NO TIME TO WASTE

Policy Priorities
for Malawi's Recovery

UNITED NATIONS
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Cover image:
"In My Thoughts" by Andrew Missi

Cover and interior design:
Piotr Ruczynski, London, United Kingdom

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Preface

As the people of Malawi turn the page on a peaceful election in September 2025, they are forced to contend with a daunting situation. The country faces its most severe and prolonged economic crisis since independence, marked by unsustainable debt dynamics, high inflation, acute foreign-exchange shortages, and widespread food insecurity. Intensifying climate vulnerability, declining development assistance, and growing public demand for inclusive and accountable governance compound these challenges, underscoring the urgency of reform.

Armed with a strong electoral mandate and an ambitious policy agenda, Malawi's new Government led by His Excellency President Arthur Peter Mutharika has a unique opportunity to rebuild trust and deliver tangible progress. Meeting the moment will require bold decisions, collaborative leadership and sustained commitment both from the government and its development partners.

To support the government's efforts, the African Development Bank, the United Nations, and the World Bank Group have come together to produce this set of notes identifying the 22 most important policy challenges and showcasing critical reforms. Entitled "No Time to Waste: Policy Priorities for Malawi's Recovery", the analysis offers practical, evidence-based recommendations designed to assist the new administration in stabilising the economy and laying the foundation for sustainable and inclusive growth.

The analysis identifies the root causes of Malawi's economic challenges and proposes realistic short- and medium-term reform options. Policy priorities are organised around four core objectives: restoring macroeconomic stability; enabling a dynamic, job-creating private sector; building human capital and resilience; and strengthening critical infrastructure for growth.

To broaden and sustain support for Malawi's reform agenda, we jointly propose the development of a broader "Compact to Secure Malawi's Future"—a framework for building trust, legitimacy, and shared responsibility among government, business, labour, and civil society. This framework will help align and focus the resources of the development community on the most pressing challenges facing Malawi.

We hope that these notes contribute to the government's efforts to develop and implement a comprehensive reform agenda over the next five years that can restore macroeconomic stability, reduce poverty, and foster inclusive growth.

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Key Messages

1 **Malawi has no time to waste.** The country is in the grip of its most severe economic crisis since independence. Inflation exceeds 30 percent; average incomes have been declining; debt dynamics are unsustainable; and fiscal and trade deficits, foreign-exchange (forex) shortages, a weakened private sector, and rising hunger and unemployment are deepening national fragility. The Government has identified the "4Fs and M"—fuel, fertiliser, forex, food, and essential medicines—as urgent priorities with immediate and wide-ranging implications for public welfare. Malawians have given this Government a clear mandate to restore stability. Immediate policy action will be critical to address macroeconomic imbalances, restore private-sector confidence, and shield vulnerable communities from further hardship.

2 **Important decisions need to be made.** His Excellency President Mutharika stated in his inaugural address that Malawi faces a "manmade crisis" and that "any problem created by humans can be solved by humans." With sound policies and a strong focus on implementation, this administration can improve the lives of all Malawians by stabilising and transforming the economy. This requires addressing corruption, which continues to erode public trust and undermine the economy. It also demands strategic decision-making to prepare Malawi to withstand future shocks and accelerate progress toward the Sustainable Development Goals. Identifying targeted and sustainable financing strategies for social sectors, which have been heavily reliant on development partner resources, will also be important. These decisions require careful analysis, broad coordination, clear communication, and the management of difficult but necessary trade-offs.

3 **To ensure that reform momentum is sustained over the next five years, the government should anchor its agenda within a broader Compact to secure Malawi's future.** This Compact would centre on accountability and delivery of the government's macroeconomic and structural reforms, with clear timelines and performance indicators for implementation, while also providing clear communication and consistent transparency to the public. The Compact would foster trust, legitimacy, and shared responsibility among the government, the private sector, labour, civil society, and the country's development partners. It would also set a clear tone and shared understanding of the need to undertake difficult decisions, explaining to Malawians why these trade-offs are necessary to deliver a better future, and how they will be supported during this period of adjustment.

4 **This set of notes was prepared by the African Development Bank, the United Nations, and the World Bank Group to help the new administration navigate difficult policy decisions in a challenging environment.** Each of the 22 notes provides a concise analysis of a critical policy area and provides recommendations for addressing its most urgent challenges. The notes are organised around four overarching objectives: (i) restoring macroeconomic stability, (ii) enabling private-sector growth, (iii) building human capital and resilience, and (iv) strengthening infrastructure. Policy recommendations are organised into short-term actions that can be implemented within three months and medium-term reforms that can be implemented over the next 12 to 18 months.

