA	Multilateral	Non-reciprocal	PTA	Proposed 1997 ,extended 2000, effective from 2001, or 2008 for rice, sugar and bananas
COMESA	Regional	Reciprocal	FTA to CU	FTA (start:2000), CU (start: 2004)
SADC	Regional	Reciprocal	FTA	Phase1: 2000-2004, Phase 2: 2004-2008
Malawi-Botswana	Bilateral		FTA	Signed in 1956. Current agreement since 1968
Malawi-South Africa	Bilateral	Non-reciprocal (Malawi has duty-free access, S.A. enjoys MFN treatment)	FTA	In force since 1990, until 2008 (when SADC tariff=0)
Malawi-Zimbabwe	Bilateral	Reciprocal	FTA	In force since 1995

ACP= African, Caribbean and Pacific, AGOA= Africa Growth Opportunity Act, CU= Customs Union, EBA= Everything But Arms, EU= European Union, FTA= Free Trade Agreement, ITA = International Trade Agreement, PTA= Preferential Trade Agreement. Source: World Bank, Malawi Country Economic Memorandum Policies for Accelerating Growth, p. 85.

Table 4: Malawi's Total Imports from and Exports to SADC at Current Prices 1998-2004 (MK million)

	1998	1999	2000	2001	2002	2003	2004	Ave. Growth 98-01	Ave. Growth 01-04
Imports Share %	9,350 51.3	3,271 37.4	16,898 52.3	21,324 54.0	27,276 50.8	40,754 53.1	56,926 73.6	125.9	39.0
Exports Share %	2,670 16.6	2,922 15.3	3,227 14.6	4,066 13.3	5,148 17.7	10,084 19.5	14477 32.7	15.3	42.0
Trade Balance	-6,680	- 349	-13,670	-17,258	-22,127	- 30,669	- 42,449		
Share in Total Trade	35.0	22.2	37.0	36.2	39.2	39.6	58.7		

Sources: Malawi Government, Economic Report (various issues) and GFA Management, The Structure and Pattern of SADC Trade An Analysis Undertaken for the Mid-Term Review of the SADC Trade Protocol 2005, p.23.

made by member countries of eligible products and the existence of those non-tariff barriers, such as communication problems, border procedures, lack of information, import licences, surcharges, subsidies, transport problems, foreign exchange shortages, customs procedures, export licensing, etc., which are not covered by the trade protocol.

In order of the importance of trade, the main bilateral trade agreements are the ones with South Africa and Zimbabwe. The trade agreement with South Africa covers a specific list of goods. In view of differences in levels of development between Malawi and South Africa, the trade agreement between them is non-reciprocal in favour of Malawi. In contrast, the trade agreement with Zimbabwe covers all goods and is reciprocal, despite differences in levels of industrialization

Table 5: Malawi's Trade with other SADC Member States 1999 and 2004 (MK million)

	1999		2004	
	Imports	Exports	Imports	Exports
South Africa	9,198.1	2,280.6	31,901.7	7,706.3
Mozambique	237.7	397.1	13,693.1	3,045.3
Zimbabwe	2,966.7	477.5	4,805.0	1,073.7
Zambia	475.7	275.2	3,662.0	1,104.6
Tanzania	262.5	285.3	1,840.2	527.1
Total	13,140.7	3,715.75	5,902.0	13,457.0

Source: Malawi Government, Economic Report (various issues).

between them. This provision and the use of non-tariff barriers by Zimbabwe against goods from Malawi have led to an increase in their trade imbalance in favour of the former. There is no provision for dispute settlement, and it appears that this agreement was not carefully negotiated.

6.3.3 Macroeconomic Consequences of Trade Policies

During the pre-SAP period up to 1980, in real terms exports grew rapidly (Table 6) due to favourable demand and prices. The rate of growth of exports during the early phase of SAPs (1981-85) declined due to a worsening in the country's terms of trade. Trade liberalisation seems to have reversed the declining trend in the of exports. But over the entire post-SAP period, the rate of expansion was lower than during the entire pre-SAP period. The rate of growth of real imports has followed a similar trend, falling during the half-decade before SAPs, being negative during the early phase of SAPs, rising and remaining fairly high until 1991-97, before falling again.

Malawi has made frequent use of exchange rate adjustments to stimulate exports and control imports. But, this policy has encountered difficulties as evaluation-induced inflation has eroded the very relative price advantage which currency adjustment was designed to achieve. The country's elasticity of domestic inflation with respect to currency devaluation was recently estimated at 1.00, and with respect to foreign

Table 6: Malawi Growth of Real Exports and Imports 1971-75 to 1998-2004

Period	Average Annual Percentage Change In Real Exports	Average Annual Percentage Change In Real Imports
1971-75	9.3	14.0
1976-80	4.9	1.9
1981-85	2.5	-3.5
1986-90	5.7	5.9
1991-97	5.1	5.1
1998-04	2.3	2.8

Source: Malawi Government, Economic Report (various issues) and Reserve Bank of Malawi, Financial and Economic Review (various issues).

import prices at 0.57. The high import content of production and consumption accounts for these high numbers. Apart from the erosion of the relative price advantage of currency adjustment, the small increase in the domestic price of exports following a currency adjustment (the so-called pass-through) does not offer much incentive. The value of the pass-through for Malawi was estimated at only 0.14 (African Development Bank, 1995).

Other key coefficients are not favourable either. Price and income elasticities of demand for Malawi's exports were estimated at only -0.18 and 0.4, respectively, meaning that price and income changes will bring about a less than proportionate change in demand. Price elasticity of export supply was estimated at 1.08 for Malawi. This unitary elasticity of export supply implies that price and quantity exported change by the same proportion, leaving revenue unchanged. Even if a devaluation might have a positive impact on the volume of exports in the short run, such a remedy is inappropriate as a long-term solution as it tends to concentrate more on expanding the exports of a few existing agricultural products which give rise to the structural weakness of the balance of payments in the first place.

The view is also held that it is inappropriate to make price manipulation the prime driving force in the reform process because, on the supply side, price factors explain only a small proportion of the change in export supply; and, on the demand side, they explain only a small proportion of the growth of export market shares in international trade. Policies for promoting exports must, therefore, take into account non-price factors. For the supply of exports, these factors are institutions, infrastructure, inputs, information and innovations

(Streeten, 1987). And for the demand for exports, they are sales and marketing, including marketing arrangements; the export-excellence of the product, including packaging, quality, preservation and delivery time for agricultural exports; ease of maintenance, reliability, delivery-time and after-sale services for manufactured goods.

It is well known that Malawi is facing serious supply constraints and that, as a result, her exports are not competitive. This is principally due to high costs of imported inputs caused by currency devaluation, payment of import duties and surtax on most of these inputs, delays in refund of taxes paid and high costs of freight estimated at 30 to 40 per cent of the value of imports; as well as high costs of domestically produced raw materials which have risen due to high production costs. Other factors contributing to the high cost of production are frequent cuts in power and water supply, inefficient telecommunications services and a high rate of crime, which necessitates large expenditure on security.

In its efforts to facilitate export expansion, Malawi is also facing difficulties. Upon attaining independence in 1964, the country became a Contracting Party to GATT in its own right. In doing so, Malawi committed itself to trade liberalisation, creation of discipline in the world trading order and to strengthening of the multilateral trading system. However, due to lack of financial resources and expertise, the country rarely takes part in trade negotiating rounds and other fora.

As a former colony of a member state of the EU, Malawi has since 1975 enjoyed non-reciprocal preferential tariff and quota free access to the EU market for most of its exports. But, despite duty and quota free access for its exports to the EU and trade-related provisions, the performance of Malawi's trade with the EU has not been satisfactory. The absolute level of exports to the EU has increased less rapidly than that of some of its neighbours, while the share of exports going to the EU in total exports has declined. The problems with the Lome Convention were that the preferential margin of the tariff over non-ACP exporters was often nil, and the value of the preference was low because of the low response of primary product exports to price changes. Malawi has not been able to diversify her exports towards products with a high preferential margin. Other problems included limited awareness of the existence of Lome preferences, complicated

procedures for accessing the provisions, restrictive rules of origin, subsidies to agricultural producers and exporters in the EU, and sanitary and phytosanitary regulations. In addition, the value of Lome preferences had been decreased by the extension in recent years of some near-equivalent preferences to non-ACP developing countries and multilateral trade liberalisation.

The existing ACP-EU trade and aid relationship will soon be replaced by several Economic Partnership Agreements (ACPs). Essentially, EPAs are reciprocal free trade areas. Malawi participated in the ACP-EU Economic Partnership Agreement (ACP) negotiations, which were launched in September 2002. These negotiations focused on objectives and principles of EPAs and issues of common interest to all ACP states. The second phase of the negotiations, in which Malawi is participating, deals with substantive issues at regional level. Malawi is negotiating with the EU because preferential trade allowances under the Everything But Arms (EBA) initiative can be withdrawn at any time, which creates an uncertain environment. Malawi's negotiations are in the context of a wider Eastern and Southern Africa (ESA) Configuration. The ESA-EU EPA agreement may result in increased investment inflows that could enhance the export capacity of Malawi. Other possible benefits include the following: cheaper imported inputs and consumer goods from the EU; and greater access to the EU market for primary products and labour intensive manufactures. But Malawi will face stiff competition from other producers in the EU market and from EU producers in the domestic market, with the result that some producers may be forced to restructure to remain competitive.

Under the African Growth and Opportunity Act (AGOA), Malawi has increased exports of goods and products to the US market, especially textiles and clothing, nuts, beans and tobacco. However, Malawi faces a number of constraints and problems in exporting to that market. The problems include supply-side constraints, high administrative demands by the US government, lack of diversification, and competition from low-cost producers of textiles and clothing following the decision of the WTO not to subject Chinese exports to quotas. Malawi's agricultural exports face problems related to standards, quality and packaging.

As shown in Table 7, Malawi's shares of global trade, capital flows and foreign direct investment are very low, with the share of exports and imports falling. Inadequate foreign trade and foreign capital inflows adversely impact on Millennium Development Goals in a number of ways. First, it means that the country is not able to generate sufficient foreign exchange required for importing consumables, capital and intermediate goods required for use by consumers and producers. Secondly, as a direct result of this, it constrains investment and therefore the growth of income, which is required to reduce poverty and attain the other MDGs. Thirdly, the low level of foreign trade constrains the tax base and therefore the ability of government to increase revenue and hence expenditure on activities that are related to the attainment of the MDGs.

Table 7: The Shares of Malawi in Global Trade, Capital Flows and Foreign Direct Investment in 1990, 2002 and 2003

Year	Global Exports	Global Imports	Net Private Capital Flows to Low and Middle Income Countries	Total Foreign Direct Investment
1990	0.012	0.016	0.058	0.001
2002	0.007	0.010	0.004	0.001
2003	0.006	0.009	0.012	0.004

Source: World Bank, World Development Indicators 2004 and 2005.

Malawi's balance of payments the position of is often not favourable. During the past five years, for example, the trade imbalance deteriorated from a deficit of MK3.2 billion in 2000 to MK23.9 billion in 2004. Over the same time period, the current account imbalance worsened from a deficit of MK11.2 billion to MK39.8 billion. In 2000 and 2002, large capital inflows offset these deficits substantially, as a result the country realised overall balance of payments surpluses after debt relief of MK5.4 billion and MK8.1 billion, respectively. In the other years, Malawi's overall balance of payments after debt relief was in deficit. Progressively, gross official reserves measured in months of import cover declined from 4.7 in 2000 to less than 2.0 in 2004.

6.3.4 Implications of Overlaps for the Integration Processes in SADC

Participation by Malawi in the SADC FTA does not restrict its external trade regimes. The Trade Protocol permits Malawi to maintain the numerous preferential trade arrangements shown in Table 4. According to Article 27, Malawi may maintain preferential trade arrangements and other trade related arrangements existing at the time of entry into force of the Trade Protocol, and may enter into new preferential trade arrangements with other SADC member states, provided that such arrangements are not inconsistent with the provisions of the Trade Protocol. However, Malawi is obliged by the same Article 27 to review the further application of such preferential trade arrangements, with an aim of attaining the objectives of the Trade Protocol.

According to Article 28 of the Trade Protocol, Malawi is obliged to grant Most Favoured Nation (MFN) Treatment to other SADC member states. Article 28 further states that nothing in the Protocol prevents Malawi from granting or maintaining preferential trade arrangements with third countries, provided that such arrangements do not impede or frustrate the objectives of the Protocol and that any advantage, concession, privilege or power granted to a third country under such arrangements is extended to other SADC members states. But Malawi is not obliged to extend preferences of another trading bloc to which it was a member at the time of entry into force of the Trade Protocol.

Membership of both SADC and COMESA means that Malawi belongs to two regional integration arrangements whose mandate is similar. This is complicated by membership in the Regional Integration Facilitation Forum (RIFF), formerly the Cross-Border Initiative, and bilateral trade agreements with several other SADC member states. SADC and COMESA are similar only with respect to their economic agenda. The two bodies differ in that SADC has, in addition to its economic agenda, a wide-ranging political agenda. They also differ with respect to the number of members. In this respect, COMESA is nearly twice as large as SADC. Several countries are not members of both organizations. These features make assessment of the relative merits of belonging to both of them problematic. This caveat aside, in the absence of careful planning and management, these diverse

arrangements cause confusion both in the government and in the private sector in Malawi. There is clearly divided commitment to the integration agendas of the SADC and COMESA, which means that the support of Malawi to these agendas is half-hearted, thus weakening its commitment to either of the two organisations.

There are unnecessary and wasteful contests being created between the two institutions in their attempt to out-compete each other in achieving market liberalisation, even if the members' regimes are not able to withstand the pace. This can result in strategies that are not consistent with member states' economic profiles and capabilities and which, therefore, can undermine rather than facilitate their development.

Further, there is a blurred representation of member states by the two organisations and flaws in their international standing. Neither organisation can fully represent all their member states as long as they maintain membership of both.

Instead of making a single payment in membership contributions, Malawi makes two payments, resulting in higher than necessary budgetary commitments and the use of scarce foreign exchange for two institutions that are essentially aimed at the same goals. The annual fees and participation in similar activities of two institutions is costly to Malawi, which is one of the poorest countries in the world. The SADC annual fees exceed US$800, 000.00.

Membership in two overlapping integration schemes also creates severe strains on the workload of scarce specialised human resources in Malawi. This impairs their effectiveness in contributing to the two integration agendas. What more when the same people must handle not only SADC and COMESA, but also WTO, ACP/EU, AGOA, EBA, RIFF, IMF, World Bank, African Development Bank, etc. on related matters! Their attention to regional policies and their implementation is therefore constrained.

As SADC and COMESA deepen the integration process, incompatibilities of their integration strategies are bound to grow. Examples include differences in time frames and scheduling of tariff reductions and in the rules of origin to be applied. For Malawi, which is caught on the divide between the two, this will complicate its already problematic customs administration (SADC, 2002).

If SADC is to move towards a customs union by 2010, all strategies used must take into account the extent of harmonisation among SADC

member states. In particular, in order to consider the adoption of a Common External Tariff (CET), the compatibility of the current external trade regimes of the member states will be an important factor. As shown in Table 8, there is wide variation in the current MFN tariff schedules across member states. So the establishment of any CET is likely to involve substantial changes in tariff regimes for some or all of the member states. A possible strategy for the selection of a CET is to select one of the extremes, thus either a SACU tariff schedule (the highest) or one similar to that of Malawi, Mozambique, Zambia and Zimbabwe (the lowest).

Any consideration of a SADC Customs Union must also take into account the evolution of COMESA, which is establishing its own customs union. The COMESA Customs Union will include some SADC member states (Malawi, Mauritius, Swaziland, Zambia and Zimbabwe) and CETs much closer to those of the MMTZ countries. The chosen CET will rule out multiple membership. As a solution, SADC can either establish a CET that is closer to that of COMESA or force members to choose between the SADC Customs Union and the COMESA Customs Union (TSG, 2004). Alternatively, COMESA and SADC should work out a common CET.

Table 8: Overview of MFN Tariff Schedules

(a) SACU, Malawi, Mauritius and Mozambique				
Schedules	**SACU**	**Malawi**	**Mauritius**	**Mozambique**
Tariff Lines Bands	7,914	5,447	5,741	5,370
Specific	216	7	15	5
Ad	178	0	6	0
Valorem1	38	7	9	5
Maximum %*	55	30	80	25
(b) Tanzania, Zambia and Zimbabwe				
Schedules	**Tanzania**	**Zambia**	**Zimbabwe**	
Tariff Lines	6,290	6,093	5,507	
Bands	4	4	44	
Specific	0	0	33	
Ad Valorem				
Maximum % *	25	25	100	

**This is the maximum ad valorem rate only. The maximum ad valorem equivalents of specific tariffs for SACU have been estimated at 325 percent (USAID/TSG, 2003, "SADC: Economic Impact Assessment Study").*

Source: TSG, Mid Term Review of the SADC Trade Protocol Draft Final Report, August 2004, p.32.

6.3.5 Areas Requiring Improved Co-ordination With Other SADC Member Countries

A number of areas affecting the implementation of the Trade Protocol need further consultation and improved co-ordination between Malawi and other SADC member countries.

First, Malawi's interest in negotiating bilateral trade arrangements with its neighours is a reflection of its disenchantment with some aspects of the Trade Protocol, particularly the burdensome Revised

Rules of Origin with their restrictive local content requirement of 35 percent of value added, the choice of eligible products by member states, and the existence of non-tariff barriers that are not covered by the Trade Protocol. In addition, the SADC Trade Protocol covers a wide range of issues that are not covered in bilateral trade arrangements. SADC member nations will need to consult further on all these issues and co-ordinate implementation of agreed actions.

Secondly, the current incompatibility and divergence in the external trade regimes of member states will pose a problem in adopting a Common External Tariff (CET). The member states will need to reduce the degree of disharmony in their trade regimes as they move towards forming a customs union in 2010.

Thirdly, the determination of a CET for SADC must take into account membership of Malawi, Mauritius, Swaziland, Zambia and Zimbabwe in COMESA, which is implementing a CET of its own from 2005. The member states with dual membership cannot have two CETs, which is clearly impossible, but which would happen if SADC adopted a CET that is different from that of COMESA. In this case, they would have to choose between SADC and COMESA. Some degree of harmonisation between SADC and COMESA will be required if the membership of SADC is to remain intact.

Fourthly, Malawi has delayed implementation of trade liberalisation affecting Category B because of fears of losing tax revenue. Consideration of loss of tax revenue is likely to delay its implementation of liberalisation of Category C products also. In the light of this predicament, Malawi will need to consult with other SADC member states about the pace at which it can liberalise trade in these products.

6.4 Elements of the labour market policy framework

As stated in the SADC Regional Indicative Strategic Development Plan, the labour market situation in the region is not conducive to economic growth and the promotion of trade and regional integration. There has been a decline in the level of formal sector employment in the majority of member states, resulting in high rates of unemployment. Available figures show that labour productivity has not been rising fast enough to reduce the level of poverty. There are shortages of critical skills in key areas, which are vital for higher productivity and competitiveness, yet there is limited access to high level training and mismatch between demand for and supply of skilled labour. There is also lack of a policy framework for promoting social protection (SADC, 2004).

The goal of SADC in this area is to improve the availability of educated, skilled, productive and efficient human resources for the promotion of equitable growth, sustainable socio-economic development of the SADC region and enhancement of its competitiveness in the global economy. And the objectives include increasing employment opportunities, improving labour productivity and labour-management relations, and adopting labour standards and social security provisions that promote a conducive labour market environment (SADC, 2004).

Malawi's labour market policy framework is basically consistent with that of SADC. It aims at developing harmonious relations in the labour market trough promotion and maintenance of industrial peace, provision of social security, employment and job placement services, maintenance and enforcement of occupational safety and health in the workplace, and the development of requisite skilled human resources for national development. The goal of the framework is to create an environment that is conducive to sustainable social and economic development that will improve the standard of living of Malawians in general and workers in particular (Ministry of Labour and Vocational Training, 2005).

6.4.1 National Wages and Salaries Policy

From independence in 1964 to 1992, government pursued a minimum wage and wage restraint policies. A comprehensive review of the wages and labour policy in 1992 showed that the minimum wage policy did not achieve its objective as most of the employers treated it as maximum while small employers were paying below the stipulated statutory minimum wage since the Ministry of Labour had no capacity to enforce the minimum wage legislation. This also meant that those employers who could afford to pay more ended up paying less due to the policy while those who could not afford the minimum wage due to infrequent but lump sum wage reviews did in fact pay less than what they would have done if they had negotiated wages with employees. In the absence of a collective bargaining machinery, and due to the ineffectiveness of the Wages Advisory Board and Councils, the government served as the pace leader in setting wages and salaries and other conditions of employment in the economy. Even the formal private sector, though offering higher wages and better conditions of service than government, followed the example of government in reviewing its wages and salaries. In effect, therefore, government adopted a top down approach in wage setting: usually making unilateral reviews of minimum wages despite the availability of the tripartite machinery for determining wages and conditions of employment. The minimum wage as a floor also failed to achieve its objective as inflation eroded it over time due to infrequent reviews (Mwasikakata, 2003).

Realising these shortcomings, in 1992 the government revised the basis for minimum wage fixing it from static and ad hoc reviews to wage indexation where a review would be called for when either the cumulative retail price index as measured by the Consumer Price Index (CPI) rose by 20 per cent or at least every two years, whichever comes earlier. The private sector is supposed to follow the same procedure. Under this arrangement, the Wages Advisory Board was required to meet at least once a year.

The 1992 Wages and Labour Policy study noted that the top down administered wage was distortionary and caused rigidities in the labour market. It recommended that government put in place a conducive

environment for market forces to play. It argued that a collective bargaining machinery needed to be put in place by allowing industrial and enterprise level-trade unions to grow and negotiate for wages and other conditions of employment.

6.4.2 Labour Migration

The independent government inherited a colonial legacy of sending Malawians, mostly unskilled labour, to South Africa through what was popularly known as Temporary Employment Bureau of Africa (TEBA), and to other countries, such as Zimbabwe and Zambia. Labour migration did help to ease the problem of unskilled unemployment. However with the expansion of estate crop production from the early 1970s, the government was faced with a conflict of interest between earning foreign exchange through external remittances and the need to have an adequate pool of unskilled labour, which could be readily tapped. Thus the government suspended recruitment of Malawians to South Africa, although the ban was lifted later. The final blow to this employment avenue occurred in 1989 when the government banned TEBA employment in reaction to allegations of discriminatory testing for AIDS of Malawian migrant employees in South Africa. Malawians now go to South Africa in search of employment on their own account.

6.4.3 Manpower Development and Localisation Policy

In pursuing the policy objective of attaining self-sufficiency in skilled workers, the government embarked on massive formal training of its people within and outside the country. The emphasis was on creating adequate skilled, middle and high-level human resources to replace non-Malawians in employment. Apart from academic institutions, the government set up management and skills upgrading institutions in order to enhance managerial capabilities of its skilled human resources. Thus training was geared towards white-collar jobs in the expanding public and private sectors. But, despite these efforts, Malawi is still short of managerial and technical personnel, partly due to brain drain.

In addition to this policy strategy, the government adopted a training and localisation policy, which aimed at gradual localisation of posts being filled by expatriates (Mwasikakata, 2003). For the purpose of implementing this policy, it was a requirement for expatriates to obtain temporary employment permits. A temporary employment permit was supposed to be issued only if the required expertise was not locally available save for key posts that represented shareholders' interests. Companies were expected to designate understudies to expatriates and initiate in-service training programmes so as to localise the posts once the expatriates leave.

During the labour market deregulation period in the 1990s the localisation policy was adjusted substantially to ensure that it did not stifle expatriate labour acquisition as well as to ensure that it became investor friendly. A temporary employment permit policy was issued in the late 1990s which rationalised the Temporary Employment Permit (TEP) processing period and reduced the period drastically. A technical committee was established comprising of the Ministry of Labour, Immigration, Commerce and Industry, and the Malawi Investment Promotion Agency (MIPA), among others, to consider applications.

The Minister of Labour is no longer required to clear the applications as was previously the case.

Between 2000 and 2001, the total number of employment permits issued was 2,455. Of these permits, 539 or 22 percent were issued to workers who came from other SADC member states; namely, South Africa, Zimbabwe, Zambia and Tanzania, in terms of importance.

6.4.4 Labour Relations Policy

Before independence in 1964, the colonial authorities allowed several trade unions to exist. They also permitted decentralised collective bargaining to be used in setting pecuniary and other conditions of employment. After independence, however, it was the new government's policy to stifle the labour movement and trade union activities in the quest to consolidate its political power and in pursuit of the government's wages and incomes policy, which aimed at minimising labour costs. To this end, it systematically eliminated all trade unions, leaving only five in the services, agriculture, transport

and building and construction sectors, which operated under their mother body, the Trade Union Congress of Malawi.

Employers, on the other hand, have been relatively well organised in various associations and in 1963 formed a confederation, the Employers Consultative Association of Malawi, at the request of government to act as the negotiating body with government. This institutional set up of weak and ineffective trade unions and strong employers organisations resulted in employees being totally marginalised in making decisions on matters that affected them. The government and employers were the main decision makers in a sort of top down approach as opposed to a participatory approach (Mwasikakata, 2003).

After the end of the one-party system of government in 1994, the new government committed itself to promoting tripartism and decentralised collective bargaining by encouraging the formation and strengthening of trade unions. The number of trade unions has since increased. As of 2004, there were 26 registered trade unions under a reformed mother body, the Malawi Congress of Trade Unions and a new trade union confederation, the Congress of Malawi Trade Unions (COMATU). Trade unions are currently participating in almost all issues that affect them in tripartite forums organised by government. However, the relatively small number of their membership affects their effectiveness. In 2002, for example, there were only 33, 100 workers covered by collective agreements. Hence, private employers and the government still dominate decisions concerning wages and other conditions of employment.

In 1996 a Labour Relations Act was enacted as a way of regulating the affairs of workers, employers and their organisations with the purpose of enhancing industrial peace necessary for accelerated growth, social peace and justice in a pluralist political system (Chazama, 1999). The objectives of the Act include a) deregulation of the labour market; b) promotion of expeditious dispute settlement; c) promotion and advancement of human rights with regards to labour; and d) promotion and maintenance of industrial peace necessary to attract investors both local and foreign in order to enhance development. The Act thus provides the necessary machinery for determining wages and conditions of employment through collective bargaining while

ensuring freedom of association, both of which were constrained prior to 1993.

The government continued to review other pieces of labour legislation including the promulgation of the Employment Act in 2000. The Employment Act has similar objectives as the Labour Relations Act. It seeks to reinforce and regulate minimum standards of employment with the purpose of ensuring equity necessary for enhancing industrial peace, accelerated economic growth and social justice. The Act has done away with the statutory wage fixing system in favour of the voluntary collective bargaining system except in cases where it is deemed necessary.

6.4.5 Structure and Composition of the Labour Force

In Malawi, the labour force is defined as all persons aged 10 and above who are willing and able to work. The country's labour force increased rapidly from 2.3 million in 1977 to 3.5 million in 1987 and 4.5 million in 1998 due to high rates of growth of population, low school enrolment rates before the adoption of the universal primary education policy in the 1990s, and high school dropout rates.

The expansion of formal sector employment has closely followed the growth rate of real GDP. Between 1967 and 1977, for example, the labour force is estimated to have grown at an average annual rate of 2.8 percent. Since real GDP grew at an average annual rate of 6.0 percent over the same time period, employment grew so rapidly that by 1977 only 2 percent of the labour force was unemployed, cited by the 1977 Census Report. During the period 1977-1987, however, real GDP grew at an average annual rate of 2.6 percent, which was smaller than the rate of growth of the labour force. Hence the rate of unemployment in 1987 was reported as 15 percent.

Since 1995, when the volume of formal sector employment stood at 564,064, the National Statistical Office has not collected and published relevant data. Extrapolating the level of formal sector employment after 1995 is difficult because of the changes that have occurred in labour market conditions, which have been explained above. Given privatization, restructuring and retrenchments, the level of employment in large establishments has probably declined.

Taking into account employment and self-employment in the informal sector, a fuller picture of employment trends in Malawi is given in Table 10. According to the data in this table, between 1987 and 2005, there was an increase in the proportion of the labour force accounted for by family business workers, self-employed, employers and the unemployed but a decrease in the proportion accounted for by smallholder farmers and employees.

There were also interesting changes in the structure of the labour force in relation to its gender composition over the same time period.

The share of women in smallholder agriculture declined while the share of males increased. The males appear to have displaced women from agriculture, especially with the liberalisation of burley growing since the mid 1990s.The share of women in all other employment categories has increased, as has that of males, except in the employee category (see Table 9 below). The increased share of women in the employee, family business worker, self employed and employer categories may signal a positive movement towards less discrimination of women in the labour market. The interesting finding is the increase in the share of females in the employer category. With liberalisation, many women are involved in trading within Malawi and across the borders with neighbouring countries. However, the shares of both males and females in the unemployed category increased (see Table 9) What is not clear from the data in Table 9 is that most of the labour force is underemployed in the sense that it works less than the normal 40 hour week, 11 months a year; and in that sense its income and productivity are both low. Underemployment in the country is partly caused by the seasonal nature of agricultural work, small and declining hectarages, and frequent droughts.

The limited data that are available on earnings of workers seem to suggest that both urban and rural minimum wages have increased over the past decade, from daily rates of MK1.59 and MK1.28 in 1993 to MK50.87 and MK38.66 in 2004, respectively. Since the minimum tax paid by the lowest paid segment of the workforce was abolished in the 1993/94 fiscal year, the real disposable income of workers who earn the minimum wage has also increased. Data contained in Annual Economic Surveys indicate that real average earnings of people employed in large and medium establishments also rose over a similar

time period, from about MK3, 400.00 in 1994 to about MK3, 900.00 per annum in 2001. Since the graduated tax was abolished in the 1994/95 fiscal year, and considering that the average income tax rate has come down, the real disposable incomes of the employees concerned have also gone up.

Table 9: Labour Force by Economic Status and Gender (Percentage Shares) 1987-2005

	1987			1998			2005		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Mlimi (Small holder)	61.4	93.3	77.6	66.7	90.2	78.6	64.9	86.6	75.4
Employee	28.3	3.9	15.9	21.2	4.8	12.9	20.0	5.1	12.7
Family business worker	0.3	0.4	0.3	2.8	2.1	2.4	5.9	4.4	5.1
Self-employed	7.8	2.0	4.8	8.8	2.8	4.8	8.9	3.9	6.5
Employer	0.1	0.0	0.1	0.3	0.1	0.2	0.3	0.1	0.2
Un-employed	2.2	0.5	1.3	1.6	0.7	1.1	5.4	10.4	7.8

Note: Figures for 1998 may not add up to 100 due to rounding.
Sources: UNDP/ILO 1998 Employment Study; 1998 Population Census Report; and 2005 IHS Report.

7 Social Impact Analysis

7.1 Economic, social and environmental indicators

The Terms of Reference suggest a number of economic, social and environmental indicators that can be used in carrying out the social impact assessment. The following used because of availability of data on them. (see Annex Table 3):

- GNP per capita and GNI per capita (in US$ purchasing power parity terms)
- The Human Development Index
- Under-Five Mortality Rate
- HIV prevalence in Adult Population
- Net Primary Enrolment Rate
- Incidence of Poverty (percentage of population living on less than US$1 per day)
- Poorest Fifth of Population's Share of National Consumption
- Percentage of Population with Access to Safe Water
- Life Expectancy at Birth in Years
- Tertiary Education Attainment Rate
- Gender Inequality
- Environmental Quality of Air, Water and Land
- Biological Diversity
- Other Natural Stocks

Other useful indicators that would assist in assessing the SADC strategic objectives and the Millennium Development Goals contained in the Terms of Reference are:

- Employment Rates by Gender and Age
- Full Time Employment, Part Time Employment
- Unemployment Rates by Gender, by Age and by Educational Attainment
- Long-Term Unemployment Rates

Unfortunately, conventional data on employment and unemployment for Malawi are not available. As already stated above, the government

agency responsible for statistics stopped collecting data on employment in 1995.

For the purpose of assessing the SADC strategic objectives and the Millennium Development Goals, it is necessary to add the proportion of people who suffer from hunger, as well as the proportion of people who suffer from malaria and other infectious diseases, to the above list.

7.2 Analytical Tools Used for the Social Impact Assessment

For the social impact assessment, the study will use a range of quantitative and qualitative tools that are feasible. These tools will include a review of studies that have been carried out on the subject, examination of statistical trends, the use of expert opinion, and personal judgement.

7.3 Social Impact Assessment

As a member of SADC, Malawi is supposed to incorporate the strategies and policies of SADC into its own programmes or to align them with its own strategies and policies. As noted above, Malawi has not yet adopted the SADC Macroeconomic Convergence Programme. But it is implementing a Poverty Reduction and Growth Facility programme that is essentially addressing the same concerns. The progress that the country has made towards implementing the SADC Trade Protocol and the labour policy framework has been noted. Furthermore, the country is implementing most of the policies related to the priority intervention areas identified in the RISDP. Hence, the following social impact assessment is a fair evaluation of the potential impact of the various SADC strategies and policies.

7.3.1 Income Poverty and Hunger

The Millennium Development Goal here is to eradicate extreme poverty and hunger. The target agreed upon is to halve, between 1990 and 2015, the proportion of people who live on less than US$1

a day and the proportion of people who suffer from hunger. Other indicators are the poverty gap ratio, the share of the poorest quintile in national consumption, prevalence of underweight children under five, and proportion of population below the minimum level of dietary energy consumption.

Assessing progress towards meeting the poverty target for this goal is difficult because there are no data on the proportion of people living on less than US$1 per day for 1990. The available data show that the proportion of people living on less that US$1 per day in 1998 was 41.7 percent. The relevant poverty gap ratio was 14.8 percent. On the basis of the national poverty line, 54 percent of the population lived below this line in 1990. Applying the target to this figure implies that the incidence of poverty should be reduced to 27 percent by 2015. The incidence of poverty between 1990 and 1998 decreased only slightly to 53.9 percent. Between 1998 and 2005, there was a further decline to 52.4 percent. Therefore, reducing it to 27 percent by 2015 will require an annual reduction of about 2.5 percent.

Progress towards reducing the proportion of people who are hungry is captured by changes in the proportion of people below the minimum level of dietary energy consumption or prevalence of under-nourishment. The relevant 1990-92 proportion for Malawi was 49 percent, implying that the 2015 target is 24.5 percent. In other words, the proportion of people who are undernourished would have to decline at an annual rate of 0.98 percent. By 1999-2001, the proportion had declined to 33 percent. To reach the 2015 target from this level would therefore need a lower annual reduction of 0.61 percent. However, progress on reducing the percentage of under- five children who are underweight has been slower. Their proportion declined from 28 percent in 1990 to 25 percent in 2002, meaning that the rate of decline would have to increase during the remainder of the period.

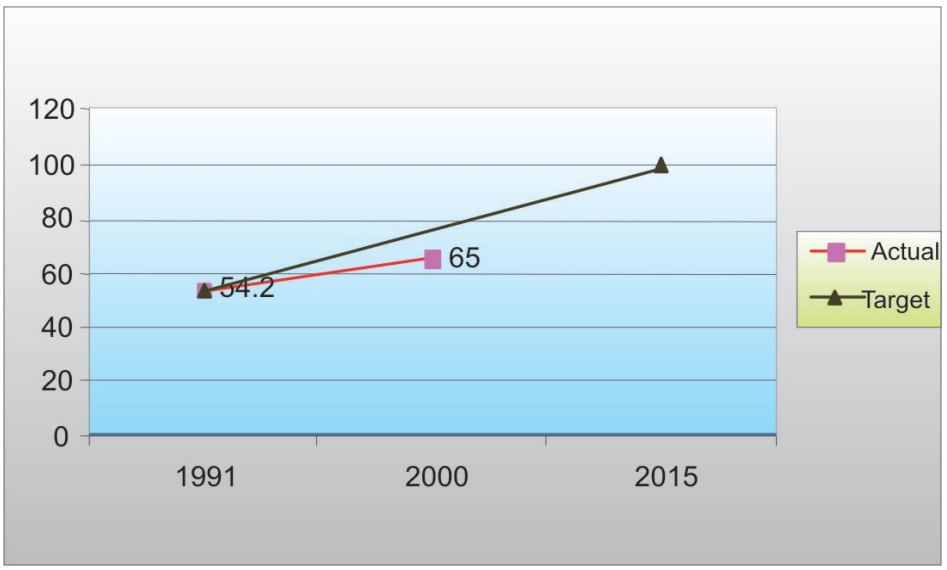
7.3.2 Achieving Universal Primary Education

The MDGs state that by 2015, all children should be in primary school and that girls should have the same education opportunities as boys. To achieve this there is a need for 100 percent enrolment and completion rates, meaning that the dropout rate should be reduced

to zero. These rates are far from ideal because there are several factors that keep children out of school like lack of physical infrastructure and overcrowded classes. Figure 1 below illustrates how Malawi is faring in trying to reach the 100 percent net enrolment.

In 1994 Free Primary Education was introduced in order to provide equal access to education to all Malawian children. This led to an increase in net enrolment rates. According to Malawi Education Statistics (2001), a drastic increase in net enrolment rate occurred starting from 1994, and later stabilised up until 1998 when there was a marked decrease. However, the UNDP's National Human Development Report (2000) reported that gains in net enrolment are negated by the relatively high dropout rates especially between Standards 2 and 3. Many reasons have been cited such as negative attitudes of certain communities towards education especially for girls; long distances covered by pupils when going to school; early pregnancies; lack of food and clothes, general levels of poverty and lack of resources for quality education. Figure 2 below indicates that the drop out rate has been steady at between 10 and 15 percent, with the exception of 1994 when the rate peaked at around 27 percent. This 1994 case can be explained by the fact that when free primary education was introduced, it was not matched by an increase in human, material and financial resources, thus resulting in many dropouts.