Overview

I. Malawi's Most Severe Economic Crisis in Decades Requires Urgent Actions

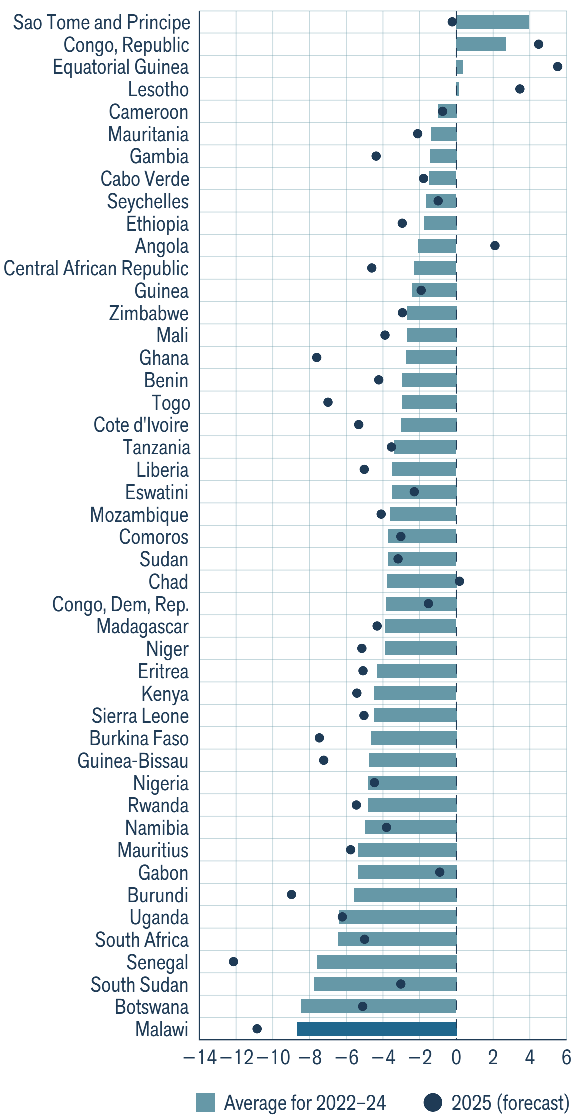
Malawi is experiencing its most severe economic crisis since the advent of multi-party democracy in 1994. Per capita GDP has declined in four of the past five years, signalling a deep and prolonged contraction. Headline inflation remains persistently high at around 30 percent, with a sharp increase in food prices disproportionately affecting the poor. Forex reserves have fallen to less than two weeks of import coverage, while the gap between the official and parallel exchange rates has reached 150 percent.

Public spending and debt pressures have become unsustainable. Procyclical fiscal policy has exacerbated economic volatility. Public debt has reached unsustainable levels, with external debt under restructuring since 2022. Interest payments now consume over half of domestic revenue, crowding out essential services and development spending. The IMF-supported reform programme terminated automatically in May 2025 without a single successful review, leaving the macroeconomic outlook highly uncertain. Malawi's fiscal deficit is among the highest in Sub-Saharan Africa, driven by rising recurrent spending, weak revenue performance, and escalating debt service (Figure 1), creating a vicious cycle in which high-cost borrowing increases debt service, reducing investment and growth, which further weakens revenue collection.

Malawi is now facing its fourth balance-of-payments and forex crisis in three decades. Growth averaged 6.1 percent in non-crisis periods and just 1.6 percent in crisis periods. A persistent trade deficit, a narrow export base, and misaligned exchange-rate policies have undermined external stability and increased the cost of doing business. Attempts to maintain an overvalued fixed

FIGURE 1 The fiscal deficit has been among the highest in the region in recent years

Government fiscal balance (% of GDP) for all Sub-Saharan African countries, adjusted for calendar year



Source: World Bank Macro Poverty Outlook.

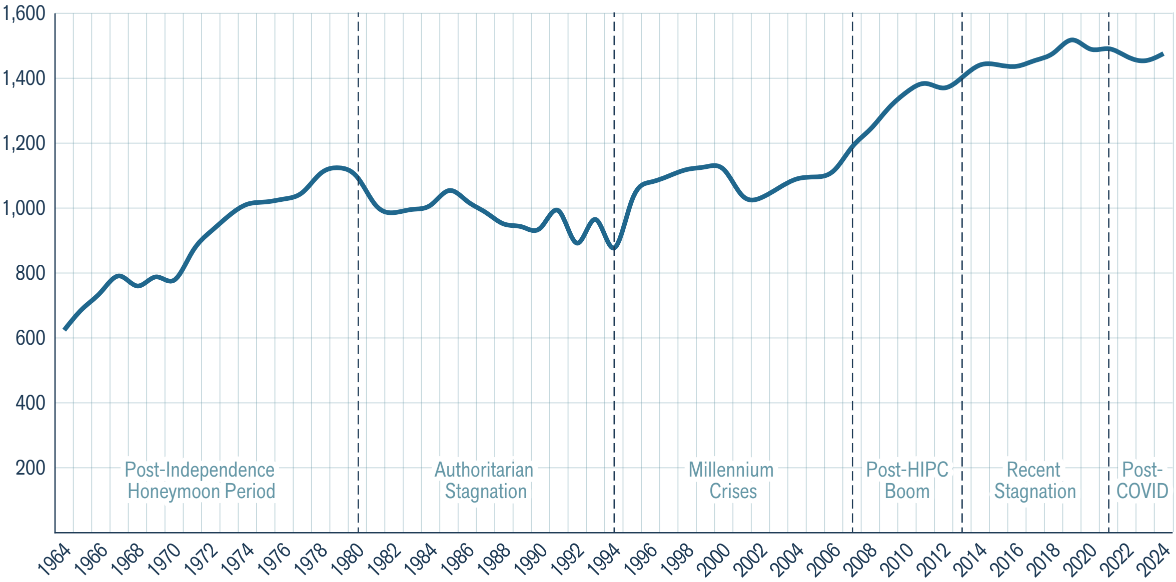
exchange rates have led to forex shortages and boosted informal market activity. To restore macroeconomic stability and support long-term growth, Malawi needs sustainable fiscal policy that supports exchange rate stability and monetary policy objectives.

Malawi's macroeconomic challenges are deeply interconnected and central to the country's economic stagnation. Fiscal dominance has led to monetary financing, fuelling inflation and debt accumulation. Expansionary fiscal policy has forced tighter monetary policy, raising debt-service costs. An overvalued exchange rate has subsidised imports and constrained exports, worsening fiscal pressures. Weak investment and low revenues have further limited the government's ability to respond to shocks. The external environment is also becoming more challenging: foreign aid is declining, global trade is fragmenting, and extreme weather events are growing in frequency and severity. Long-delayed reforms are increasing the cost of inaction.