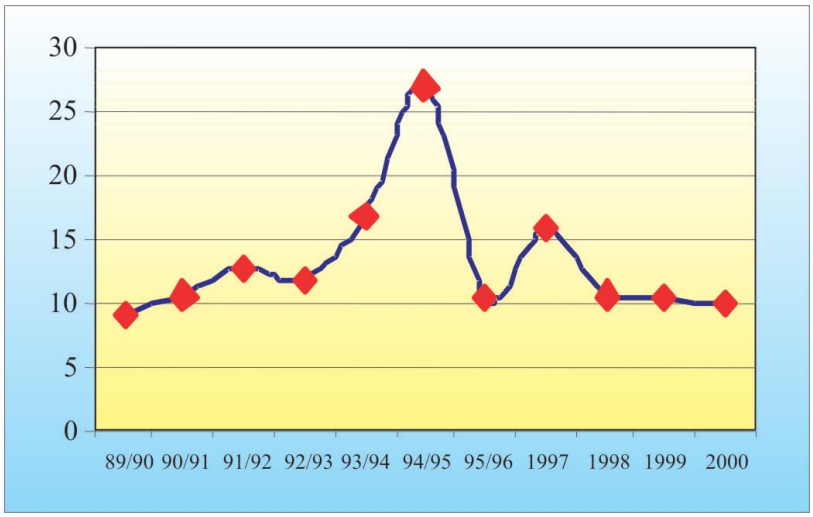
Figure 1 : Reaching the MDG on Net Enrollment



It is noted that Government's planned completion rate for 2015 is 55 percent. This gives an idea of how difficult the Government considers the task of achieving the target to be. However, with radical policy shifts and adequate resource allocation, this goal can be achieved.

Successful implementation of this programme will require close cooperation between the Ministry of Education and the full range of education stakeholders including parents, local communities, employers, NGO's, and religious organizations all of whom will be called upon to assume significant larger roles in educational finances. It will also require continued financial support from the ministry's international partners.

Figure 2: Trends in the Dropout Rate



Source: MoEST - Malawi Education Statistics: 2001

7.3.3 Promoting Gender Equality and Empowering Women

The third MDG challenges discrimination against women and seeks to ensure that girls as well as boys have the chance to go to school. Indicators linked to this goal also aim at measuring progress towards ensuring that more women become literate, have more voice and representation in public policy and decision-making and have improved job prospects. It is recognised that without progress towards gender equality and the empowerment of women, none of the MDGs will be

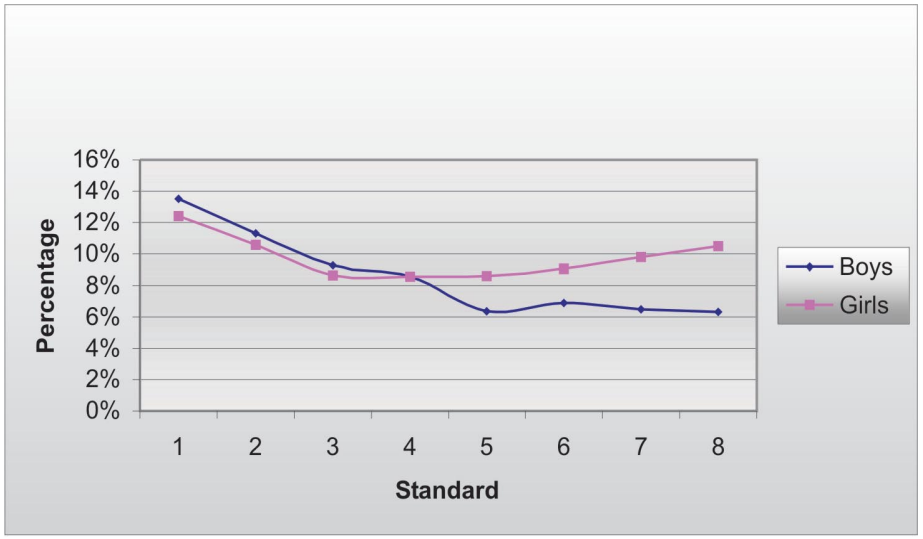
achieved. This is because women proportionately suffer the burden of poverty, are the primary agents of child welfare, are the victims of widespread and persistent discrimination in all areas of life and put their lives to risk every time they become pregnant. They are increasingly susceptible to HIV/AIDS and other major diseases, play an indispensable role in the management of natural resources yet have the right to gain as much as men from the benefits brought by globalisation.

Women in Malawi continue to form a major force in the country's social and economic activities. Although women constitute about 52 percent of the population, serious gender disparities still exist in terms of access to and control over productive resources and opportunities for participation in the development process. Malawi's Gender-related Development Index of 0.374 indicates large disparities between men and women.

The 1998 Integrated Household Survey showed that 52 percent of the 65.3 percent of Malawians living in poverty were females and that 25 percent of the households were female headed. According to the Malawi Demographic Health Survey (2000), 1120 mothers die in every 100,000 live births. The National AIDS Commission's report indicates that HIV/AIDS prevalence rate for young women aged 15 - 24 years is six times higher than that of males in the same age group.

Education is key to women's empowerment; however, gender disparities remain in the education sector. The 1998 Census Report shows a literacy rate of 51 percent for women as compared to 64 percent for men. Enrolment for both girls and boys at primary school level increased almost to parity as a result of introduction of free primary education in 1994 and other interventions such as the Girls Attainment in Basic Literacy and Education (GABLE) project. However high drop out rates among girls in higher classes, imply that more boys are completing primary attaining education. Figure 3 below illustrates the gender variations in the dropout rates for all levels of primary school in 2000. The rate for girls though lower in the first three standards, increases to surpass that of boys after standard 4. This explains the poor literacy situation among women.

Figure 3: Drop-out rates in Primary Education (2000)



Source: MoEST - Malawi Education Statistics: 2001.

Fewer women participate in decision making as compared to men. The 1995 Civil Services Census reveals that out of the 112,975 civil service employees, only 25.4 percent are females. The majority of women are in supporting positions. Out of 698 officers in decision - making positions, only 12.32 percent are women In the political domain, only 17 (8.7 %) of the 194 members elected to the legislature in 1999 were female. In 2004, the number of women members of Parliament increased to 14 percent, which is still below the SADC target of thirty-three percent or a third.

For lack of suitable time series data, it is difficult to assess progress towards increasing the share of women in non-agricultural employment. For the 2000-02 period, the share of women in that employment was 12.2 percent. For the same reason, it is difficult to track trends in the ratio of literate women to males among 15 to 24 year olds. For the year 2002, this ratio was 0.8.

Gender based violence is another issue in Malawi which until recently has received little attention and yet it is one of the factors promoting the spread of HIV/AIDS. Efforts to reduce gender-based violence have so far mainly focused on raising awareness. Effective reporting mechanisms and a supportive legal framework are essential for addressing gender-based violence.

Progress towards reducing gender disparities and empowering women has been slow. However, in view of the prevailing policy environment and strategies as well as the support from development partners some significant progress could be made towards realizing the goal if all plans are operationalized.

The indicators suggested in the MDGs can be said to capture most of women's basic and strategic needs in order to advance their empowerment in all sectors for a substantial leap in gender equality in the country. However, Malawi faces a great challenge of transforming the fundamental socio-cultural factors that create and perpetuate gender inequalities in its societies. This is crucial for the promotion of social change, which will support greater autonomy for women, and more equitable sharing of burdens in the domestic economy. This calls for some specific research and interventions considering that Malawi is a multi-cultural country. Knowledge and skills in gender research, analysis, planning, monitoring and evaluation are critical for reducing gender disparities. Limited human capacity at all levels has undermined progress towards achieving the gender equality and women's empowerment objectives.

7.3.4 Reducing Child Mortality

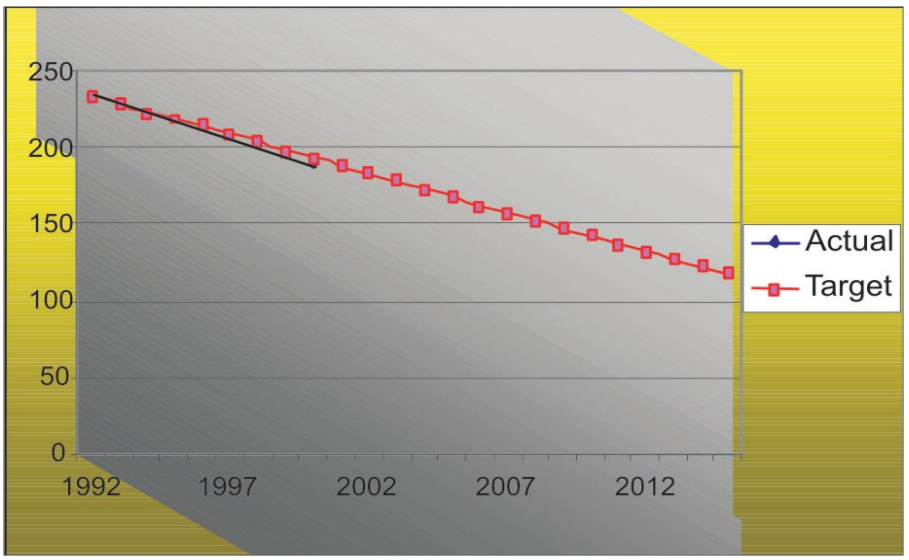
The target for this MDG goal is to reduce child mortality by two-thirds between 1990 and 2015. According to World Development Indicators, Malawi had a child mortality rate of 241 per thousand in 1990. Therefore, achieving the target requires that child mortality rate should be reduced to 80 by the year 2015. The implied rate of decline is about 6 per thousand per year. Between 1990 and 2002, Malawi achieved a rate of reduction in child mortality of about 5 per thousand per year. Hence, in order to attain the 2015 target, the rate of reduction will have to go up to about 8 per thousand per year. Figure 4 below shows the pace at which Malawi is moving towards achieving the MDG of reducing under five- mortality rate by two thirds.

The trend in infant mortality rate has been reducing 146 per thousand live births in 1990 to 113 in 2002. Applying the same target would need reducing the infant mortality rate to 49 by 2015 or by 4 per thousand per year. The actual reduction up to 2002 was 3 per

thousand. So, once again, the rate of reduction during the remainder of the period would have to be accelerated to 5 per thousand per year in order to achieve the target. The proportion of one-year olds that were vaccinated against measles in 2002 was 69 percent.

Despite this progress, the high incidence of malaria among children and pregnant mothers and water and food -borne diseases remain a great challenge. There is also a need to increase knowledge and skills of key players in breast-feeding management as well as general feeding and food preparation for young children.

Figure 4: Reaching the MDG: Under-5 Mortality Rate

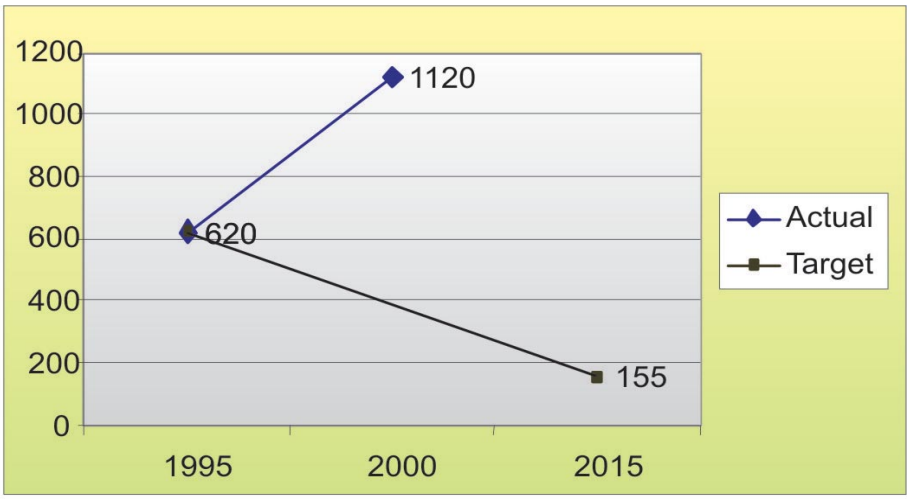


7.3.5 Reducing Maternal Mortality

According to the World Development Indicators, the maternal mortality rate was estimated to be 620 deaths per 100,000 live births in 1990. The millennium development goal for maternal mortality calls for the reduction of the rate by seventy -five percent by 2015. In other words, the maternal mortality rate is to be reduced by 465 i.e. from 620 to 155 deaths per 100,000 live births. However, the current situation depicts the opposite is happening. Instead of reducing the rate, trend shows that the rate is increasing. According to recent estimates, the rate has nearly doubled to 1,120 deaths per 100,000. Thus while it would have been easier to achieve the MDG target based

on the 1990 levels, the challenge to achieve the objective of reduced maternal mortality rate has increased sixfold. Figure 5 illustrates the precarious trend in maternal mortality rate. The challenge is now to move as depicted in figure 6 below so as to achieve the millennium development goal.

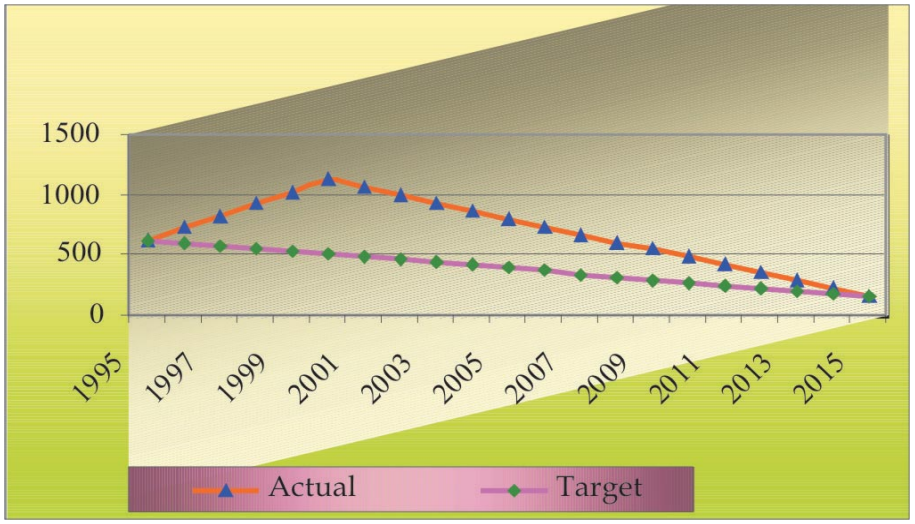
Figure 5: Trend in Maternal Mortality Rate



The trend in the proportion of births attended by skilled health personnel has been static. It was 55 percent in 1990, and rose only slightly in the 1995-2000 period to 56 percent.

The increase in maternal mortality rate from 620 to 1,120 deaths per 100,000 live births has critical implications on economic development. The factors underlying this situation include poor diet, low access to general and maternal health care services, high incidence of malaria compounded by limited availability of free drugs at community level, high HIV/AIDS incidence among pregnant mothers, increase in teenage pregnancies, attempted abortions and increased demand on maternal health care services due to low uptake of modern family planning measures.

Figure 6: Reaching the MDG: Maternal Mortality Rates



7.3.6 Combating HIV/AIDS, Malaria and other Diseases

The Millennium Development Goal on HIV/AIDS, malaria and other diseases has as its targets of halting, and begin reversing the incidence of these diseases by 2015. Malawi has been tracking the HIV/AIDS epidemic since 1994 using estimations based on data from pregnant women in 19 antenatal sites. According to raw data from these antenatal sites, prevalence among pregnant women rose from 17.4% in 1994 to 24.1% in 1998 and declined to 19.5% in 2001.

The 2003 estimations show prevalence among adult's 15-49 year olds to be 14.4%. This translates to approximately 760,000 infected people in that age group, 58% of whom are women. The prevalence is higher in urban areas at 23% and lower in rural areas at 12.4%. Overall, therefore, Malawi appears to have halted the spread of the disease, but reversing it is proving to be difficult.

Approximately three quarters of reported AIDS cases are among adults between 20 and 40 years. Since this is the most productive segment of the population, deaths in this age group have serious economic consequences. More female AIDS cases are reported in people below 30 years, while more male cases are reported in people 30 years and above.

Data on the other infectious diseases are also scarce. Malaria is the leading cause of morbidity and mortality in the country. The proportion

of children sleeping under treated bednets during 1999-2001 as percentage of under five children was 2.9 percent, according to the World Development Indicators. This implies that the level of prevention is low. In 2002, the incidence of tuberclosis was 431 per 1000,000 people or 0.4 percent. The incidence of this disease appears to have increased during the past decade partly due to the prevalence of HIV/AIDS.

Although HIV/AIDS prevalence has remained relatively stable over the past five years, new infections are still occurring at a rate of about 80,000 per year. Some of the reasons include the fact that despite almost universal awareness of the modes of transmission and prevention of HIV/AIDS, people are still not practising preventive behaviour.

Another challenge is that most Malawians do not know their HIV serostatus. According to the 2003 Joint Annual Review Report of the National Strategic Framework, less than 3% of Malawians are aware of their HIV serostatus.

The challenge for the prevention of malaria is finding ways to increase the use of treated bednets. And the one for preventing tuberclosis is finding ways to improve the home environment.

7.3.7 Ensuring Environmental Sustainability

Ensuring environmental sustainability has three targets. The first is to integrate the principles of sustainable development into country policies and programmes and reverse the losses of environmental resources. The action of the Malawi Government on this target has been explained above. The second is to halve the proportion of people without access to safe drinking water by 2015. And the third is to achieve a significant improvement in the lives of at least 100 million slum dwellers by 2020. On this target, the Malawi Government does not appear to have taken any specific action.

The Ministry of Water Development in Malawi states that the recommended improved water point density should be four water points per 1000 population which means one water point should serve 250 people. It also states that the water point should be within 500 metres of every home.

According to World Development Indicators, 51 percent of Malawi's population was without access to safe drinking water in 1990. Halving this proportion by 2015 would mean reducing this ratio to 25.5 percent. In other words, the proportion would have to decline at the rate of 1.02 percent per annum. Between 1990 and 2000, the proportion declined from 51 percent to 43 percent, or at 0.8 percent per year, which is smaller than 1.02 percent. Therefore, between 2000 and 2015, the proportion will have to decline at a higher rate of 1.17 percent per year if the target is to be achieved. This rate of reduction in the proportion of people without access to safe drinking water is achievable since government is planning to increase the number of boreholes and water schemes, intensify the maintenance of existing boreholes and water schemes through more intensive involvement of the communities in water management. The challenge here is to ensure continued community commitment, continuous training of community committees and availability of spares for the repair teams.

Malawi is facing challenges in many other aspects of environmental sustainability. The proportion of urban population with access to improved sanitation is rising slowly. Between 1990 and 2000, for example, it rose from 73 percent to 76 percent. Carbon dioxide emission per capita has been static but high at 0.1 metric ton between 1990 and 2000. The proportion of land protected to maintain biological diversity to surface area is low (the 2003 ratio was 11.2 percent). The proportion of land covered by forest is also relatively low. In 2000 this ratio was 27.6 percent.

7.3.8 Developing a Global Partnership for Development

The main targets for the Development of a Global Partnership for Development are to:

- Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.
- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long-term.

The other targets are to:

- Address the special needs of the least developed countries.
- Address the special needs of land-locked countries and small-island developing states.
- Develop and implement strategies for decent and productive work for youth, in cooperation with developing countries.
- Provide access to affordable, essential drugs in developing countries in cooperation with pharmaceutical companies.
- Make available the benefits of new technologies, especially ICT, in cooperation with the private sector.

Telephone lines and cellular subscriptions per 1,000 people numbered 15 in 2002. This compares unfavourably with the average number of 286 for the entire world, 40 for low-income countries and 316 for middle-income countries. In the same year, the number of personal computers per 1,000 people was 1.3. This too compared unfavourably with the average number of 100.8 for the world, 7.5 for low-income countries and 45.4 for middle-income countries. The number of internet users per 1,000 people was 3, as against a number of 131 for the world, 10 for low-income countries and 80 for middle-income countries (World Bank, 2004).

As a result of the implementation of the above strategies and policies, the country has made satisfactory progress towards halving the proportion of the population below the minimum level of dietary energy consumption, attaining gender equality in primary education, halting the spread of HIV/AIDS, mainstreaming environmental sustainability into programmes and policies, and securing debt relief. Unsatisfactory progress has been made in halving the proportion of the population that lives on less than US$1 per day, attaining universal primary education, achieving gender equality in decision-making positions, reducing child and maternal mortality, halting the spread of malaria and other diseases, raising the level of aid and in developing an open, rule-based trading and financial system. Thus, despite the commitments to reducing poverty and advancing other aspects of human development, Malawi has fallen short in a number of ways. Progress in the implementation of the Millennium Development Goals (MDGs) is in many cases off track.

In terms of human development, Malawi has made very little progress in recent years. In 1998, the Human Development Index (HDI) of Malawi was 0.385, which was lower that the average Human Development Indices for all developing countries (0.642), least developed countries (0,435) and Sub-Saharan Africa (0.464). In 2002, the index was slightly higher at 0.388. But, again, it was lower than those of the groups of developing countries mentioned above (UNDP, 2000, 2004). The HDI is a composite index based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of adult literacy (two-thirds weight) and the combined gross primary, secondary and tertiary enrolment ratio (one-third weight); and standard of living, as measured by GDP per capita PPP US $. The slight progress noted above is due to improvement in the education indicator.

7.4 Social Impact Issues and the Decision-making Process in Malawi

The Ministry of Trade and Private Sector Development initiates decisions on trade policy, while the Ministry of Finance, in consultation with the Reserve Bank of Malawi, initiates decisions on macroeconomic management. The private sector is the main economic interest group and is consulted by both the Ministry of Trade and Private Sector Development and the Ministry of Finance. For social impact issues, the main interest groups are the Malawi Economic Justice Network (MEJN), the Economics Society of Malawi (ECAMA), Society of Accountants in Malawi (SOCAM) and other NGOs. These organisations are also consulted and their views are sometimes, but not always, taken into account. Once the World Bank and the IMF are involved, whether they initiated the policy discourse or not, they too consult the various interest groups. Women's groups complain that there is not much gender mainstreaming in policies and programmes.

At the political level, the main players are ministers and the Cabinet, which makes the ultimate decisions. Recently, and increasingly so, Parliament has become involved in the discourse on proposed policies.

The views of the IMF and the programmes agreed to with it dominate the macroeconomic management decision-making process. The SADC

protocols and instruments do not. If anything, the views of donors, especially the World Bank, also matter more than those of SADC.

7.5 Monitoring and Evaluation of the RISDP at National Level

The Ministry of Foreign Affairs serves as the national contact point for SADC. At the level of officials, it has established a SADC National Committee with representation from non-state actors. The Ministry provides the Secretariat and its Principal Secretary serves as Chairman of the Committee. So far, the Committee has not met to transact business related to SADC. The reason for this is that, at the political level, the government has not yet appointed a Cabinet Committee for this.

8 Macroeconomic Challenges Facing Malawi

HIV/AIDS

The implementation of structural adjustment programmes has coincided with the spread of HIV/AIDS in Malawi. As in other Southern African countries, the HIV/AIDS epidemic has reached crisis proportions. At the end of 1999, the adult prevalence rate was about 16 percent, making Malawi one of the 16 countries with the highest HIV/AIDS infection rates in the world. Since then, the adult HIV/AIDS prevalence rate has come down and stabilised at about 14 percent. The relatively high rate of HIV/AIDS adversely impacts on the growth potential of the country in three ways. First, it reduces life expectancy and increases infant and child mortality beyond the levels already projected. Secondly, it reduces the economic efficiency of the population by increasing the mortality of the working age population. And, thirdly, it diverts both public and private resources from productive to expenditures related to the disease. A number of studies have concluded that, as a result of HIV/AIDS, potential GDP growth during 2000-2010 could be reduced by between 1.5 percent and 2 percent per annum. This would imply a reduction of between 1 percent and 1.5 percent per annum in per capita GDP (Cuddington and Hancock, 1995; and Haacker, 2002).

Poverty

The decline in the rate of economic growth has also been associated with an increase in the level of poverty. There are no time series data on the proportion of the population living on less than the international poverty line of US$1 per day. Available estimates of the number of poor people are based on national poverty lines, but only from the early 1990s. Using a national poverty line, the proportion of poor people in the population was estimated as 54 percent in 1990-91. For the same year, the poverty gap, which is a measure of the depth of poverty, was estimated at 4 percent, implying that to bring these poor people above the poverty line would require K140 million (World Bank,

1990). In 1998, the poor represented 65.3 percent of the population. This year, about 28.7 percent of the entire population livings in extreme poverty. The poverty gap was estimated to be 0.282; while the square of the poverty gap, which is a measure of the severity of poverty, was estimated to be 0.157 (National Statistical Office, 2002).

However, estimates based on a more recent survey indicate that the incidence of poverty in 1998 was in fact lower at 53.9 percent and that in 2005 it had gone down to 52.4 percent.

Lack of Human Capital and Capacity

Malawi lacks human capital in the form of education and skills of its population and the capacity to implement policies and programmes. For example According to the 1997/98 Integrated Household Survey, only 17.7 percent of the population aged 15 years and above had attained the Primary School Leaving Certificate (PSLC). The proportion among males at 24.1 percent was higher than that of females at 11.7 percent. The Survey also showed that only 3.5 percent of the population had attained the Malawi School Certificate of Education (MSCE). The proportion of males who had done so at 5.3 percent was higher than the proportion of females at 1.7 percent. Beyond secondary school, only 1 percent of the population had completed tertiary education. As of 2002, the national literacy rate was 62 percent (76 percent male and 49 percent female).

Malawi has a relatively large civil service. But, with a high turnover rate, civil servants with long experience have left for greener pastures. This has adversely affected the capacity of the government to plan and implement programmes.

Lack of Economic Diversification

Lack of diversification of the Malawi economy can be gauged from the range of goods exported and imported. The export sector is dominated by tobacco, which accounts for more than 50 percent of total exports; while industrial goods dominate the import sector, accounting for more than 30 percent of the total since the mid-1970s. The bulk of Malawi's exports (more than 85 percent) are agricultural

items, while machinery and transport equipment are the most important import items.

A similar picture emerges when one examines the number of goods exported, and diversification and concentration indices. The number of commodities exported from the country was 47 in both 1980 and 1994, so there was no change. As a result, the diversification index was more or less the same, 0.926 in 1980 and 0.921 in 1994. But the concentration index increased from 0.490 to 0.696 over the same time period.

Lack of Economic Infrastructure

Business enterprises face high imported input costs due to exchange rate depreciation, high domestic input costs due to the high rate of inflation and inefficiency in the provision of electricity, water and telecommunications; high finance costs due to high rates of interest; and high transport costs due to the high cost of external and internal transport.

Transport costs account for 47 percent of the price of fertilizer (based on delivery at Kasungu), 24 percent of the pump price of diesel (inland costs from Beira only), and 12.5 percent of the auction price of tobacco (excluding transport from farms to the auction floors). Domestic transport rates in Malawi are equivalent to about US$0.065 to US$0.075 per km. Comparable rates in South Africa and Zimbabwe are much lower at about US$0.02 on trunk roads and US$0.035 on rural roads (World Bank, 2004).

The high external transport costs can partly be explained by geography, i.e. Malawi's long and uncertain links to the sea. The shortest routes to the sea are Nacala (815 km by rail from Blantyre) and Beira (640 km by rail, which is not operating, and 884 km by road). But over 70 percent of Malawi's trade goes through Durban, which is 2,600 - 3,806 km away, depending on the route, and 50 percent more expensive, and Dar-es-Salaam, which is 3,030 km by road. The shortest rail route through Nacala is not being fully utilized because of security problems, including theft of cargo during transit; unpredictability and inefficiency of the port authority; excessive bureaucracy in processing customs documents in Nacala; lack of

flexibility in scheduling shipments; and occasional derailments during bad weather. In addition, as a port, Nacala is off the standard international routes, implying that unless the shipment is large enough to warrant making a call at Nacala, the goods often must disembark at Durban or Maputo from large internationally competitively priced ships and tranship to expensive coastal vessels. Then there are the problems of the small size of the country and hence trade and the imbalance between imports and exports, which are smaller, meaning that vehicles return empty and so imports must bear a larger share of the cost of transport (World Bank, 2004). It has been estimated by Jeffrey Sachs that being landlocked costs an average developing country 0.7 percentage points of growth per year.

According to an earlier study on the disadvantages faced by landlocked countries and by African countries, the representative landlocked country has transport costs 50 percent higher and trade volumes 60 percent lower than a corresponding coastal economy. Landlocked countries can overcome a substantial proportion of this disadvantage through an improvement of their own and transit countries' infrastructure (Limao and Venables, 2001). The high transport costs of the international trade of regions located far from coasts and navigable rivers have been alluded to in another recent study (Gallup and Sachs, 1998). Distance and landlockedness also influence a country's access to large markets, constrain its ability to exploit economies of scale and, hence, lower its productive efficiency (Sachs and Warner, 1995, 1997, 2001).

Malawi's internal transport costs are high due to the poor network of secondary roads, trucking cartels that keep prices high, restrictions on the operations of foreign vehicles, and high taxation on the transport sector.

Lack of Finance

The growth of savings has passed through distinct phases since 1960. During the 1960s (the first phase), national savings were negligible in Malawi and foreign savings financed virtually all capital expenditure. Between 1967 and 1969, for example, gross national savings financed only 8 percent of total investment (World Bank, 1985). The 1970s

ushered in a new period when gross national savings grew fairly rapidly, averaging 11.2 percent of GDP during 1970-74 and 13.0 percent during 1975-79. As national savings increased, the share of foreign financing in total investment fell from 92 percent in 1967 to 50 percent in 1979 (Malawi Government, 1983). During the 1980s (the third phase), this trend was reversed, as gross national savings as percentage of GDP declined to 10.0 percent during 1980-84 and to 7.4 percent during 1985-89, partly due to the external debt burden. It remained at about the same rate during the 1990s, averaging 7.5% between 1994 and 1999.These trends in savings probably paralleled those that occurred in the Sub-Saharan African region as a whole. According to the 1987 World Development Report, saving in Sub-Saharan Africa as a percentage of GDP was 23.0 percent in 1980. By 1983, it had declined to 13.6 percent, and was estimated at 13.8 percent in 1986 (World Bank, 1987). The 2000s ushered in yet another phase when gross national savings rates declined further, averaging 6.4% between 2000 and 2003.

Environmental Degradation

Malawi has a total land area of about 9.4 million hectares. Out of this total, 4.6 million hectares, representing 49 per cent, were under cultivation in 1992. However, because of the unimproved level of land management among smallholder farmers then, only 31 per cent of the total land area was made suitable for cultivation. Hence, 18 per cent of the cultivation was taking place on marginal or environmentally fragile land like steep slopes, river banks and valleys. This situation is believed to have become worse since then. The extension of cultivation to marginal areas, unsatisfactory land use practices, lack of appropriate conservation measures, deforestation and overgrazing have led to a loss of agricultural land productivity, mainly through soil erosion and declining soil fertility.

In 1992 the World Bank estimated that soil erosion in Malawi ranges from 13 metric tonnes per hectare per year to 29 metric tonnes per hectare per year. This averages 20 metric tonnes per hectare per year, contributing to mean yield loss of between 4 and 11 per cent per year equivalent to annual income losses per hectare of between MK10 and

MK29. In aggregate terms, Malawi is on average losing a total of about 160 million tonnes of soil per year. The cost associated with soil erosion was estimated at MK1, 155 million per year, which corresponded to 8.1 per cent of the country's GDP in 1994. The figures do not go beyond 1994. All the same, this development is unsustainable and has serious implications for long-term land productivity.

About 37 per cent of the total land area (3.5 million hectares) is classified as forests. This is composed of 0.73 million hectares of forest reserves, 1.09 million hectares of national parks and wildlife reserves and 1.7 million hectares customary land forests. It has been estimated that aggregate consumption of fuelwood exceeds the level of sustainable yields by as much as 30 per cent. There is continuous loss of forest resources, especially on customary land due to clearing of forests in excess of natural forest regeneration and afforestation activities. The rate of deforestation has been estimated at 1.4 per cent per year due to dependence on agriculture, dependence on fuelwood, high rate of population growth and excessive selling of wood to generate income. Deforestation results in depletion of surface water resources and in problems of siltation/sedimentation, reduced base flows and recurring drought conditions.

With respect to water resource degradation, Malawi is facing three serious problems. Not in order of importance, the first is chemical contamination of stream water in urban areas due to improper disposal of domestic and industrial wastes; and pollution by agrochemicals through water run off due to absence of proper biological and physical conservation measures on farms in rural areas. The second is the poor bacteriological quality throughout the year by major rivers due to inadequate sanitation facilities and the presence of other sources of organic pollution. As a result of this, it is estimated that 50 per cent of all illnesses in Malawi are caused by water borne diseases. And the third is depletion of surface water resources caused by deforestation which leads to watershed loss, siltation/sedimentation, reduced base flows and recurring drought conditions.

Gender Discrimination

According to the 1998 Population Census, 51 percent of Malawi's population is female and 49 percent is male. Despite the larger proportion of females in the country's population, the percentage of Parliamentary seats occupied by females is a mere 14.5 percent. This is lower than the world average of 15 percent, but higher than average for all low-income countries which have 12 percent. It is also smaller than the 30 percent female representation in Parliament agreed to in the SADC.

The representation of women in key decision-making bodies is also comparatively low. In the Cabinet it is 21 percent. Among principal secretaries it is 11 percent, and among chairpersons of boards of statutory bodies it is 4 percent.

The ratio of earned income accruing to females as a proportion of earned income accruing to males was 0.68 in 2002.

Governance Problems

Malawi was a British Colony from 1891. The country became independent of British rule in 1964, after a long period of nationalist struggle for independence that started soon after the Second World War. Most of its modern economic and political institutions are modeled on British institutions. It has a mixed economy and practises parliamentary democracy. Initially, independent Malawi was a multi-party state with a prime minister as head of government. In 1966, Malawi became a republic with a president as head of state and government. A little later, the country was declared a one-party state. In 1971 Banda became life-president, and remained so until 1994 when multi-party presidential and parliamentary elections were held. The creation of a one-party state with a life presidency effectively turned the regime into a dictatorial or despotic one.

The return to multiparty democracy in 1994 brought with it an apparent reduction in violations of civil liberties and human rights. But, lack of transparency and accountability in the way that the affairs of the state are managed and wastefulness in the use of public resources have increased. Furthermore, according to a number of

surveys of businessmen, corruption cases, and the media, corruption has become more pervasive, touching all aspects of life, in the public sector as well as in the private sector. There is a high level of corruption in public procurement, management of parastatals, management of government expenditure, provision of public services, among other activities. As measured by the Corruption Perception Index (CPI) released by Transparency International, the level of corruption in Malawi is actually rising (Table 10). In 2002, Malawi scored 2.9 on the CPI and ranked 68th within a group of 102 countries worldwide. The latest release of the CPI shows that corruption has worsened both in terms of the CPI score and the ranking. In addition to the CPI, public awareness of corruption in Malawi is high due to numerous high profile corruption cases reported over the past few years.

Table 10: Trends in the Malawi Corruption Perception Index

Year	CPI Score 10=Best, 1=Worst	Rank	Total Number of Countries
1999	4.1	45	85
2000	4.1	43	90
2001	3.2	61	91
2002	2.9	68	102
2003	2.9	n.a.	n.a.
2004	2.9	90	n.a.
2005	2.8	97	n.a.

Source: World Bank, Malawi Country Memorandum Policies for Accelerating Growth, 2003 and 2004; "The Nation", 7th November 2005.

Corruption is believed to be deviant behaviour. Therefore, its causes are basically sociological, having to do with failure in upbringing. The recent rise in the level of corruption in Malawi is, however, due to weak governance. In 1995 Parliament passed a Corrupt Practices Act, which led to the establishment of the Anti-Corruption Bureau. The work of this body has been constrained by lack of a clear and comprehensive definition of corrupt practices and appropriate penalties, lack of independence, an inadequate budget and limited numbers of staff. Other aspects of weak governance that account for the high level of corruption include complexity and use of discretion in the rules governing the business environment; e.g., viz-a-viz taxes and incentives offered; and lack of transparency and accountability in the use of public money.

The high level of corruption in Malawi has increased the cost of doing business and affected the delivery of public services in general. Among other things, it has also adversely affected relations between Malawi and its creditors, who from time to time suspend disbursements of loans and aid. Suspensions of resource flows in turn adversely affect the effectiveness of foreign loans, and lead to massive deficit financing, all these have implications for inflation and high levels of domestic debt.

Debt Problem

According to the new criteria put forward by he World Bank, Malawi is a heavily indebted poor country. Annual data on the total external debt of Malawi are available on a continuous basis only from 1973. Prior to that year, the data are discontinuous. This weakness in the data aside, in the 1970s the total external debt of Malawi was modest Before the end of the decade, the total external debt rose and quadrupled between 1970-74 and 1980-84. During subsequent half-decades, the total external debt of the country grew at a slower rate, doubling between 1980-84 and 1990-94 and nearly tripling between 1980-84 and 1995-2001. In per capita terms, total external debt more than tripled between 1970-74 and 1980-84, but less than doubled between 1980-84 and 1995-2001.

An alternative method of ascertaining the magnitude of total external debt is to consider the so-called debt ratio (total outstanding debt as a proportion of export earnings). For Malawi the debt ratio is shown by half-decade in Table 11. The data in that table indicate that the debt ratio did not change much during the 1970s. Subsequently, it rose fairly rapidly, doubling between 1975-79 and 1985-89. From 1985-89 the increase in the debt ratio has once again been modest. As percentage of gross domestic product (GDP), the pattern of growth of total external debt has been similar (Table 11).

Table 11: Malawi: Selected External Debt Indicators

Indicator	1970-74	1975-79	1980-84	1985-89	1990-94	1995-2001
Total External Debt (US$ million)	215.75	450.90	859.08	1,266.20	1,749.20	2,453.40
Total External Debt Per Capita(US$ million)	43.59	80.45	132.83	167.58	197.26	237.21
Total External Debt/Export Earnings %	183.5	198.0	289.4	400.8	440.2	478.0
Total External Debt/GDP %	35.3	57.2	70.8	100.3	100.0	144.7

Sources: World Bank, World Debt Tables, World Development Indicators and African Development Indicators (various issues) and International Monetary Fund, International Financial Statistics (various issues).