These cyclical economic crises date back to independence. Malawi has struggled to achieve consistent economic growth, with per capita GDP rising at an average rate of just 1 percent per year. The country experienced two periods of relatively strong growth: shortly after independence (1964 – 1979) and from 2006 – 2011, when the economy was more stable and investment conditions were better (Figure 2). In those two periods, annual per capita growth exceeded 4 percent, but in other years it averaged just 0.2 percent. Frequent shocks and instability have kept living standards low, and Malawi remains among the world's poorest countries.

FIGURE 2 Despite periods of acceleration, economic growth has failed to transform living standards

GDP per capita in 2015 constant US$ purchasing power parity



Source: World Bank World Development Indicators (1990 – 2021) and staff calculations based on World Bank Macro-Poverty Outlook (10/2023) and Maddison Project Database 2020 (1964 – 1989).

Malawi's slow progress stands in sharp contrast with its economic potential. The country is richly endowed with fertile land, a favourable climate, natural beauty, and mineral resources that are increasingly in demand worldwide. Malawi's strategic location and membership in regional trade blocs provide access to large and growing markets in neighbouring countries that could offer a strong demand base for Malawian products. Boosting agricultural productivity and diversification, maximising the benefits of recent natural resource discoveries, improving the investment climate, and increasing the competitiveness of priority industries offers opportunities to accelerate growth and create better jobs.

Malawi faces four major structural problems:

1. *A Small and Declining Export Base:* Merchandise exports have fallen sharply over the past decade, from 22 percent of GDP in 2014 to less than 8 percent in 2025, while imports continue to increase. A widening trade deficit, with imports more than three times as large as exports, makes it increasingly difficult to finance essential imports and maintain macroeconomic stability. Limited participation in global markets also undercuts the potential productivity gains for the private sector through international competition and technology transfer.

2. *Low Investment:* Achieving the goals of "Malawi Vision 2063" will require a dramatic increase in the capital stock, but Malawi has one of the world's lowest investment rates. Moreover, existing investment is driven by the government and its external partners, and both face tightening funding constraints, while private investment remains minimal.

3. *Slow Structural Transformation:* The shift from small-scale farming to commercial agriculture, as well as the broader transition from agriculture into higher-value industry and services, has been slow and uneven. Agriculture remains the backbone of the economy, employing over 85 percent of the workforce and generating more than 80 percent of export earnings. Rainfed smallholder farming is the dominant production model, and shrinking farm sizes and soil degradation threaten overall productivity.

4. *Climate Vulnerability:* Increasingly frequent floods, droughts, and cyclones impose enormous fiscal, financial, and human costs. A lack of risk-mitigation instruments and inadequate funding for climate resilience discourage investment and slow growth.

These challenges are worsened by harmful policy choices and inconsistent implementation, which have increased fiscal and external imbalances. While some shocks are beyond the government's control, improved policies could dampen their impact, promoting more resilient and inclusive growth.

Human development outcomes have improved, but slow growth keeps poverty rates high. Access to health and education has expanded over time, broadly keeping pace with international commitments and targets. However, the quality and functionality of services continues to lag, while poverty rates remain stubbornly high. Over 75 percent of Malawians live on less than US$3 a day, and this share is rising. Although Malawi accounts for only 0.24 percent of the world's total population, it is home to over 2 percent of the extremely poor, and weak harvests have left more than one quarter of households consistently facing severe food insecurity. While gains in human development are commendable, they remain fragile. Without robust, inclusive growth and sustained improvements in the quality of health and education systems, poverty and vulnerability will remain pervasive.

The new government has inherited a complex and multifaceted crisis marked by a severe macroeconomic downturn, widespread food insecurity, persistent climate vulnerability, weak private investment, and declining external assistance. Despite these challenges, Malawi's history shows that even severe macro-fiscal crises can be overcome with a decisive, coordinated policy response (Box 1). A more flexible exchange-rate regime, improved fiscal discipline, and a focus on rebalancing the economy from import dependence toward export-led growth are essential to restore stability and support the country's development.

BOX 1 Lessons from Malawi's Millennium Crisis

Malawi faced a major economic crisis in the mid-1990s, with fiscal deficits exceeding 20 percent of GDP and the headline inflation rate approaching 100 percent in 1995. The crisis was triggered by unchecked spending ahead of the 1994 elections coupled with the monetary financing of the fiscal deficit, which expanded the money supply by 260 percent between 1988 and 1993. The result was a decade of stagnation that was only reversed through painful reforms and debt relief in the early 2000s.

Between 2000 and 2005, Malawi implemented key measures to restore stability and growth:

- **Fiscal Policy:** The authorities implemented a substantial fiscal consolidation effort, including tighter expenditure controls and new revenue-side measures such as taxing housing allowances, collecting dividends from parastatals, and increasing license fees.
- **Monetary Policy:** The Reserve Bank of Malawi curbed inflation through higher interest rates, tighter control of the money supply, increased reserve requirements, and a shift to a more flexible exchange rate.

These efforts were supported by structural reforms, improved agricultural output, and increased support from development partners. While progress was uneven and involved tradeoffs—such as slower output growth due to tighter monetary policy—inflation was reduced to single digits by 2003. Renewed fiscal and monetary stability, combined with debt relief under the Heavily Indebted Poor Countries (HIPC) initiative laid the foundation for strong growth between 2005 and 2011. This experience shows that even deep macroeconomic crises can be overcome through coordinated fiscal and monetary reforms, supported by external partners. These lessons are highly relevant today, as the country faces similar challenges.

II. Four Objectives for the Next Five Years

This administration has emerged from the latest election with a strong popular mandate and an ambitious agenda aimed at addressing the urgent challenges facing the country. The outcome of the election reflects clear public demand for improved government performance and more inclusive development. This presents a unique opportunity to reset expectations, rebuild trust in public institutions, and deliver tangible progress for all Malawians.