In so far as not all external debt is repayable in one year, comparing total external debt with a single year's export of goods and services or gross domestic product is not a very useful measure of the burden of external debt. Debt service as a percentage of export of goods and services avoids this problem. As shown in Table 12, Malawi's debt service ratio in the 1970s was moderate. It accelerated in the early 1980s and has since remained high, indicating that a significant proportion of export receipts has been used to repay principal and pay interest on external debt. The debt service ratio should have been higher but for debt relief received since 1982. Debt service as a percentage of GDP is another useful concept that shows the claims that are made on a country's domestic output by external debt service obligations. The trend in this ratio has been similar to the trend in the debt service ratio. The trend in interest payments on external debt as a percentage of GDP has also been similar to the trend in the debt service ratio (Table 12).

Table 12: Malawi: Selected Indicators of the Debt Burden

Indicator	1970-74	1975-79	1980-84	1985-89	1990-94	1995-2001
Debt Service/ Exports %	10.4	9.3	20.0	32.4	22.5	16.2
Debt Service/ GDP %	1.6	2.2	4.3	7.4	5.2	4.3
Interest Payments/ GDP %	1.4	1.6	3.2	3.6	3.8	4.8
Official Exchange Rate Kwacha/						
US$	0.83	0.86	1.14	2.25	4.44	36.27

Sources: Malawi Government, Economic Report (various issues), World Bank, African Development Indicators (various issues) and International Monetary Fund, International Financial Statistics (various issues).

Food Insecurity

From time to time, Malawi as a nation suffers from food insecurity, a situation where the country is unable to produce enough food. For example, during the 1997/98 crop-growing season, the country did not produce enough food and had a maize shortage of 53,942 tonnes (Malawi Government 1999). The 1998/99 and 1999/2000 crop seasons experienced bumper maize harvests (Malawi Government 2000 and 2001). During the two succeeding seasons, however, maize production was inadequate. When there is a shortfall in maize production, purchases of maize to relieve hunger puts pressure on the government budget and on the balance of payments. The shortfall also puts pressure on the consumer price index since maize has a large weight in it. At the household level, Malawi has become chronically food insecure as many households are unable to produce or purchase enough food to meet their subsistence requirements. Food insecurity at this level also varies annually and seasonally. For example, whereas 8.0 percent of farm families were without food of their own during 1997/98, in the following season the percentage was down to 2.3 percent (Malawi Government, 1999). Household food insecurity is felt most between October and April when food stocks are low or have run out.

9 Special Issues, Data Requirements and Future Research

Concerning the macroeconomic programme, the problem area for Malawi is the feasibility of the targets for the current account, the growth rate, international reserves, domestic savings rate and the domestic investment rate; and the time frames for removing controls on capital account transactions, achieving interconnection of payments and clearing systems and for finalizing the legal and regulatory framework for dual and cross listing on the regional stock exchanges.

As regards the Trade Policy Framework, the problem areas include:

- The complicated Rules of Origin;
- The liberalisation of Category C products;
- Non-tariff barriers;
- Overlap in membership of regional integration schemes; and
- Incompatibility and divergence in external trade regimes, which will complicate the choice of a common external tariff.

Concerning the labour policy framework, the main problem areas are:

- The rising rate of unemployment;
- The high rate of unemployment among the youth and women; and
- The high rate of unemployment in urban areas.

With respect to social impacts, the main problem targets are:

- Halving the proportion of the population living in income poverty between 1990 and 2015;
- Attaining gender equality in decision-making positions by 2015;
- Reducing child mortality rate by two-thirds between 1990 and 2015;
- Reducing by three-fourths the maternal mortality rate between 1990 and 2015;
- Halting the spread of malaria and other infectious diseases;
- Raising the level of aid and developing an open, rule-based trading and financial system.

Other problems that require stronger national effort are governance, gender, external debt, HIV/AIDS, transport infrastructure, environmental degradation, diversification of the economy, human capital formation and capacity constraints, low domestic savings rate and low domestic investment rate.

Malawi generated most of the data required for this study. The relevant data was available in Malawi or in the publications of the World Bank and the IMF. The missing data are on full-time and part-time employment. Other missing data are on wages, both at minimum level and above, on average earnings by sector and for the economy as a whole.

Research is required on the following subjects in order to inform the development of the FIP:

- Taxation and economic growth, development and poverty reduction in the SADC region.
- Government expenditure and economic growth, development and poverty reduction in the SADC region.
- Comparative models of financial intermediation and performance in the SADC region.
- Foreign institutional barriers to access financial service industries.
- Impediments to financial market integration within and across countries.
- Level of development of financial services industries, including commercial banking and insurance services, in the region, with a focus on the supply and use of financial products and services, level of co-operation and competition and barriers to financial sector development.

In relation to macroeconomic convergence, issues that require research include:

- Economic growth and convergence in the economies of SADC member countries, emphasizing their determinants.
- The behaviour and determinants of current account deficits in the economies of SADC member countries.
- The determinants of domestic savings and investment.

- The potential and problems of currency convertibility in the SADC-region.

A number of other issues covered in this study require further research. These issues include:

- Economic and social impacts of the macroeconomic convergence programme, the trade protocol and the labour market policy framework.
- The potential impact of co-ordination of tax policies, liberalization of current and capital accounts, and integration of financial markets.
- Determinants of employment in the country, in urban and rural areas, and by employment status, gender and age.
- Cost-benefit analysis of dual membership in SADC and COMESA.
- Cost-benefit analysis of the SADC FTA, CU and Common Market.
- Cost-benefit analysis of currency devaluation.
- The costs and benefits of unilateral, bilateral and multilateral trade liberalization.

10 Conclusions and Recommendations

The main factors identified in the study that might constrain achieving the SADC convergence targets are:

- A Relatively low rate of domestic investment, HIV/AIDS, human capital constraints, landlockedness and transport problems, environmental degradation, gender discrimination and external debt in relation to the rate of economic growth.
- Droughts, oil prices, other import costs and currency depreciation in relation to inflation.
- High import demand and inadequate trade development, promotion and facilitation, as well as inadequate domestic savings, in relation to the current account balance.
- An unsustainable level of foreign debt and uncertainties about the level of export receipts and inflows of foreign aid and loans in relation to foreign reserves.
- High rate of time preference in relation to the domestic savings rate.
- Corruption, low level of savings and foreign capital inflows, as well as an unfavourable business environment in relation to investment.
- Economic instability in relation to currency convertibility.
- The adverse balance of payments position in relation to exchange controls.

The critical issues for achieving macroeconomic convergence are food security, trade, debt, savings and investment policies. Food security has been accorded high priority in the MGDS and is to be promoted through a significant expansion in land under irrigation, commercial farming and removal of controls on food prices. Similarly too trade, where exports will be increased through development, promotion and facilitation of trade. The external debt problem will be addressed by seeking aid rather than loans for development programmes. And the problem of low rates of investment is being addressed through improving the investment climate and by increasing foreign investment and encouraging domestic savings through tax reform and a savings campaign.

The new policy approach should assist in improving food security and help to achieve the inflation target through increased food supplies. It should also moderate the accumulation of new external debt stock. But it is doubtful that it will result in a significant expansion in exports in the short to medium term that will result in the achievement of the current account target. It is also doubtful that it will result in a significant increase in savings and hence in investment, and so help to meet the savings and investment targets. The savings policy is simply not robust enough. To boost savings, the country needs to increase real deposit interest rates, shorten the waiting period for savers before they receive interest on their deposits, increase the productivity of investment by improving the business climate, and encourage thriftness at the expense of conspicuous consumption.

Issues of social impacts are considered through wide consultations in decision-making processes. The Malawi Poverty Reduction Strategy Paper (MPRSP), which was launched in 2002, has been the key policy document. Since 2004, the Malawi Economic Growth Strategy (MEGS) has complemented the MPRSP by strengthening the involvement of the private sector in the growth component of the latter. From 2006 both strategies will be replaced by the Malawi Growth and Development Strategy (MGDS), which draws upon the previous strategies, including the Millennium Development Goals. The fear of civil society is that the MGDS emphasizes economic issues at the expense of social concerns.

Concerning macroeconomic convergence, it is recommended that the government should align its policies and targets to those of SADC in all major policy documents. In this connection, it is desirable that the IMF should take into account the country's regional obligations in its dealings with the government. Besides this point, the values of a number of macroeconomic convergence target indicators are too ambitious for Malawi and probably for other countries as well. Therefore, it is recommended that they should be reviewed.

The affected target values are:

- The short-term and medium-term values of the target indicators for the current account deficit and domestic savings rate.
- The medium and long-term values of the external reserves target.

- The short-term values of the growth rate target and the external debt target.

Other targets that require review in relation to Malawi because they are too ambitious are:

- Finalisation of the legal and regulatory framework for dual and cross-listing on regional stock exchanges by 2008; and
- Gradual interconnection of payments and clearing systems in SADC by 2008.

General recommendations about necessary actions from all SADC member states are about:

- Expanding the rationales for the FIP and elaborating rationales for co-operation on taxation and related matters, including government expenditure, and for co-ordinating and harmonising fiscal policies.
- Making provision for differential treatment in favour of the least developed member states in all the components of the FIP.
- Including a provision for co-ordination in exploration of natural resources so as to improve opportunities for investment in the SADC region.
- Reducing the complexity and discretionary nature of investment incentives.
- Reviewing the feasibility of some of the macroeconomic convergence targets.
- Reviewing the need for a common approach to taxation in light of uneven and unequal development between member states.
- Elaborating rationales for co-ordinating and harmonising monetary policies.
- Including commercial banks, insurance, microfinance institutions and informal financial sector in the FIP.
- Making provision for linking commercial banks across the region.
- Promoting the integrated development of formal, microfinance and informal financial sectors within member states.
- Promoting a suitable model of financial intermediation.
- Drawing on existing studies on financial sector development and on taxation and economic growth in finalising the FIP, or conducting fresh studies on which to base the FIP.

Others are about reviewing the following features of the Trade Policy Framework:

- The complicated Rules of Origin;
- The liberalisation of Category C products;
- Non-tariff barriers;
- Overlap in membership of regional integration schemes; and
- Incompatibility and divergence in external trade regimes that will complicate the choice of a common external tariff.

With respect to social impacts, more serious consideration could be given to how best to move towards:

- Halving the proportion of the population living in income poverty between 1990 and 2015;
- Attaining gender equality in decision-making positions by 2015;
- Reducing child mortality rate by two-thirds between 1990 and 2015;
- Reducing by three-fourths the maternal mortality rate between 1990 and 2015;
- Halting the spread of malaria and other infectious diseases;
- Raising the level of aid and developing an open, rule-based trading and financial system.

Annex

Table 1: Key Macroeconomic Indicators for Malawi

Macroeconomic Indicator	Year	Value
Population million	2003	11.6
GNI (US$ billion)	2003	1.8
GNI Per Capita (US$)	2003	160
PPP GNI ($/Capita)	2003	590
Aid as % of GNI	2003	29.8
Present Value of External Debt as % of GNI	2003	108

Source: World Bank, World Development Indicators 2005.

Annex Table 2: Trends in Other Key Macroeconomic Indicators 1998-2004

Indicator	1998	1999	2000	2001	2002	2003	2004
Exchange Rate (Kwacha per US$)	31.07	44.09	59.54	72.20	76.70	97.40	108.90
Inflation %	29.8	44.9	29.5	22.7	14.8	9.6	11.5
Budget Deficit % of GDP	-12.8	- 11.0	-14.4	-14.6	-14.5	-12.7	-16.2
Annual % Growth Rate of GDP	2.2	3.5	0.2	-4.1	2.1	3.9	4.6

Source: Malawi Government, Economic Report (various issues).

Annex Table 3: Human Development Indicators (HDIs) for Malawi

Human Development Indicator	Year	Value
Human Development Index and Rank	1998	0.385 (163 out of 177 countries)
Human Development Index and Rank	2002	0.388 (165 out of 177 countries)
Life expectancy at birth in years	2003	37.8
%Population without sustainable access to improved water source	2002	33
% One year olds fully immunized against measle	2003	77
% Births attended by skilled health personnel	2003	61
% Population with sustainable access to improved sanitation	2002	46
% Children under 5 under weight for age	2002	25
HIV prevalence % ages 15-49 years	2003	14.2
Tuberclosis per 100,000 people	2003	442
Under 5 mortality rate per 1,000 live births	1970	330
Under 5 mortality rate per 1,000 live births	2003	178
Adult literacy rate (% ages 15 and above)	1998	58.2
Adult literacy rate (% ages 15 and above)	2002	61.8
Youth literacy rate (% ages 15-24)	1990	63.2
Youth literacy rate (% ages 15-24)	2002	72.5
% Net primary enrolment ratio	1990	50
% Net primary enrolment ratio	2002	81

Sources: UNDP Human Development Report 2004 and World Development Indicators 2005.

Annex Table 4: Government Budget Deficits as Percentage of GDP and Growth of Expenditure and Revenue (Percent)

Variable	1991-1995	1996-2000	2001-2004
Budget Deficit Excluding Grants	-14.2	-11.1	-14.5
Budget Deficit Including Grants	-6.9	-2.5	-4.8
Rate of Growth of Total Revenue	37.2	33.6	28.6
Rate of Growth of Total Expenditure	47.9	32.7	29.1

Source: Malawi Government, Economic Report (various issues).

Annex Table 5: Malawi Medium-Term Macroeconomic Objectives

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Inflation Rate	9.8	13.7	16.9	13.9	7.0	7.0	5.0	5.0	5.0
Growth Rate	3.9	4.6	2.1	8.2	5.6	5.9	6.0	6.0	6.0
Domestic Debt as % of GDP	25.0	24.1	19.8	16.8	14.2	12.3	10.0	10.0	10.0
Fiscal Balance as % of GDP	-0.9	-4.1	-1.3	-0.9	-0.7	-1.1	-1.0	-1.0	-1.0
Gross Reserves in Months of Imports	1.5	1.3	1.6	2.2	2.4	2.6	3.0	3.0	3.0

Source: Malawi Government, Malawi Growth and Development Strategy Main Report , Volume I, p. 12.

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Deepening Integration in SADC

Can Malawi Meet the Challenges?

Part: 2

Perception of Business and Non-State Actors in Malawi

List of Tables

Table 1: Distribution of Businesses by Main Activity.....179
Table 2: Distribution of Businesses by Employment Size.... 179
Table 3: Distribution of Businesses by Period of Operation... 179
Table 4: Percentage of Responses by Industry and Number of Employees.....180
Table 5: Percentage of Responses by Industry and Years in Operation..... 180
Table 6: Percent Distribution of Businesses by Turnover and Value of Imports and Exports of Companies.. 180
Table 7: Principal Markets Ranked by Share of Exports and Imports..... 181
Table 8: Share of Companies that Face Competition from other Countries..... 181
Table 9: Distribution of Non-State Actors by Type of Organisation..... 181
Table 10: Distribution of Non-State Actors by Period of Operation..... 182
Table 11: NSA Membership to SADC Committees and Umbrella Organisations..... 182
Table 12: Impact of RI on NSA's Involvement in Policy Design..... 182
Table 13: Comparison of Means/Proportions between Business..... 182
Table 14: Comparison of Average Expected Changes in Economic Characteristics.....183
Table 15: Expected Losses and Gains from Integration by Industry..... 183
Table 16: Expected Gains and Losses from Regional Integration by Size Employment..... 183
Table 17: Expected Gains and Losses from Regional Integration by Years in Operation.....183
Table 18: Share of Companies that Experience Trade Barriers by Sector..... 184
Table 19: (a) Perceptions of Regional Integration-Responses by Domestic Businesses..... 184

Table 19: (b) Perceptions of Regional Integration-Responses by NSAs..... 185
Table 20: (a) Impact of Regional Integration on Domestic Businesses-Responses by Companies..... 186
Table 20: (b) Impact of Regional Integration on Domestic Businesses-Responses by NSAs..... 187
Table 21: (a) Relevance of Trade Barriers-Responses by Businesses..... 188
Table 21: (b) Relevance of Trade Barriers- Responses by NSA's 189
Table 22: Most Relevant Trade Barrier, Comparison of Responses by Business and NSAs..... 190
Table 23: Rating on Business Climate in Various Countries and Regions and Sector..... 193
Table 24: Public Debate on Regional Integration, Responses by Businesses and NSAs..... 194
Table 25: Attendance at Workshops in Regional Integration in General by Sector..... 194
Table 26: Attendance at Workshops and Seminars by Business People and NSAs, in Percent..... 195
Table 27: Various Activities of NSAs Concerning Regional Integration..... 195
Table 28: Support for Deeper SADC Integration by Sector.. 196
Table 29: Support in favour of regional integration– Comparison of Businesses and NSAs..... 196
Table 30: Intervention of Regional Integration– A Comparison Between Businesses and NSA Responses..... 197

List of Figures

Figure 1: Malawi Volume of Trade with SADC..... 160
Figure 2: Expected Gains and Losses by Size of Firm..... 167

List of Abbreviations

BLNS	Botswana, Lesotho, Namibia and Swaziland
COMESA	Common Market for Eastern and Southern African States
CONGOMA	Council for Non-Governmental Organisations in Malawi
EAC	East African Community
EU	European Union
MK	Malawi Kwacha
N	Number of Cases
NGO	Non-Governmental Organisation
NSA	Non-State Actor
SACU	Southern African Customs Union
SADC	Southern African Development Community
USA	United States of America
US$	United States Dollar

Executive Summary

This study presents evidence, at company and non-state level, on perceptions on the impact of deepening regional economic integration in SADC. It uses a firm level analysis of results. Using data from 44 business enterprises and 24 non-state actors, this study estimates the perceptions and the likely effects of regional integration on the economy in general, on employment, trade and domestic business gains and losses. The findings are quite diverse between businesses and non-state actors.

Perceived Impacts of Regional Integration within SADC

In general, businesses and non-state actors perceive that the impacts of regional integration within SADC will be positive. Most businesses believe that Regional Integration will benefit the economy in general and provide new export markets and investment opportunities, 30 percent expect unemployment rate to decline, 41 percent expect labour costs to decline. Overall they feel that RI will lead to reduced prices of consumer goods, provide new export markets, will result into an influx of refugees and will enhance the human rights situation in the country.

On the contrary, most of the Non-state actors do not expect the unemployment rate or costs of labour to decline. 45.8 percent disagree that unemployment rate will decline, 50 percent disagree that labour costs will decline. However a large proportion 62.5 percent, feel that RI will lead to reduced prices of consumer goods, and new export markets whilst 58.3 percent feel RI will provide new investment and and 54.2 percent feel it will increase competition on the domestic market.

Impacts on Domestic Businesses

For the individual businesses and sector level, there will be positive as well as negative and neutral effects.

Positive Result

The proportion of companies that expect employment to go up is 46.2 percent against 48.7 percent that believe that retrenchment will ensue. 55.3 percent of the companies see positive effects on production. 62.5 percent of the companies believe that companies will venture into new business activities. Businesses are more optimistic about the likely increases in employment, production and investment than NSAs.

The proportion of NSA's that expect employment to go up is 60.0 percent This is greater than the proportion that believes that retrenchment will ensue (28.6 percent). 61.9 percent of NSA's see positive effects on production. 90.0 percent of NSA's believe that companies will venture into new business activities.

Negative Results

About 37.5 percent of the companies expect businesses to close down, as against 70.0 percent of NSAs. More than half of the companies expect more imports from SADC as compared to less than half that expect more exports. Similarly, the majority (85.7 percent) of NSAs expect more imports from SADC as compared to a minority (33.3 percent) that believe that Malawi will be exporting more to other SADC member States. Businesses are less optimistic about the likely increases in exports, imports and input prices. Manufacturing firms are less optimistic than trading companies.

The majority of both businesses and non-state actors do not view cheaper foreign labour as a possibility.

Neutral Results

The proportion of businesses that expect labour retrenchment (48.7 percent) is more or less balanced by the proportion that expect employment of workers to go up (46.2 percent). Assessing the gains and losses of RI. Looking at the average expected gains and losses expessed by the firms; It is interesting to note that expected gains are higher for small scale firms (50 percent) than larger firms (25 percent).

The same is true for losses which are more likely to be experienced by the small firms. Also worth noting is that infant firms with less than 5 years of operation reported higher expected gains and lower losses.

Direction of Trade and Trade Barriers

Most of the companies, about 58 percent reported that they face competition from South African companies, whilst 19 percent face competition from Asian companies. This is in line with empirical trade data. The major market for Malawi exports and imports in SADC is South Africa, followed by Mozambique, Zimbabwe, and Zambia. Looking at the trend on the trade balance, Malawi is a net importer against most of its SADC trading partners.

Most businesses cite customs tariffs that are currently employed as the major trade barrier, followed by the payment in cash of import duties and taxes, and exchange rate uncertainty.

On the other hand, most NSA's cite high transport costs, customs tariffs that are currently employed, and lack of information about foreign markets being or par as second. In third place are corruption of officials rep. Other trade barriers mentioned include time-consuming customs procedures.

Support for Regional Integration

There is strong support for regional integration in general and within SADC among the majority of NSAs, but not among the majority of businesses.The degree of support by sector is higher. RI is viewed as useful for achieving reduction of tariffs within SADC (or creating a free trade area) and for common competition and trade policy. Although Regional integration is a topic in policy debate in Malawi, there is not much public debate on it.

Conclusions and Policy Implications

In respect of regional economic integration this study concludes that; There is strong support for regional integration in general and within

SADC among the majority of NSAs, but not among the majority of businesses.

The degree of support by both groups is greatest for the reduction of tariffs within SADC (or a free trade area) and for a common competition and trade policy.

Few businesses and NSA's attend workshops on regional integration mainly because they are not invited to such workshops. As a consequence, businesses lack information about market opportunities in other countries in SADC, COMESA, and in other parts of Africa and regions of the world. EAC is also less well known in Malawi.

The perceptions of the wholesale and retail trade sector deserve a separate in depth study which would analyse the challenges the sector will face as well as possible support that it would need to prepare it for further trade liberalisation.

In addition, existing barriers to trade need to be tackled more seriously. These barriers include customs tariffs, import duties and taxes, exchange rate uncertainty, corruption of officials, high transport costs, and time-consuming customs procedures at borders.

In view of the foregoing, support for regional integration in Malawi will need building and strengthening at the highest level.

Areas for Discussion and Further Research

The study also raises a lot of questions about what need to done and areas for further research. Some of the salient issues raised are;

- What can be done to alleviate the problems of company closures and the retrenchment of workers? How can Malawi boost its exports to the rest of SADC?
- An analysis of gains and losses shows that most small firms will gain, while large ones will loose. In anticipation of possible losses, what should be done to prepare businesses in advance for increased competition and identify areas where they will need assistance to improve their performance?
- Clearly, there is a need to work on the information deficit about regional and international markets for Malawi to benefit from integration. The issue is whether the country itself is doing enough

in the field of trade promotion, and whether the trade promotion measures of SADC are effective.

Again this raises the question of whether Malawi and SADC are pro-active and doing enough to disseminate information about the next steps of regional integration beyond a free trade area and to win support; and if they are targeting all stakeholders, the business community, civil society and the population at large.

1 Introduction

1.1 Background

In consultation with the SADC Secretariat, the Friedrich Ebert Foundation held a workshop from 6th to 7th December 2004 in Gaborone on "Deepening Integration in SADC – Macroeconomic Policies and Their Impact". The purpose of the workshop was to develop the concept and terms of reference for a study on deepening integration in SADC. Regional macroeconomic researchers and policy analysts attended the workshop. Among other things, they agreed that they should start the first phase of the project with an empirical survey of the perceptions of entrepreneurs and other non-state actors about the expected costs and benefits of deepening regional integration, as well as country studies on macroeconomic policies and their impact and a contextual study on the regional and international environment for deepening SADC integration. The Friedrich Ebert Foundation organised a second workshop, which was held from 13th to 14th April 2005 in Stellenbosch, to further develop a research programme for the study on macroeconomic policies and their impact in the SADC region.

1.2 Objective of the Study

According to the Terms of Reference, A SADC –wide survey intended to capture the perceptions of business people and non-state actors on regional integration within SADC to be carried out. The survey will focus on existing trade barriers, perceived challenges and opportunities associated with deeper regional integration. It is therefore expected that the survey will provide the SADC Secretariat, policy-makers from relevant government institutions, chambers of commerce, etc., with valuable information about what action to take in order to make regional integration a success.

1.3 Structure of the Report

The rest of the report is presented in the following sections. Section 2 briefly explains the methodology of the survey. Section 3 explains the main characteristics of the respondents. The two sections that follow analyse different perceptions regarding regional integration and the business climate in the region and beyond. Section 6 examines the extent of public debate on regional integration in Malawi. The last section attempts to draw some conclusions. Relevant tables are presented in section 8 as Appendix tables.

2 Methodology

The data for the study were collected by means of a random sample survey using coded questionnaires for companies and non-state actors (NSAs) designed by the Namibian Economic Policy Research Unit (NEPRU). The Terms of Reference required a sample of at least 30 businesses and 10 non-state actors. But, in order to cover as many relevant sectors and NSAs as possible, as well as the three regions of Malawi, the study increased the number of businesses in the sample to 60 and the corresponding number of NSAs to 30.

For the purpose of randomly selecting the 60 businesses, the National Business Register kept by the National Statistical Office was used as a frame. With the advice of NEPRU, the following sectors were removed from the frame since they were not relevant: electricity, hotels and restaurants, financial intermediation, real estate, public administration, education, health, social work and other community; private households, and extra-territorial organisations. The ones that remained were agriculture, fishing, mining, manufacturing, construction, wholesale and retail trade, tourism, and transport and communications.

The sample of 60 businesses was stratified by size of business, by sector and by region. By size the sample was divided equally between small, medium and large businesses, where small refers to businesses having fewer than 10 employees, medium refers to those with 10 to 249 employees and large being those with 250 or more employees. Stratification by sector was done according to the relative number of businesses in each sector. And by region, it was done according to the relative distribution of businesses in the country.

As regards the random sample of 30 NSAs, a frame was constructed mainly from a list of NGOs published by the Council for Non-Governmental Organisations (CONGOMA), but also from other sources. The CONGOMA list contains hundreds of names of registered and unregistered NGOs. From this list and other sources, those NSAs whose mandate was related to economic and social issues, representing organised labour, employers associations, industrial and commercial associations, professional associations and civil society organisations (NGO-umbrella organisations and affiliates, human rights organisations,

church organisations, etc.) were identified. Random selection involved choosing every fifth NSA in the frame.

The field survey was conducted between August and September 2005. Experienced enumerators administered the two questionnaires. Of the five enumerators who were employed on this task, two covered the Southern Region, two the Central Region and one the Northern Region. In the Southern and Central Regions, the enumerators worked either on businesses or on NSAs. In the Northern Region, the sole enumerator covered both businesses and NSAs since their numbers were comparatively small.

In the field, some of the sampled businesses or NSAs did not co-operate or they were inaccessible or no longer operating. In such situations, every attempt was made to replace the sample units with new ones, which were also randomly selected. By the end of the survey, 44 businesses, representing 73 percent of the total had completed the questionnaire fully. 24 NSAs, also representing 73 percent of the total, had completed the questionnaire fully. Both percentages are above the expected completion rate of 70 percent. Two more questionnaires completed by NSAs were received after the deadline. As such, they could not be included in the analysis at this stage. In total, therefore, there are 24 NSA completed questionnaires, increasing the completion rate to 80 percent.

After concluding the survey, the data was entered on SPSS files provided by NEPRU, then it was verified and cleaned. One-way frequency tables and cross-tabulations, which are shown in the appendix were created. An analysis of variance on some of the tabulations was carried out.

3 Characteristics of Respondents

3.1 Businesses

All the businesses that responded are private companies, except three. Of these three, one is a public enterprise, the second is a private-public partnership and the third belongs to the category other. Eighteen companies are in wholesale and retail trade, eleven are in manufacturing, while the rest are in agriculture, construction, transport and communications and tourism (Table 1). According to official Malawian classification, most of the companies are medium-sized with between 10 and 249 employees (Table 2). The majority of the companies have been in business for more than 10 years. Only two have been operating for less than 2 years (Table 3).

Less than one-half of the companies have an annual turnover of more than US$100,000.00. In absolute terms, the number of companies that stated the Southern African Development Community (SADC) as the source of imports was equal to the number that stated countries outside SADC as the sources of their imports. For companies that imported goods and services worth more than US$100,000.00, the proportion importing from SADC at 40 percent was smaller than the proportion than imported from outside SADC at 57.1 percent (Table 6). This is consistent with the well-known fact that Malawi sources most of its imports from outside SADC than from within SADC. On export destinations, the data show that more companies export to SADC than to countries outside it. This is not consistent with what is locally known, that Malawi exports more outside SADC than inside it.

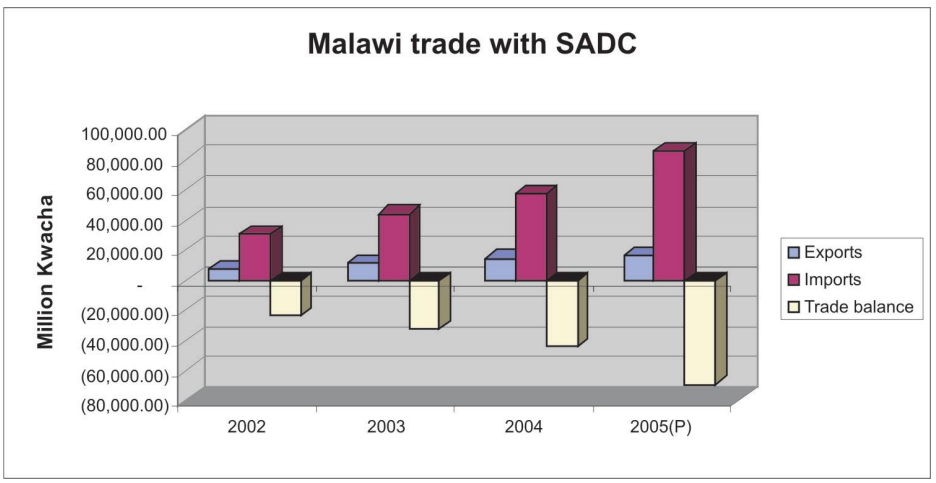
More companies cited Zambia as the first main export market than any other country. Zambia was seconded by South Africa as the first main export market. Mozambique and Zimbabwe were a distant third. Apart from trade liberalisation under the COMESA Free Trade Area, Zambia as an export destination enjoys the advantages of geographical proximity and historical and cultural ties with Malawi.

Zimbabwe took first place as the second main export market in terms of the percentage of businesses that export to that country. On the same basis, the next second main export market was Zambia. Both Malawi and Zimbabwe belong to the COMESA Free Trade Area.

Both countries also have a reciprocal bilateral trade agreement. South Africa took first place as the third main export market. It was cited by only 40 percent of the companies that responded. South Africa has a non-reciprocal bilateral trade arrangement with Malawi. (Table 7).

In terms of the share of companies that face competition from other countries, 58.3 percent indicated that they face strong competition from South African companies, and another 13.9 percent face moderate competition from the same. The majority of the companies do not face strong competition from countries other than South Africa. About one-quarter of the companies face moderate competition from companies in Botswana, Lesotho, Namibia and Swaziland (BLNS). Just over a third face moderate competition from other SADC countries. Most companies face either weak or no competition whatsoever from companies in the USA and the rest of the world. Figure 1 below shows a trend in growth of export and imports between Malawi and SADC.

Figure 1: Malawi Volume of Trade with SADC



3.2 Non-State Actors

Other civil society organisations account for nearly 37.5 percent of respondents, followed by industry associations with 25% (Table 9). 79.2 percent of all respondents have been in operation for more than 10 years (Table 10). Six of the respondents are members of the SADC National Committee, while fourteen out of twenty-four are members of regional umbrella organisations, this shows is an indication of strong links between organisations in the region (Table 11).

Sixteen out of twenty NSAs stated that they have been involved in the design of domestic policies in Malawi. But only six said that they have been involved in designing SADC policies. Seven out of twenty-four NSAs stated that regional integration will strongly strengthen the involvement of NSAs in policy design in general. Another six said that it will slightly strengthen the involvement of NSAs in general in policy design. A larger number of NSAs, 10, are confident that regional integration will strengthen their policy influence in Malawi (Table 12).

4 Perceived Impacts of Regional Integration within SADC

This part of the report analyses the perceptions of businesses and non-state actors regarding various aspects and impacts of regional integration. Wherever possible, it compares the perceptions of businesses with those of non-state actors.

4.1 Impacts of Regional Integration on Various Aspects

The responses of businesses and NSAs regarding possible impacts of deeper regional integration within SADC are similar in terms of where they agree or they do not agree strongly with the various statements. Furthermore, the extent to which they agree with certain statements is similar. The proportion of industry associations in NSAs that responded may explain this. Industry associations seem to have the same views as individual businesses (Table 20 a).

Most businesses believe that regional integration will benefit the economy in general and provide new export and investment opportunities. Regional integration is also expected to increase companie's efficiency so that they can compete successfully on a larger, more open market. These views are shared by NSAs. Improved efficiency of domestic companies will be necessary since both groups of respondents anticipate that competition on the domestic market is likely to grow. Although both groups of respondents expect overall positive impacts on the domestic economy, they differ on its impacts on the rate of unemployment and the costs of labour. Larger proportions of businesses (30 percent and 41.1 percent, respectively) expect the unemployment rate and the costs of labour to decline. But larger proportions of respondents among NSAs (45.8 percent and 50 percent, respectively) do not expect the unemployment rate or the costs of labour to decline. On the whole, they are of the view that regional integration will result in reduced prices of consumer goods, provide new export opportunities and lead to an influx of immigrants into Malawi, that will enhance the human rights situation in the country, and that it will reduce its political sovereignty (Table 19a & 19b).

More businesses expect positive impacts of regional integration on other companies and on the economy as a whole (77 percent and 64.5 percent, respectively) than on their own turnover (46.2 percent). The majority of both sets of respondents expect input and consumer prices to go down.

Overall, there was no indication that the type of NSA organisation determines the perception. The responses by type of organisation were scattered across the whole spectrum of NSAs.

The perceptions of respondents would not have differed if they had answered with respect to regional integration schemes other than SADC. Only 10.0 percent of businesses and 4.5 percent of NSAs stated that their answers would have differed a lot.

The rest either said that some of their answers would have differed or that they would hardly have been different or that they would not have been different at all or said that they did not know.

4.2 Impacts on Domestic Businesses

This section compares the perceptions of businesses and NSAs concerning the impacts of regional integration on domestic businesses. The responses of both companies and NSAs suggest that the labour market is likely to be affected. 48.7 percent of the companies that responded stated that retrenchment of employees is likely, against 28.6 percent of the NSAs. 46.2 percent of the companies said that employment of more workers is likely, against 60.0 percent of NSAs. But the majority of both companies and NSAs do not view access to cheaper foreign labour as a possibility (Table 20).

Companies and NSAs predict positive impacts on domestic production – 55.3 percent of companies against 61.9 percent of NSAs. But they differ significantly on the likelihood of businesses closing down production. 70.0 percent of NSAs expext businesses to close down. However, only 37.5 percent of the companies expect businesses to close down production in the country. 62.5 percent of them are looking forward to venturing into new business activities. 90.0 percent of the NSAs believe that companies will venture into new business activities (Table 20).

More than half of the businesses that responded expect more imports from SADC. But less than half expect more exports to SADC. Less than half also expect having access to cheaper inputs. Concerning NSAs, the majority (85.7 percent) believe that Malawian businesses will be importing more from SADC, but a minority (33.3 percent) is of the view that they will be exporting more to other SADC countries.

Furthermore, more than half of the companies that responded see a real opportunity for joint ventures between Malawian companies and companies from other parts of SADC. The proportion of NSAs that see this opportunity is far greater (Table 20).

4.2.1 Quantifying Impacts

Both businesses and NSAs are quite optimistic about the impact of regional integration on the economy. In some respects, businesses are more optimistic than NSAs. For example, businesses expect employment to increase by 20.6 percent, whereas NSAs expect employment to increase by 12.6 percent. Businesses also expect production to increase by 29.1 percent, against an increase of 22.4 percent , which NSAs expect; and they expect investment to increase by 19.6 percent, against an increase of 18.3 percent, which NSAs expect.

In other respects, businesses are less optimistic than NSAs. For example, they expect exports to SADC to increase by 14.7 percent, while NSAs expect them to increase by 22.9 percent. Furthermore, they expect imports from SADC to increase by 13.1 percent, against an increase of 27.6 percent expected by NSAs; and they expect input prices to increase by 13.5 percent, against an increase of 14.6 percent expected by NSAs (Table 13).

4.2.2 Expectation of Businesses

A disaggregation by sector, size of company and years in operation shows more divergent results. The manufacturing sector appears to be less optimistic. The six manufacturing firms that responded expect employment to increase by an average of 9.0 percent, production to rise by 17.2 percent, investment by 11.7 percent, exports by 16.0

percent, imports by 22.0 percent and import prices by 5.5 percent. The change in employment ranges from 1 to 25 percent, in production from 3 percent to 40 percent, in exports from 1 percent to 50 percent, and in imports from 10 percent to 50 percent (Table 14).