To better manage the increasing frequency and severity of shocks, the government must rebuild its economic buffers and develop a more adaptive policy framework. Under the fixed exchange-rate regime, the economy absorbs shocks through falling wages, reduced spending, and slower growth. Procyclical fiscal policy and high debt levels limit the government's ability to borrow and increase spending during crises and in response to disasters. At the household level, weak land governance prevents farmers from using land productively or as collateral. Macroeconomic distortions and restrictions to trade and investment prevent entrepreneurs from accessing credit, forex, and international markets. Strengthening shock absorption is essential to protect livelihoods and support inclusive growth.

Implementing a bold, ambitious, and sustained reform agenda will enable Malawi to break out of its current crisis. This effort will require swift but careful action, strong political commitment, and a willingness to tackle longstanding structural issues. Success will depend not only on the quality of the reforms but also on the government's ability to foster transparency, uphold accountability, and mobilise broad-based support. Effective communication, coalition-building, and consistent implementation will be critical to maintain reform momentum and deliver lasting development impact. These priorities are drawn from the experiences of countries like Zambia and Nigeria, which managed to accelerate the post-crisis recovery of their economies by launching an aggressive reform agenda in the weeks and months right after elections.

Developed by staff from the African Development Bank, the United Nations, and the World Bank Group, this report proposes practical solutions to 22 urgent policy challenges. Each note identifies the root causes of the challenge and offers realistic short- and medium-term reform options.

The notes are designed to support the new government in shaping its economic reform and recovery agenda by providing clear, actionable guidance that can help drive results and avoid the policy slippages and reversals that have derailed progress in the past. The notes are organised under the four overarching objectives described below.

OBJECTIVE 1:
Restoring macroeconomic stability

Malawi's economy is facing increasing pressure from rising imbalances, shifting global trade dynamics, declining aid flows, and mounting fiscal risks. The public debt stock has surged to about 90 percent of GDP, and interest payments absorb nearly half of domestic revenues, crowding out growth-enhancing spending. Malawi is in debt distress and requires urgent restructuring, tighter borrowing controls, and measures to reduce the domestic interest burden. Gross forex reserves cover less than two weeks of imports, and the kwacha trades at a 150 percent premium on the parallel market, the world's second-largest spread. Following years of exchange-rate misalignment, capital controls, and persistent current-account deficits, the authorities must implement a coherent macroeconomic framework that successfully stabilises the fiscal and external balances.

Malawi has adopted a modern fiscal governance framework, but inconsistent implementation and enforcement leads to overspending, arrears, opacity and low budget credibility. The wage bill has doubled as a share of GDP over the past two decades, while public investment management suffers from weak project appraisal mechanisms and frequent cost overruns. The rollout of the Integrated Financial Management Information System (IFMIS) and the implementation of payroll reforms remain incomplete, allowing ghost workers and parallel systems to persist. Statistical discrepancies remain large and fiscal outturns unreconciled, undermining credibility. Progress on decentralisation has been uneven: local governments are striving to deliver but face growing local demand, declining recurrent transfers, and fragmented financing. Without stronger commitment and spending controls, the rationalisation of the Public Sector Investment Programme and harmonised intergovernmental fiscal transfers, fiscal leakages will continue to undermine stabilisation efforts. Revenue mobilisation remains a critical bottleneck, with a tax-to-GDP ratio of about 13 percent, far below the level of regional peers and the targets set out in the 2021 – 26 Domestic Revenue Mobilisation Strategy. Structural weaknesses, including widespread exemptions, discretionary incentives, and weak enforcement, erode the tax base, distort price signals, and create opportunities for corruption and abuse. Non-compliance with value-added tax (VAT) requirements alone costs the government nearly 5 percent of GDP in forgone revenue, while exemptions and incentives impose an additional loss of 5 percent. Informality is pervasive, driven by excessive administrative measures and a misaligned exchange rate.

Restoring macroeconomic stability will require fiscal consolidation, decisive tax and public financial management reforms, debt restructuring, and a credible plan for exchange-rate unification supported by tight monetary policies and measures to boost forex inflows. Continued delays in addressing widening fiscal and current-account deficits increase the scale of the eventual adjustment and heighten the risk of further deterioration. Conversely, implementing stabilisation and adjustment reforms swiftly could enable the economy to achieve significantly higher growth rates over the next five years as planned large-scale investments materialise. These investments would create numerous jobs, boost exports and revenues, and catalyse further foreign direct investment.

These reforms are also central to the DPP's manifesto, "Sustaining a People-Centred Government", which outlines a comprehensive set of measures to restore growth and macroeconomic stability. The priorities identified under this objective support key manifesto priorities, including:

- Achieving substantial fiscal savings through increased revenue mobilisation, reductions in wasteful spending, greater expenditure efficiency, and improvements in the management of the public finances and state-owned enterprises.
- Stabilising the exchange rate and narrowing the parallel market premium, the lifting of counterproductive exchange control regulations, monetary and fiscal tightening, and a new ECF programme.
- Reducing the debt burden by finalising debt restructuring, reducing the interest bill, adhering to rigorous debt-management practices, and borrowing only on concessional terms and for productive purposes.
- Transferring more powers, responsibilities and resources to district authorities, including by reforming and depoliticising the Constituency Development Fund, and reforming city councils to enhance their autonomy, boost revenue collection, and improve service delivery.

OBJECTIVE 2:
Enabling a dynamic and job-creating private sector

Agriculture, mining, and tourism offer significant untapped potential for private investment, forex earnings, and job creation, but all three sectors face systemic barriers. Agricultural productivity remains stagnant due to small plot sizes, poor soil health, insufficient irrigation, climate vulnerability, and ineffective input subsidies. Distortive state interventions and weak infrastructure discourage commercialisation and deter private investment in agricultural value chains. Regulatory unpredictability, high compliance costs, burdensome tax administration, forex and credit constraints, unreliable energy and logistics services, nontariff barriers, and underdeveloped business services limit investment, formalisation, and business expansion. Despite Malawi's abundant natural assets, tourism is constrained by poor connectivity, limited infrastructure, and policy uncertainty. The mining sector offers a transformative opportunity, as significant deposits of energy transition minerals — graphite, rare earths, rutile, and uranium — could double current exports and increase annual fiscal revenue by US$500 million over the next decade. However, progress hinges on streamlining licensing, modernising and digitising key mining administration systems, improving the fiscal and regulatory formwork, bolstering negotiation capacity, and addressing energy and transport bottlenecks.