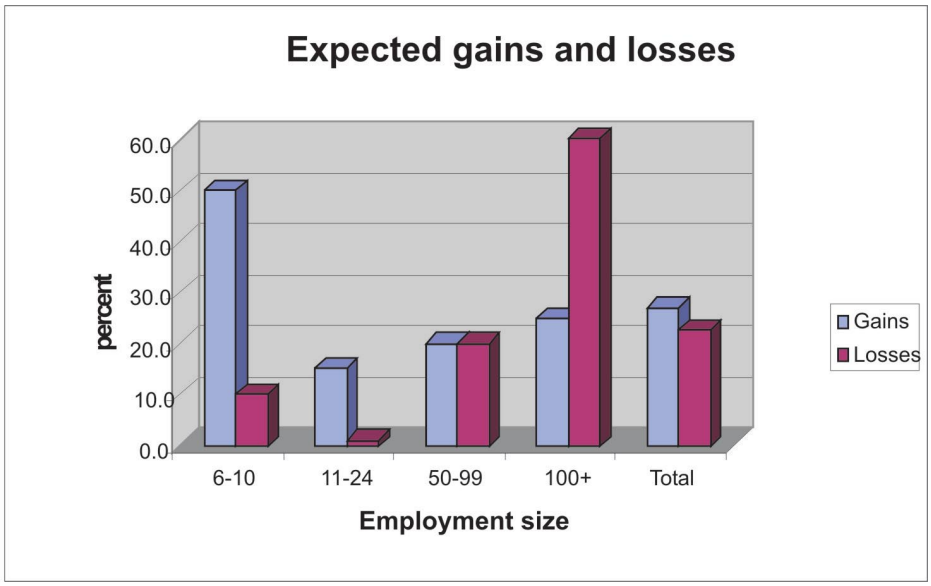
In contrast, the wholesale sector is more optimistic and expects quite high impacts on most of the indicators. But their expectations are quite different from the manufacturing sector and the standard deviations are also high. These are caused by substantially different expectations and the small number of respondents. All other sectors expect positive impacts as well.

4.2.3 Expected Gains and Losses

In addition to changes in various variables, businesses were also asked to quantify the gains and losses that their companies could benefit or suffer from regional integration. Most of the respondents did not answer this question. The data on gains and losses reported in this study are therefore based on very few responses. For this reason, they should be treated with caution. Overall, more gains than losses were reported. Four companies in the wholesale and retail trade sector expected losses. But these losses were offset by gains expected by three companies in the wholesale and retail trade sector and companies in the manufacturing and construction sectors (Table 15).

Figure 2, below, shows that the expected mean loss increases with the size of the companies in terms of the number of employees. In contrast, the mean gain is not correlated with the size of the companies (Table 16). But, once again, the sum of the gains exceeds the sum of the losses.

Figure 2: Expected Gains and Losses by Size of Firm



Probably due to errors in responding, when gains and losses are analysed by years of operation, the sum of losses exceeds the sum of gains. The losses seem to decrease with the age of the companies and so do the gains.(Table 17).

What can we cautiously expect from deeper regional integration for Malawian companies? Net gains. But, in anticipation of possible losses, businesses need to prepare in advance for increased competition and identify areas where they will need assistance to improve their performance. Apparently, the wholesale and retail trade sector would need assistance.

4.3 Rating of Trade Barriers

51.3 percent of the companies that responded said that they experienced barriers when exporting to or importing from SADC countries. 72.5 percent of these companies are in manufacturing and 50 percent are in wholesale and retail trade. Agriculture, construction and transport and communications are affected less, with all companies answering in the affirmative. In tourism there was no positive response. This sector neither sells its service across national borders nor import service. Hence, trade barriers are irrelevant.

All the trade barriers are relevant or very relevant to the businesses that responded and to almost all the NSAs. No trade barriers are rated as hardly or not relevant at all. For this reason, no trade barriers were rated out as the first, second or third most relevant, especially among businesses. Those that were mentioned most often by both businesses and NSAs were customs tariffs, import duties and taxes, exchange rate uncertainty, lack of information about foreign markets, corruption of officials and high transport costs.

Companies consider customs tariffs that are currently employed as the most relevant trade barrier, followed by the fact that import duties and taxes have to be paid in cash, and exchange rate uncertainty. Rules of origin, lack of transparency of rules and regulations abroad, time consuming customs procedures, corruption of officials, lack of export insurance and high transport costs as the most relevant trade barriers are mentioned by a small number of companies. Non-State Actors assume high transport costs as the most important trade barrier, seconded by customs tariffs that are currently employed. In third place are corruption of officials and lack of information about foreign markets (Table 22a).

Lack of information about foreign markets, high transport costs and import duties and taxes that are paid in cash top the list of the second most relevant trade barriers for the business sector. Civil society concurs with this ranking only with respect to import duties and taxes and lack of information about foreign markets. For civil society, exchange rate uncertainty also ranks as the second most important barrier. The list of the third most important barriers is partly a reflection of the previous lists. Exchange rate uncertainty, high transport costs and corruption of officials are mentioned most often by businesses, while high transport costs, time consuming customs procedures, corruption of officials and lack of information about foreign markets are mentioned most often by NSAs (Table 22b)

Some of the concerns, such as high customs tariffs and payment of import duties and taxes in cash, will decline with the implementation of the tariff reduction programme under the SADC Free Trade Agreement. Exchange rate uncertainty will go with the establishment of a common currency in the SADC. In order to improve information about foreign markets, SADC will need to step up its trade promotion

activities. And in order to reduce transport costs, SADC needs to assist landlocked countries like Malawi to establish alternative routes or to improve existing short, land routes to the sea, as well as port administration.

The problem of corruption of officials in other countries requires concerted efforts there to reduce it. While time-consuming customs procedures point to the need to expand capacity at the borders and to automate some of the procedures.

5 Perceived Business Climate in the Region and Beyond

According to responses of companies, the business climate in South Africa is quite favourable. 58.3 percent of respondents rated it as either very favourable or favourable.The domestic market is also seen as doing quite well, with the highest score under the category 'very favourable' and the second highest score under the category 'favourable', but it displays a lower overall rate of approval (54.7 percent) compared to South Africa. Asia received the second highest rating under the category 'very favourable'. Under the category 'favourable', the third highest rating went to BLNS, followed by other SADC countries, the rest of the world, the USA and the rest of Africa (Table 23).

Apart from the domestic market and South Africa, a disturbing large proportion of respondents do not know much about the rest of Africa and other regions of the world. The individual proportions involved range from 40.0 percent for other SADC countries excluding Malawi, South Africa and BLNS to 64.7 percent for the rest of the world (Table 23).

Analysis by industrial sector shows that most companies in manufacturing view the business climate in Malawi as less favourable or unsatisfactory, in South Africa as less satisfactory or do not know, in BLNS the same, in other SADC countries as favourable or very favourable, and in EU, USA, Asia and the rest of the world as less favourable, unsatisfactory or do not know. In contrast, most of the companies in wholesale and retail trade consider the business climate in Malawi, South Africa and BLNS as favourable or very favourable. In the rest of the regions, which they do not know much about, it is less favourable, unsatisfactory or do not know. This is similar to companies in transport and communications, except with respect to BLNS countries. Agriculture and construction are less complimentary with respect to all the regions and countries mentioned above.

Clearly, there is a need to close the information gap within the country about markets beyond the domestic market and traditional markets such as the South African one to enable Malawi to benefit from regional integration. The information deficit may influence the rating of the business climate. Hence, the results of the survey should be treated with caution.

6 Policy Debate about Regional Integration and the Way Forward

Section C of the survey evaluates the degree of policy debate and the involvement of the respondents in the debate on RI in the country. The majority of both businesses and NSAs confirmed that regional integration in general and within SADC and COMESA is a major topic under debate in Malawi (Table 24). But most of those who confirmed this phenomenon stated that there was not much public debate on regional integration in general and on SADC and COMESA. COMESA topped the list of businesses that said that integration is very much a topic, while SADC topped the list of businesses that said that regional integration is not very much a topic, in public debate. Among NSAs, SADC topped the list of those who said that regional integration is very much a topic in public debate, while integration in general topped the list of NSAs who said that it was not very much a topic in public debate. Since Malawi is not a member of the East African Community, none of the businesses and NSAs said that it was very much a topic in regional integration. The majority stated that it was not or that they did not know.

Workshops and seminars have been arranged to discuss regional integration in general and within SADC. But, comparatively few businesses from the sectors of agriculture, manufacturing and wholesale and retail trade have attended workshops and seminars on regional integration in general. The majority of businesses have not attended workshops and seminars mainly because no workshops were invited. As regards civil society, only a few NSAs have attended workshops and seminars.

The majority of NSAs have not attended any workshop or seminar again mainly because they were not invited (Tables 25, 26).

The majority of NSAs have held discussions in their organisations about regional integration (Table 27). Most of the discussions have been about regional integration in general and SADC. Concerning COMESA, the number holding discussions is the same as the number not holding them. But the majority of NSAs have neither organised workhops nor published press releases on regional integration in

general, on SADC, on COMESA or on EAC, with the exception of workshops on regional integration in general (Table 27).

Deeper SADC integration has strong support among the majority of companies in manufacturing and construction. It also has strong support among over one-fifth of the companies in wholesale and retail trade. The support that it has among the majority of the companies in wholesale and retail trade and the category other, as well as among half of the companies in agriculture is slight. The majority of companies in transport and communications do not support it (Table 28).

A comparison of support for regional integration between businesses and NSAs shows that whereas the majority of both groups favour regional integration in general, in SADC and in COMESA, there are slightly more businesses supporting it than NSAs and there are more NSAs that support it strongly than businesses (Table 29).

Although the majority of respondents support regional integration in varying degrees, they differ in terms of the extent to which they support different means of deepening the process of integration within SADC. The more drastic the integration measure, the less support it gets from respondents. The measures for deepening integration in SADC get more support from NSAs, which are not directly affected by them, than from businesses.

Tariff reduction within SADC gets the support of 75.7 percent and 100 percent of businesses and NSAs, respectively; while a customs union with a common external tariff and no tariffs between SADC member countries receives a lower rate of approval, 45.9 percent of businesses and 50.0 percent of NSAs. The removal of all trade restrictions within SADC also gets a lower rate of approval, 38.9 percent of businesses and 66.7 percent of NSAs. Among the industrial sectors, only agriculture rejects the reduction of tariffs and the removal of all trade restrictions within SADC, but it accepts the idea of a customs union (Table 30).

The free movement of capital is less well supported among businesses than the free movement of labour, which is, again, less well supported than the free movement of services within SADC. The degree of support for the free movement of capital, labour and services among NSAs is much higher, especially the free movement of capital and services (Table 33). There is more support for implementing the

same level of taxes among businesses than among NSAs, indicated by approval rates of 62.2 percent and 40.0 percent, respectively. A single currency and political union are also backed by businesses, but by lower percentages, 46.2 percent and 36.8 percent, respectively. NSAs need to be convinced of the desirability of a single currency. 50.0 percent said no to it and 15.0 percent did not know (Table 30). An overwhelming majority of NSAs are in favour of creating a regional umbrella organisation of non-state actors, which is perhaps an indication of lack of an effective regional mechanism for coordinating their activities at present.

The sectors that support regional integration in SADC; namely, manufacturing, construction and wholesale and retail trade, also support the reduction of tariffs, the creation of a customs union, removal of all trade restrictions, and free movement of capital, labour and services. Those that do not support regional integration do not support these initiatives.

7 Conclusions

There is support for regional integration in Malawi, but it is not overwhelming. There is strong support for regional integration in general and within SADC among the majority of NSAs, but not among the majority of businesses. The degree of support by both groups is greatest for the reduction of tariffs within SADC (or a free trade area) and for a common competition and trade policy. Generally, the degree of support declines as integration deepens. A customs union gets less support than a free trade area, a common market receives less support than a customs union, and a political union with parliament and executive receives the least amount of support. There is a need for the SADC secretariat and national policy makers to be more pro-active and disseminate information about the next steps of regional integration beyond a free trade area. This information should target all stakeholders, the business community, civil society and the population at large.

On the contrary, the business sector expects to gain from deeper regional integration. However, the wholesale and retail trade sector will need to be assisted. More than one half of the companies that responded expected losses. Likewise, they expect negative impacts on import prices, although they expect employment, production and investment to increase significantly. The perceptions of the wholesale and retail trade sector deserve a separate in depth study to analyse the challenges the sector might face and possible support to prepare it for further trade liberalisation.

Regional integration is a topic in policy debate in Malawi, but there is not much public debate on it. Few businesses and NSAs attend workshops on regional integration mainly because they are not invited. As a result, businesses lack information about market opportunities in other countries in SADC, COMESA, and in other parts of Africa and regions of the world. EAC is also less well known in Malawi. Specific information about markets in other countries is required in Malawi. This information will help businesses to identify investment and trade opportunities and subsequently strengthen economic links between SADC member states and between SADC and other regional groupings.

In addition, existing barriers to trade need to be tackled more seriously. These barriers include customs tariffs, import duties and taxes, exchange rate uncertainty, corruption of officials, high transport costs, and time-consuming customs procedures at borders.

Responses in this study do not show an overwhelming support for RI, so support for regional integration in Malawi will need to be built and strengthened.

Appendix

Tables

Table 1: Distribution of Businesses by Main Activity

Sector	Number	Percent
Agriculture	3.0	7.0
Manufacturing	11.0	25.6
Construction	3.0	7.0
Wholesale	18.0	41.9
Transport and communication	4.0	9.3
Tourism	1.0	2.3
Others	3.0	7.0
Total	**43.0**	**100.0**

Table 2: Distribution of Businesses by Employment Size

No of employees	Number	Percent
1-5	2.0	4.5
6-10	2.0	4.5
11-24	13.0	29.5
25-49	8.0	18.2
50-99	4.0	9.1
100+	15.0	34.1
Total	**44.0**	**100.0**

Table 3: Distribution of Businesses by Period of Operation

Years in operation	Number	Percent
Less than two years	2.0	4.5
2-5 years	3.0	6.8
6-10 years	7.0	15.9
More than 10 years	32.0	72.7
Total	**44.0**	**100.0**

Table 4: Percentage of Responses by Industry and Number of Employees

Sector	Employment					
Size	1-5	6-10	11-24	25-49	50-99	100+
Agriculture	0.0	0.0	0.0	13.0	25.0	7.0
Manufacturing	0.0	0.0	0.0	25.0	25.0	53.0
Construction	0.0	0.0	0.0	0.0	25.0	13.0
Wholesale	100.0	100.0	67.0	38.0	25.0	13.0
Transport and communication	0.0	0.0	17.0	13.0	0.0	7.0
Tourism	0.0	0.0	0.0	13.0	0.0	0.0
Others	0.0	0.0	17.0	0.0	0.0	7.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 5: Percentage of Responses by Industry and Years in Operation

Sector	Number of years			
	<2 years	2-5 years	6-10 years	>10 years
Agriculture	0.0	33.0	0.0	6.0
Manufacturing	100.0	33.0	14.0	23.0
Construction	0.0	0.0	14.0	6.0
Wholesale	0.0	33.0	29.0	48.0
Transport and communication	0.0	0.0	14.0	10.0
Tourism	0.0	0.0	0.0	3.0
Others	0.0	0.0	29.0	3.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Table 6: Percent of Distribution of Businesses by Turnover and Value of Imports and Exports of Companies

	Value in Malawi Kwacha				
	0 to 19,000 24,000	20,000 to 50,000	25,000 to 100,000	50,001 to	More than 100,000
Turnover	38.0	10.5	18.4	23.7	47.4
Imports from within SADC	20.0	25.0	15.0	20.0	40.0
Imports from outside SADC	14.0	21.4	7.1	14.3	57.1
Exports to other SADC Countries	10.0	40.0	10.0	20.0	30.0
Exports to countries outside SADC	7.0	100.0	0.0	0.0	0.0

Table 7: (a) Principal Markets Ranked by Share of Exports and Imports

Country	Percent of survey businesses in 2005	Share of total exports	Share of total imports 2005
South Africa	21.4	18.9	34.5
Mozambique	14.3	3.5	13.5
Zimbabwe	14.3	2.3	8.2
Zambia	42.9	1.5	5.7
Swaziland	7.1	1.4	1.7

Table 7: (b) Trade between Malawi and SADC 2002-2005

	2002	2003	2004	2005 (P)	% Change
Exports	7,365.14	11,771.51	14,461.74	16,516.21	14.21
Imports Trade	30,766.44	44,066.73	58,014.28	85,712.08	47.74
Balance	(23,401.30)	(32,295.22)	(43,552.54)	(69,195.86)	58.88

Table 8: Share of Companies that Face Competition from other Countries

Country	Yes	Yes Strong	Yes Weak Moderate	No	Does Not Apply
South Africa Botswana, Lesotho, Namibia,	58.3	13.9	2.8	11.1	13.9
Swaziland	9.1	24.2	15.2	36.4	15.2
Other SADC countries	18.8	34.4	6.3	21.9	18.8
Rest of Africa	8.6	17.1	25.7	25.7	22.9
European Union	6.1	24.2	12.1	30.3	27.3
Asia	19.4	8.3	13.9	33.3	25.0
USA	6.1	6.1	12.1	33.3	42.4
Rest of World	9.1	6.1	18.2	27.3	39.4
Unknown	12.5	0.0	8.3	33.3	45.8

Table 9: Distribution of Non-State Actors by Type of Organisation

Type of Organisation	Number	Percent
Organised labour	2.0	8.3
Industry association	6.0	25.0
Other professional association	3.0	12.5
Other civil society organisation	9.0	37.5
Others, please state	4.0	16.7
Total	24.0	100.0

Table 10: Distribution of Non-State Actors by Period of Operation

Period of Operation	Number	Percent
2-5 years	3.0	12.5
6-10 years	2.0	8.3
More than 10 years	19.0	79.2
Total	24.0	100.0

Table 11: Membership to SADC National Committee and Regional Umbrella Organisations

Membership	SADC		Regional Umbrella Organisation	
	Number	Percent	Number	Percent
Yes	6.0	25.0	14.0	58.3
No	18.0	75.0	10.0	41.7
Total	24.0	100.0	24.0	100.0

Table 12: Impact of RI on NSA's Involvement in Policy Design

Level of Impact	In General		Own Organisation	
	Number	Percent	Number	Percent
Strengthen strongly	7.0	29.2	5.0	20.8
Strengthen slightly	6.0	25.0	10.0	41.7
Weaken slightly	4.0	16.7	2.0	8.3
Weaken strongly	3.0	12.5	1.0	4.2
No changes expected	3.0	12.5	4.0	16.7
Don't know	1.0	4.2	1.0	4.2
Does not apply	0.0	0.0	1.0	4.2
Total	24.0	100.0	24.0	100.0

Table 13: Comparison of Means/Proportions between Business and NSA Response in Terms of Expected Changes in Economic Characteristics

Expected change	Businesses	NSA
Change in employment	20.6	12.6
Change in production	29.1	22.4
Change in investment	19.6	18.3
Change in exports to SADC	14.7	22.9
Change in import from SADC	13.1	27.6
Change in input prices	13.5	14.6

Table 14: Comparison of Average Expected Changes in economic Characteristics by type of Industry

Type of Industry	Average expected changes in economic characteristics					
	Employ-ment	Produc-tion	Invest-ment	Export SADC Countries	Import SADC Countries	Import prices
Agriculture	25.0	31.7	30.0	5.0	5.0	0.0
Manufacturing	9.0	17.2	11.7	16.0	22.0	5.5
Construction	20.0	10.0	10.0	15.0	10.0	0.0
Wholesale	21.8	26.7	18.8	15.0	8.0	11.7
Transport and communication	45.0	66.7	50.0	0.0	0.0	0.0
Tourism	5.0	0.0	0.0	0.0	0.0	0.0
Others	10.0	0.0	0.0	0.0	5.0	35.0
Total	20.6	29.1	19.6	14.7	13.1	13.5

Table 15: Expected Losses and Gains from Integration by Industry

Sector	Annual gains from deeper RI in SADC	Annual losses due to deeper RI in SADC
Agriculture	0.0	0.0
Fisheries	0.0	0.0
Manufacturing	30.0	0.0
Construction	20.0	0.0
Wholesale Transport and	28.3	22.8
Communication	0.0	0.0
Tourism	0.0	0.0
Others	0.0	0.0
Total	27.0	22.8

Table 16: Expected Gains and Losses from Regional Integration by Size of Employment

Employment size	Annual gains from deeper RI in SADC	Annual losses due to deeper RI in SADC
6-10	50.0	10.0
11-24	15.0	1.0
50-99	20.0	20.0
100+	25.0	60.0
Total	27.0	22.8

Table 17: Expected Gains and Losses from Regional Integration by Years in Operation

Years in operation	Annual gains from deeper RI in SADC	Annual losses due to deeper RI in SADC
2-5 years	50.0	10.0
6-10 years	30.0	0.0
More than 10 years	18.3	27.0
Total	27.0	22.8

Table 18: Share of Companies that Experience Trade Barriers by Sector

Type of industry	Trade barriers experiences within SADC			
	Yes	No	Does not apply/ not trade in SADC	Total
Agriculture	33.3	0.0	66.7	100
Manufacturing	72.7	18.2	9.1	100
Construction	50.0	0.0	50.0	100
Wholesale	50.0	22.2	27.8	100
Transport and communication	33.3	33.3	33.3	100
Tourism	0.0	100.0	0.0	100
Others	0.0	100.0	0.0	100
Total	**51.3**	**23.1**	**25.6**	**100**

Table 19: (a) Perceptions of Regional Integration on Domestic Businesses– Responses by Companies

Expected change	Perceptions of Businesses			
	Agree strongly	Agree	Disagree	Don't know
Increase competition on the domestic market	37.5	42.5	10.0	7.5
Reduce prices of inputs	23.8	33.3	23.8	11.9
Reduce prices of consumer goods	19.0	50.0	16.7	9.5
Result in increased efficiency of own company in order to stay competitive	22.0	61.0	7.3	9.8
Have positive impacts on my company's turnover	17.9	46.2	17.9	15.4
Have positive impacts on other domestic producers	2.9	77.1	2.9	12.3
Benefit the economy in general	18.2	54.5	0.0	27.3
Provide new exports opportunities	21.6.	59.5	5.4	13.5
Provide new investment opportunities	18.4	68.4	5.3	7.9
Reduce unemployment rate	22.5	30.0	35.0	10.0
Lower costs of labour	5.1	41.0	41.0	10.3
Result in influx of immigrants	8.8	47.1	23.5	20.6
Enhance human rights situation in my country	0.0	45.5	24.2	27.3
Reduce political sovereignty of my country	0.0	30.3	30.3	36.4

Table 19: (b) Perceptions of Regional Integration on Domestic Businesses – Responses by NSAs

Expected change	Perceptions of Businesses			
	Agree strongly	Agree	Disagree	Don't know
Increase competition on the domestic market	29.2	54.2	12.5	0
Reduce prices of inputs	12.5	37.5	33.3	4.2
Reduce prices of consumer goods	8.3	62.5	16.7	4.2
Result in increased efficiency of own company in order to stay competitive	29.2	37.5	29.2	4.2
Have positive impacts on my company's turnover	16.7	20.8	45.8	4.2
Have positive impacts on other domestic producers	-	-	-	-
Benefit the economy in general	12.3	33.3	4.2	8.3
Provide new exports opportunities	29.2	62.5	4.2	0
Provide new investment opportunities	16.7	58.3	20.8	0
Reduce unemployment rate	4.2	29.2	45.8	4.2
Lower costs of labour	4.2	33.3	50	4.2
Result in influx of immigrants	29.2	37.5	45.8	4.2
Enhance human rights situation in my country	8.3	29.2	25	25.1
Reduce political sovereignty of my country	4.2	45.8	33.3	0

Table 20: (a) Impact of Regional Integration on Domestic Businesses-Responses by Companies

Impacts	Level of Impact			
	Likely	Unlikely	Don't Know	Does Not Apply
Retrenchment of workers	48.7	20.5	5.1	25.6
Employment of more workers	46.2	28.2	10.3	15.4
Increase domestic production	55.3	18.2	7.9	18.4
Investing abroad	10	50	12.5	27.5
Closing down production in the country	37.5	27.5	12.5	22.5
Seeking joint ventures with companies in other SADC countries	51.3	20.5	10.3	17.9
Venturing into new business activities	62.5	15	5	17.5
Importing more from other SADC countries	54.1	13.5	8.1	24.3
Exporting more to other SADC countries	40	20	5.7	34.3
Having access to cheaper inputs	44.7	21.1	7.9	26.3
Having access to cheaper foreign labour	27.8	38.9	11.1	22.2

Table 20: (b) Impact of Regional Integration on Domestic Businesses – Responses by NSAs

Impacts	Level of Impact			
	Likely	Unlikely	Don't Know	Does Not Apply
Retrenchment of workers	28.6	57.1	14.3	25.6
Employment of more workers	60.0	30.0	10.0	15.4
Increasing domestic production	61.9	28.6	9.5	18.4
Investment abroad	45.0	55.0	0.0	27.5
Closing down production in the country	70.0	25.0	5.0	22.5
Seeking joint ventures with companies in other SADC countries	90.0	10.0	0.0	17.9
Venturing into new business activities	95.5	4.5	0.0	17.5
Importing more from other SADC countries	85.7	14.3	0.0	24.3
Exporting more to other SADC countries	33.3	57.1	9.5	34.3
Having access to cheaper inputs	52.4	33.3	14.3	26.3
Having access to cheaper foreign labour	5.9	94.1	0.0	22.2

Table 21: (a) Relevance of Trade Barriers-Responses by Businesses

Trade Barriers	Level of relevance				
	Very Relevant	Relevant	Hardly relevant	Not at all	Does not apply
Customs tariffs currently employed	34.8	47.8	8.7	0	8.7
Imports duties and taxes paid in cash	47.6	42.9	4.8	0	4.8
Sanitary and phytosanitary regulations	14.3	38.1	23.8	4.8	19
Rules of origin	28.6	61.9	0	9.5	0
Export / import licenses and permits required	45	35	10	5	5
Lack of transparency of rules and regulations abroad	23.5	41.2	23.5	5.9	5.9
Time consuming customs procedures	62.5	29.2	8.3	0	0
Substantial paper works bureaucracy	16.7	50	11.1	16.7	5.6
Corruption of officials	30.4	30.4	4.3	8.7	21.7
Lack of information about foreign markets	31.6	36.8	10.5	15.8	5.3
Visa requirements for traveling abroad	42.1	26.3	15.8	15.8	0
Exchange rate uncertainty	56.5	30.4	8.7	4.3	0
Risk of non-payment of customers abroad	20	60	10	10	0
Export insurance available to cover payment risks of exports	20	45	10	25	0
Poor regional communication infrastructure	20	50	15	15	0
High regional communication costs	30	65	5	0	0
Weak regional transport infrastructure	23.8	61.9	9.5	4.8	0
High transport costs	71.4	23.8	4.8	0	0
Weak law enforcement in export destination	22.2	38.9	16.7	5.6	16.7
Others	20	0	0	20	60

Table 21: (b) Relevance of Trade Barriers- Responses by NSAs

Trade Barriers	Level of relevance				
	Very Relevant	Relevant	Hardly relevant	Not at all	Does not apply
Customs tariffs currently employed	54.2	25.0	16.7	0.0	8.7
Imports duties and taxes paid in cash	37.5	42.9	4.2	8.3	12.5
Sanitary and phytosanitary regulations	16.7	33.3	16.7	8.3	12.5
Rules of origin	33.3	37.5	0.0	4.2	20.8
Export / import licenses and permits required	54.2	33.3	8.3	0.0	0.0
Lack of transparency of rules and regulations abroad	25.0	37.5	25.0	0.0	8.3
Time consuming customs procedures	54.5	29.2	8.3	8.3	0.0
Substantial paper works bureaucracy	50.0	33.3	8.3	0.0	0.0
Corruption of officials	50.0	41.7	0.0	0.0	4.2
Lack of information about foreign markets	41.7	45.0	4.2	4.2	0.0
Visa requirements for traveling abroad	29.2	41.7	20.8	4.2	0.0
Exchange rate uncertainty	58.3	37.5	0.0	0.0	0.0
Risk of non-payment of customers abroad	16.7	41.7	25.0	0.0	12.5
No export insurance available to cover payment risks of exports	12.5	29.2	20.8	0.0	29.2
Poor regional communication infrastructure	41.7	41.7	8.3	4.2	0.0
High regional communication costs	45.8	41.7	0.0	8.3	0.0
Weak regional transport infrastructure	50.0	37.5	0.0	0.0	4.2
High transport costs	79.2	16.7	0.0	0.0	0.0
Weak law enforcement in export destination	12.5	37.5	8.3	8.3	29.2
Others	12.5	0.0	4.2	0.0	16.7

Table 22: (a) Most Relevant Trade Barrier, Comparison of Responses by Business and NSAs

Businesses		NSA Responses	
Most Relevant Trade Barriers	Percent	Most Relevant Trade Barriers	Percent
Customs tariffs	28.6	High transport costs	26.1
Import duties and taxes	14.3	Customs tariffs currently employed	17.4
Exchange rate uncertainty	14.3	Lack of information about foreign markets	17.4
Rules of origin	7.1	Corruption of officials	13.0
Lack of transparency of rules and regulations abroad	7.1	Exchange rate uncertainty	8.7
Time consuming customs procedures	7.1	Sanitary and phyto-sanitary regulations	4.3
Corruption of officials	7.1	Rules of origin	4.3
No export insurance to cover payment risks of export	7.1	Export/import licenses and permits required	4.3
High transport costs	7.1	No export insurance to cover payment risks of export	0.0

Table 22: (b) Second Most Relevant Trade Barrier, Comparison of Responses by Business and NSAs

Businesses		NSA Responses	
Second most Relevant Trade Barriers	Percent	Second most Relevant Trade Barriers	Percent
Lack of information about foreign markets	21.4	Import duties and taxes have to be paid in cash	17.4
Import duties and taxes	14.3	Exchange rate uncertainty	17.4
High transport costs	14.3	Lack of information about foreign markets	13.0
Customs tariffs	7.1	Customs tariffs currently employed	8.7
Lack of transparency of rules and regulations abroad	7.1	Poor regional communication infrastructure	8.7
Time consuming customs procedures	7.1	Weak law enforcement in export destination	8.7
Substantial paper works bureaucracy	7.1	Export/import licenses and permits required	4.3
Corruption of officials	7.1	Lack of transparency of rules and regulations abroad	4.3
Exchange rate uncertainty	7.1	Corruption of officials	4.3
Weak regional transport infrastructure	7.1	No export insurance available to cover payment risks	4.3
Poor regional communication infrastructure	0.0	High regional communication costs	4.3
Export/import licenses and permits required	0.0	High transport costs	4.3

Table 22: (c) Third Most Relevant Trade Barrier, Comparison of Responses by Business and NSAs

Businesses		NSA Responses	
Third most Relevant Trade Barriers	Percent	Third most Relevant Trade Barriers	Percent
Exchange rate uncertainty	28.0	High transport costs	22.7
Corruption of officials	21.4	Sanitary and phyto-sanitary regulations	13.6
High transport costs	21.4	Time consuming customs procedures	9.1
Customs tariffs	7.1	Corruption of officials	9.1
Time consuming customs procedures	7.1	Lack of information about foreign markets	9.1
Lack of information about foreign markets	7.1	Weak regional transport infrastructure	9.1
Risk of non-payment of customers abroad	7.1	Import duties and taxes have to be paid in cash	4.5
Sanitary and phyto-sanitary regulations	0.0	Export/import licenses and permits required	4.5
Weak regional transport infrastructure	0.0	Lack of transparency of rules and regulations abroad	4.5
Lack of transparency of rules and regulations abroad	0.0	Visa requirements for travelling abroad	4.5
Visa requirements for travelling abroad	0.0	Risk of non-payment of customers abroad	4.5
Others	0.0	Others	4.5

Table 23: Rating on Business Climate in Various Countries and Regions and Sector

Market/Sector	Business Climate				
	Very favourable	Favourable	Less Favourable	Unsatisfactory	Don't know
Domestic market Manufacturing	10	20	40	30	0
Wholesale/retail	23.5	35.3	11.8	29.4	0
All businesses South Africa	21.4	33.3	21.4	19	4.8
Manufacturing	0	44.5	33.3	0	22.2
Wholesale/retail	20	46.7	13.3	0.7	13.3
All businesses BLNS	11.1	47.2	22.2	2.8	16.7
Manufacturing	0	33.3	22.2	0	44.5
Wholesale/retail	0	42.9	21.4	14.3	21.4
All businesses Other SADC	0	25.7	20	11.4	42.9
Manufacturing	11.1	44.5	0	22.2	22.2
Wholesale/retail	0	14.3	50	0	35.7
All businesses Rest of Africa	2.9	22.9	22.9	11.4	40
Manufacturing	11.1	33.3	11.1	11.1	33.3
Wholesale/retail	7.1	7.1	28.6	14.3	42.9
All businesses EU	5.7	14.3	11.4	11.4	45.7
Manufacturing	11.1	33.3	11.1	0	44.5
Wholesale/retail	14.3	7.1	21.4	7.1	50
All businesses USA	8.6	14.3	11.4	11.4	54.3
Manufacturing	22.2	22.2	11	0	44.5
Wholesale/retail	6.7	20	20	0	53.3
All businesses Asia	8.3	16.7	11.1	8.3	55.6
Manufacturing	33.3	11.1	11.1	0	44.5
Wholesale/retail	15.4	15.4	15.4	7.7	46.1
All businesses Rest of World	17.6	8.8	11.8	11.8	50
Manufacturing	0	33.3	11.1	0	55.6
Wholesale/retail	0	23.1	7.7	7.7	61.5
All businesses	0	17.6	5	11.8	64.7

Table 24: Public Debate on Regional Integration, Responses by Businesses and NSAs

	Business Response				NSA Response			
Type of Public Debate Integration	Yes, very much	Yes, but not very much	No	Don't know	Yes, very much	Yes, but not very	No	Don't know
In general	15.6	34.4	25	25	22.7	63.6	13.6	0
SADC integration	26.7	36.7	20	16.7	33.3	57.1	9.5	0
Comesa integration	39.3	28.6	14.3	17.9	20	60	20	0
EAC integration	0	31	41.4	27.6	0	26.3	63.2	10.5

Table 25: Attendance at Workshops in Regional Integration in General by Sector

		Level of RI Workshops Participation			
Sector	Yes, regularly	Yes, sometimes	No, because no workshop offered	No, but workshops offered	Does not apply
Agriculture	0	50	50	0	0
Manufacturing	0	30	70	0	0
Construction	0	0	100	0	0
Wholesale/retail	0	21.4	71.4	7.2	0
Transport and communications	0	0	100	0	0
Tourism	0	0	100	0	0
Others	0	0	100	0	0

Table 26: Attendance at Workshops and Seminars by Business People and NSAs, in Percent

	Business Responses				
Type of Workshop	Yes, regulary	Yes, sometimes	No, because no workshops were offered	No but workshops were offered	Does not apply
In general	0.0	19.4	77.8	0.0	2.8
SADC integration	0.0	8.8	85.3	2.9	2.9
Comesa integration	2.9	11.8	73.5	2.9	8.8
EAC integration	3.1	3.1	65.6	15.6	12.5
	NSA Responses				
Type of Workshop	Yes, regulary	Yes, sometimes	No, because workshops were offered	No but workshops were offered	Does not apply
In general	28.6	52.4	14.3	0.0	4.8
SADC integration	15.5	50.0	20.0	10.0	5.0
Comesa integration	21.1	31.6	31.6	10.5	5.3
EAC integration	0.0	0.0	67.7	11.1	22.2

Table 27: Various Activities of NSAs Concerning Regional Integration Type of Discussion

	Discussion in Your Organisation				Organisation of Workshops			Publication of Press Release		
Type of discussion	Yes, regulary	Yes, sometimes	No	Don't know	Yes, regulary	Yes, sometimes	No	Yes, regulary	Yes, sometimes	No
In tegra-tion in general	36.4	36.4	22.7	4.5	4.5	40.9	45.5	0	36.4	54.5
SADC integration	20	45	35	0	10	20	65	0	35	55
Comesa integration	10	40	50	0	5	5	85	0	15.8	89.5
EAC integration	0	0	95	5	0	0	94.7	0	0	89.5

Table 28: Support for Deeper SADC Integration by Sector

Sector	Support for Deeper SADC Integration				
	Yes, strongly	Yes, slightly	No	Don't know	Total
Agriculture	0	50	0	50	100
Manufacturing	80	10	10	0	100
Construction	66.7	0	0	33.3	100
Wholesale/retail	23.1	61.5	0	15.4	100
Transport and communications	0	33.3	66.7	0	100
Tourism	-	-	-	-	
Others	0	66.7	0	33.3	100

Table 29: Support in Favour of Regional Integration – Comparison of Businesses and NSAs

Type of Integration	Business Responses				NSA Responses			
	Yes, strongly	Yes, slightly	No	Don't know	Yes, strongly	Yes, slightly	No	Don't know
In general	33.3	47.2	2.8	16.7	59.1	40.9	0	0
SADC integra-tion	37.1	40	8.6	14.3	55	40	0	5
Comesa integra-tion	23.5	38.2	20.6	17.6	47.4	36.8	10.5	5.3
EAC integra-tion	22.6	32.3	19.4	25.8	16.7	38.9	27.8	16.7

Table 30: Intervention of Regional Integration – A Comparison between Businesses and NSA Responses

Type of intervention	Businesses			NSAs		
	Yes	No	Don't know	Yes	No	Don't know
Reduce tariffs within SADC	75.7	13.5	10.8	100	0	0
Remove tariffs within SADC, establish Common External Tariffs	45.9	40.5	13.5	50	30	20
Remove all trade restrictions within SADC	38.9	50	11.1	66.7	28.6	4.8
Remove restrictions on the free movement of capital within SADC	40.5	51.4	8.1	70	30	0
Remove restrictions on the free movement of labour within SADC	44.7	39.5	15.8	55	45	0
Remove restrictions on the free movement of services within SADC	50	39.5	10.5	84.2	10.5	5.3
Implement same level of taxes within SADC	62.2	24.3	13.5	40	50	10
Design competition and trade policies for SADC as a whole	66.7	23.1	10.3	70	15	15
Create single currency within SADC	46.2	41	12.8	35	50	15
Create political union with parliament and executive	36.8	42.1	21.1	57.9	21.1	21.1
Create regional umbrella organization of Non-State Actors	0	0	0	86.7	6.7	6.7

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