Weaknesses in the financial sector further constrain private investment and undermine competitiveness. Nearly 80 percent of domestic credit is absorbed by government borrowing, crowding out financing for the private sector and leaving businesses reliant on costly short-term loans. Elevated inflation keeps lending rates among the highest in the region, while forex shortages and surrender requirements deter exporters and investors. Underdeveloped capital markets, fragmented development finance institutions, and excessive collateral requirements further restrict long-term financing. These distortions, combined with an overvalued exchange rate and opaque forex allocation mechanisms, undermine confidence and discourage export-oriented investment. High trade costs are compounded by ad hoc export bans, price controls, and inefficient border processes, increasing uncertainty and limiting integration into regional and global markets.

Weak land governance is a major obstacle to investment. Land tenure is insecure in much of the country, and ineffective mechanisms for mapping boundaries and documenting and transferring land rights limit investment and revenue generation. Only about 5 percent of leaseholders pay ground rent, and land access remains discretionary. Moreover, legal amendments passed in 2022 have reduced investor access to land and created further uncertainty around land rights. Stronger legal rights, more transparent land allocation mechanisms, improved valuation systems, and expanded registration could enable land to be used as collateral for credit while also boosting municipal property tax revenues. Greater tenure security could also increase the amount of land available for housing and promote investments in agriculture, tourism, and industrial development. Coordinated reforms could enable the private sector to more effectively drive growth, job creation, and forex earnings, laying the groundwork for an inclusive and sustainable economic transformation.

The DPP manifesto recognises the opportunities and constraints facing Malawi's private sector. The recommendations under this objective align closely with key manifesto commitments, including:

- Facilitating the expansion of export markets through greater integration with SADC and COMESA trading partners.
- Increasing access to finance by curbing central-bank lending to the government and leveraging pension and insurance funds for growth-enabling projects.
- Introducing an improved system for land taxation.
- Reforming the Agricultural Input Programme to improve targeting, cut waste, and increase efficiency.
- Investing in irrigation as a critical enabler of agricultural commercialisation and climate resilience.
- Transparently managing mining revenues and government equity stakes and ensuring local benefits.
- Promoting private investment in tourism, improving the quality of workforce skills, reviewing the visa system, and creating tourism hubs.

OBJECTIVE 3:
Building human capital and resilience

Malawi faces systemic challenges across the education, health, and social protection sectors which are compounded by climate shocks, gender disparities and demographic pressures. Education outcomes remain low. Children receive an average of 9.4 years of schooling, but this figure drops to 5.4 when adjusted for learning, and nearly half a million young people are not in education, employment, or training. Skills mismatches and weak technical and vocational education and training systems limit job readiness, while gender disparities and the exclusion of marginalised groups — including women and persons with disabilities — persist. In health, per capita spending is far below the WHO-recommended minimum at just US$21, leading to service gaps, workforce shortages, and inefficiencies. Only 44 percent of facilities are able to provide the full package of essential services, and fragmented supply chains and weak financial oversight exacerbate these issues. Digitalisation could improve efficiency and access, but the adoption of digital technologies remains limited. Social protection programmes like the Social Cash Transfer Programme and the Climate-Smart Public Works Programme have improved food security and school enrolment but remain 95 percent externally financed.

Climate and disaster risks, rapid urbanisation, and growing refugee pressures undermine the resilience of households and firms. Disasters such as floods and droughts cost Malawi about 1.7 percent of GDP each year, and without urgent action these losses could rise to 16 percent of GDP by

2050. While the Disaster Risk Management Act is an important step forward, operational capacity, financing, and the integration of risk management into sectoral plans remain weak. Water and sanitation services face sustainability and quality challenges, with Water Boards overstretched and tariffs below cost recovery. Malawi's refugee population has tripled since 2013 to almost 60,000, and declining humanitarian funding is straining public services and social cohesion. Legal and economic barriers limit refugee self-reliance, reinforcing aid dependency.

Building resilience and human capital requires a whole-of-government approach. Integrating risk reduction into planning, modernising education and health systems, strengthening social protection financing, improving water and sanitation governance, and adopting inclusive refugee policies are all critical to social development. Without decisive reforms, Malawi risks a vicious cycle of vulnerability in which shocks erode human capital gains, perpetuating poverty and further undermining resilience to future shocks.

Human capital development and resilience are central components of the DPP manifesto. The recommendations under this objective advance several key manifesto priorities, including:

- Strengthening the sustainability of social protection systems through robust and predictable domestic financing and a stronger role for the private sector.
- Ensuring results-oriented resource allocation and accountability in the health sector while emphasising supply-chain stability, transparency, and modernisation.
- Strengthening linkages between training institutions and private firms to improve employability of youths and boost industrial productivity.
- Sustainably expanding water access in a context of escalating climate risks.
- Reforming disaster risk management mechanisms, operationalising the Disaster Risk Management Fund, and building effective early warning systems.

OBJECTIVE 4:
Strengthen critical infrastructure for growth

The administration has an opportunity to leverage infrastructure investment to unlock new drivers of growth. Strategic sectors such as energy, irrigation, transportation, and digitisation offer significant potential to increase productivity, create jobs, and enhance resilience. However, the estimated infrastructure financing gap cannot be closed by the public sector alone. A more conducive environment for private sector participation could increase the available resources while enhancing efficiency.

Energy and transportation access are crucial for industrialisation and resilience. Malawi's electrification rates are among the lowest globally, and generation capacity lags most other countries in the region. Achieving the Malawi Compact targets of 70 percent access and 848 MW installed capacity by 2030 will require over US$1.5 billion in private investment, as well as tariff reforms, forex risk mitigation, and the fast-tracking of flagship projects like the Mpatamanga Hydropower Storage Project. Without adequate investment, deficient infrastructure will continue to slow economic growth, especially in the agriculture, mining, and tourism sectors. Malawi's airports must meet international standards and expand services to new destinations to shorten travel times and reduce costs for enterprises that rely on air transport. The transportation sector is highly vulnerable to climate change and faces a US$1.84 billion financing gap. Annual climate-related road disruptions already cost 1.3 percent of GDP, and this figure could rise to 12 percent unless policymakers take decisive steps to strengthen resilience. Priorities include enforcing fuel-levy remittances, operationalising the Disaster Risk Management Fund, adopting road-asset management systems, and introducing performance-based contracts.

A heavy reliance on rainfall leaves agricultural production highly vulnerable to climate shocks necessitating increased irrigation. Deforestation exacerbates this vulnerability by reducing soil fertility, increasing erosion, and destabilising local water cycles. Despite potential to quadruple irrigated land, only 38 percent of suitable land is developed, and implementation of the Irrigation Master Plan has stalled. Scaling farmer-led irrigation, improving the governance of Water User Associations, and mobilising private investment are essential to boost resilience, diversify crops, and reduce food insecurity. Together, these reforms can unlock productivity gains, strengthen resilience, and position Malawi for sustainable and inclusive growth while mitigating the negative environmental impacts of deforestation and land degradation.

Progress has been made in expanding digital connectivity, but structural gaps remain. Broadband penetration has risen to 27 percent, bandwidth costs have fallen by 97 percent, and digital ID coverage is nearly universal. However, rural connectivity remains low: only 2 percent of micro, small and medium enterprises use the internet, and institutional fragmentation undermines coherence. A unified Digital and AI Strategy, strong central coordination, and investments in digital public infrastructure, including the alignment and interoperability of existing systems, are critical to attract private sector participation and leverage digital technology to support economic transformation.

Addressing Malawi's vast infrastructure gap is a central goal of the DPP manifesto. The priorities identified under Objective 4 target this challenge. They include:

- Dramatically increasing power generation, including through the Mpatamanga Hydropower Storage Project and the promotion of independent power providers, and improving distribution through stronger transmission capacity and integration into the Southern African Power Pool.
- Expanding irrigation and strengthening maintenance systems to support the transformation of agriculture.
- Improving road maintenance financing, including through more diversified sources.
- Accelerating digital transformation and AI adoption to improve public service delivery, enhance efficiency and transparency, and increase digital inclusion through affordable access.

Where to start?

Though the proposed priorities are wide-ranging and complex, they are not new. Many of these challenges and solutions are also identified in the DPP's election manifesto. In some cases, they entail implementing commitments already made or advancing ongoing reform efforts with renewed momentum. To support the reform process, it will be important to focus on achieving progress in a few key areas during the next three months. The 22 chapters provide in-depth recommendations around each of these identified policy priorities. The reforms summarised in Table 1 highlight areas where the government could focus its efforts and signal its willingness to make difficult decisions that will help bring about meaningful change for households and businesses by addressing long-standing obstacles to growth and development.

TABLE 1 12 Proposed Policy Reform Priorities for the First Three Months and First Eighteen Months

Policy Objective	Key Challenge	Sprints (first 3 months)	Marathons (first 18 months)
OBJECTIVE 1: Restoring macroeconomic stability	Increasing revenue mobilisation	Eliminate remaining VAT exemptions for privileged persons and non-food items, including construction machinery and industrial equipment and pause granting of new corporate tax incentives.	Finalise and enact revised income tax and VAT legislation and upgrade to an electronic VAT invoicing system.
	Restoring debt sustainability	Reengage in debt-restructuring negotiations with external commercial creditors, limit external borrowing to concessional debt, and develop a plan to reduce the domestic interest bill.	Improve public sector efficiency by automating wage and pension management, freezing net hiring and tightening control over the wage bill, implementing e-procurement systems, and cancelling underperforming projects.
	Resolving the forex crisis	Unify the exchange rates and clearly communicate the new exchange-rate regime while maintaining tight fiscal and monetary policies and scaling up social protection support.	Reform fuel and fertiliser procurement and ensure cost-reflective pricing, and improve the investment climate to increase forex inflows.
	Delivering improved services through decentralisation	Approve proposed reforms to the Intergovernmental Fiscal Transfer Formulae.	Introduce performance-based elements into the management and allocation of the Constituency Development Fund.
OBJECTIVE 2: Enabling a dynamic private sector	Increasing and diversifying exports	Phase out of forex surrender requirements and other export disincentives.	Strengthen the regulatory framework for trade facilitation and scale up the digitalisation of regional trade and payments infrastructure.
	Making better use of land to drive growth	Approve a strategy to enhance public land revenue and establish the necessary regulatory and IT infrastructure.	Support the results-based, district-led rollout of a comprehensive rural land registration system.
	Ensuring food security	Use the FY27 budget to shift resources away from ineffective input subsidies and leave fertiliser procurement and distribution to the private sector.	Establish predictable, evidence-based agricultural trade and pricing policies; advance land-tenure reforms; and modernise collateral systems to improve farmers' access to finance.
	Unlocking the potential of the mining sector	Establish clear state-equity limits by imposing a legal cap on free carried interest.	Establish a fiscal stabilisation fund with clear operational rules integrated with the overall fiscal framework to manage revenue volatility.
OBJECTIVE 3: Building human capital and resilience	Reforming the social protection system	Develop and implement a joint Social Cash Transfer Programme reform plan for the government and its development partners.	Pass the Social Protection Act to strengthen the legal framework for social protection, enabling programme expansion with sustainable funding.
	Using digitisation and innovation to improve health outcomes	Enforce the full utilisation of digital Human Resources for Health systems to track, deploy, and manage health workers.	Link budget allocations to measurable facility-level outcomes through digital reporting to improve spending efficiency, accountability, and targeting.
OBJECTIVE 4: Strengthening critical infrastructure for growth	Sustainably increasing power generation	Establish pre-funded escrow accounts for new power-purchase agreements and formalise Mpatamanga exemptions into a standardised protocol approved by the RBM.	Fast-track the rehabilitation of Kapichira and Nkulu; complete the Mozambique interconnector; and resolve financing, permitting, and resettlement challenges that have stalled project implementation.
	Enhancing the efficiency and resilience of the road sector	Ensure fuel levies remitted to the Road Fund Account remain legally ring-fenced and non-discretionary to boost maintenance spending.	Promote private investment in road infrastructure through performance-based concessions or maintenance contracts.

III. A National Compact to Secure Malawi's Future

Successfully implementing Malawi's economic reform and recovery agenda will depend not only on the content of reforms but on how they are designed and delivered. Key considerations include:

- *Timing and Sequencing*: Reforms must be carefully phased to manage risks and build momentum.
- *Stakeholder Inclusion:* Members of Parliament and representatives of civil society, the private sector, and development partners must be engaged early and meaningfully.
- *Strategic Choices:* Decisions around which reforms to prioritise will have far-reaching consequences, and sequencing will be critical.
- *Collaborative Leadership and Dialogue:* A culture of collaborative leadership and dialogue is necessary to build coalitions and maintain consensus on the reform agenda.
- *Clear Communication:* Clearly explaining to the population why reforms are necessary, the trade-offs these will entail, and providing clear milestones so that progress can be monitored by the public will be necessary for building and sustaining popular support.

Strong and collaborative political leadership, strategic agility, and a break from past approaches will be essential to the success of the reform agenda. Malawi has a history of launching reform efforts that lose momentum before delivering results. This pattern has undermined efforts to achieve sustained growth, transform the economy, and reduce poverty. The government must commit to sustained, comprehensive reforms that will extend beyond the next political cycle. While a new IMF programme can support this effort, success depends on national ownership and on the government's ability to coordinate across institutions, communicate clearly, and act decisively.

The government has a unique opportunity to frame its economic reform and recovery plan over the next five years as a national Compact to secure Malawi's future. This framing would help reinforce the idea that that the government's plan represents a set of publicly endorsed commitments designed to accelerate development progress. As implementing the plan will involve difficult short-term decisions, especially around urgent macroeconomic reforms, an inclusive process that engages the government, the private sector, civil society, citizens, development partners and other key stakeholders will be vital to build broad-based support and reduce the risk of policy reversals.

Many countries have prepared sectoral and national compacts to shore up public support for ambitious reform agendas. Countries such as Mongolia, Senegal, and Timor Leste have adopted national compacts to help build consensus around important institutional and policy reforms. The key features of effective national compacts are: (i) strong country ownership; (ii) alignment with long-term development priorities; (iii) public accountability and a broad-based commitment to reform implementation; (iv) active collaboration between the government, civil society, the private sector, and development partners; and (v) an adaptive and flexible approach.

International experience with similar reform efforts yields several important lessons.

In country environments with limited resources, effective prioritisation is key to success. Malawi's annual revenues total just MWK 4 trillion, yet the country currently employs over 300,000 civil servants, educates 4.5 million children, implements 234 public investment projects, and operates more than 60 state-owned enterprises and statutory corporations. The disparity between the scope of the public sector's activities and the resources at its disposal results in poor services, weak governance, and recurring crises. To succeed, the reform agenda will need to focus on a narrow range of high-impact actions that can be executed effectively.

Digitalisation can raise public-sector efficiency by streamlining processes, strengthening system coherence, and tackling fragmentation and vendor lock-in through open standards and interoperability. This process will improve service delivery while lowering cost, curbing leakages, increasing transparency, and boosting domestic revenue. Priorities include expanding Malawi's Digital ID as the foundational credential and linking it to payroll and pensions to eliminate ghost workers; enabling inclusive digital payments to expand financial inclusion; deploying a secure data-exchange layer and common registries for system-to-system coherence; fast-tracking e-procurement; mandating the comprehensive use of IFMIS; rolling out the electronic VAT invoicing system; requiring that Msonkho Online be used for tax filing and processing; and fully operationalising the development-cooperation management information system across the government. The responsible use of AI for fraud analytics, predictive service delivery, and citizen-facing assistants can help automate routine tasks, improve targeting, and raise service quality while safeguarding privacy.

Decentralisation can become a major driver of improved development outcomes. The DPP manifesto emphasises decentralisation as a pillar of the country's development and calls for the long-planned transfer of power, responsibilities, and resources to district authorities, coupled with efforts to increase capacity, transparency, and coordination. Effective decentralisation reforms can help bridge the rural-urban divide, improve the quality and reliability of services, strengthen democratic participation, enhance disaster response, and reduce corruption through local accountability.

In parallel, the government must ensure the effective implementation of investment mega-projects that will have large multiplier impacts on the Malawian economy. Initiatives like the Shire Valley Transformation Project Kapichira Emergency Power Restoration, the Mpatamanga Hydropower Storage Project, the Mozambique-Malawi Interconnector and the Kasiya Rutile-Graphite Project could permanently shift Malawi's economic trajectory. These projects are critical for unlocking growth and accelerating development, and their success will depend on speed, quality, and transparency in execution.

As external assistance declines, the government must broaden its sources of development financing while revitalising coordination platforms to sustain momentum and rebuild confidence. Operationalising Malawi's *Integrated National Financing Framework* will be crucial to mobilise and align public and private funding and mitigate the financial impact of difficult reforms. To enhance coordination, the authorities should reinforce key dialogue mechanisms between the public and private sector and between the government and development partners, including through the High-Level Forum on Development Effectiveness. Strengthening existing technical working groups around key sectoral and thematic priorities will also create valuable space for structured, results-driven engagement.

Strategic communication will be essential to sustain momentum over the next five years. Policymakers must clearly and consistently communicate the urgency of reform and the importance of consistent implementation to achieve lasting economic gains. These messages should be accessible and resonate with the public, reinforcing consensus for reform by underscoring the benefits of perseverance.

Implementing a sustained reform agenda amid multiple crises will be demanding, but it is achievable. Malawi's future depends on bold and principled political leadership, a committed coalition across government and society, effective coordination, clear communication, and disciplined, high-quality execution. This government can put an end to Malawi's persistent stagnation and vulnerability and seize the opportunity to build a credible path toward inclusive and lasting prosperity. We urge decisionmakers to take ownership of the recommendations in this report and engage development partners to deliver the change necessary to transform Malawi and the future of its people.

OBJECTIVE 1

Restoring Macroeconomic Stability

1

How Can Malawi Resolve Its Foreign Exchange Crisis?

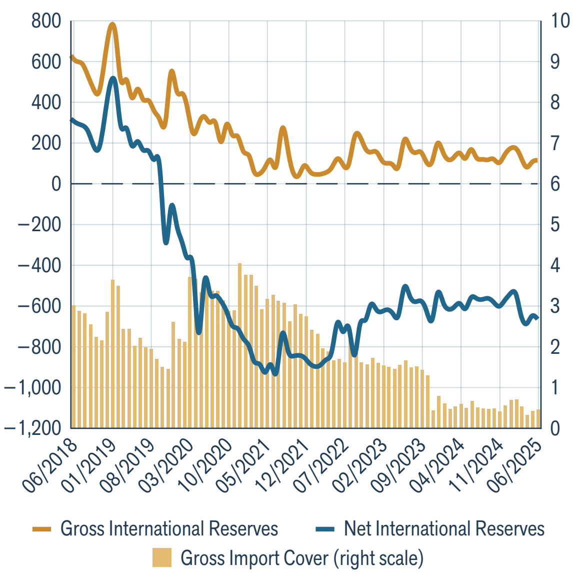
THE POLICY PROBLEM

Malawi's Foreign-Exchange Crisis Reflects Broader Macroeconomic Imbalances

Malawi is experiencing its most severe foreign-exchange (FX) and balance-of-payment (BoP) crises since independence. These crises have sharply slowed economic activity, increased the cost of living, and led to widespread shortages of fuel, fertiliser, pharmaceuticals, and other essential goods. Gross official reserves at the Reserve Bank of Malawi (RBM) now cover less than two weeks of imports, and net reserves have been negative since 2020. Accessing FX is difficult even on the parallel market, where rates exceed the official rate by 150 percent — the second largest spread worldwide.

Gross reserves have declined dramatically since 2019, and net reserves are negative US$ 660 million

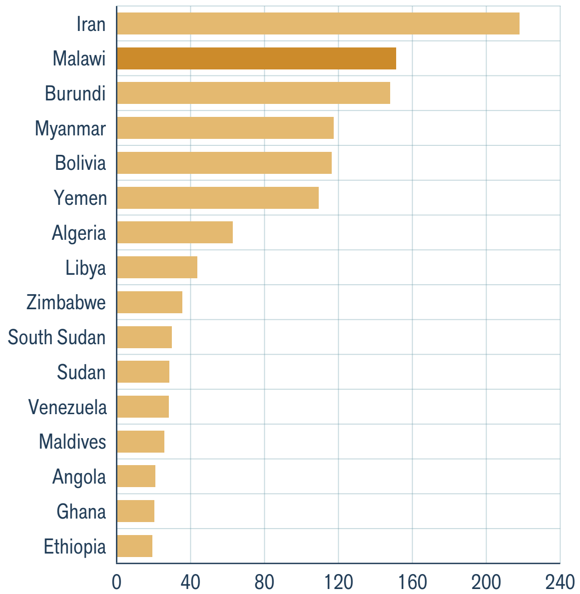
Official (Telegraphic Transfer) and median bureau sell rate in MWK, and gross official reserves in months import cover



Source: World Bank staff calculations based on RBM data.

The large spread between the official and market exchange rates puts enormous pressure on reserves

Difference between official and parallel rate as of June 30, 2025 (as percent)



Source: World Bank staff calculations.

This is Malawi's fourth BoP crisis in 30 years; previous episodes in 1992, 1997, 2012, and 2022 severely slowed the country's development. GDP growth has averaged 6.1 percent in stable years but only 1.6 percent during crisis periods. Each crisis began with a managed or fixed exchange rate and major external imbalances, and recovery only started after a significant external adjustment (i.e., a steep decline in imports), along with a more flexible exchange-rate policy. While some households and businesses benefit from access to FX at the official rate, the overall costs to households (especially farmers), the private sector, and the government are substantial.

Resolving Malawi's BoP crisis will require comprehensive reforms and sustained effort to reverse years of distortions. Unifying the official and parallel market rates will demand adjustment and a shift in exchange-rate policy, in contrast to the one-off changes to the official exchange rate made in 2022 and 2023. These measures must be paired with tighter fiscal and monetary policies to ease pressure on the exchange rate, as well as greater financial openness and steps to boost FX inflows from exports, foreign investment, aid, and remittances. Additional actions will be required to protect poor households from the inflationary impact of any exchange-rate adjustments. The experience of Malawi and other countries shows these reforms are possible, but success depends on sustained commitment, clear communication with the financial sector and the public, and targeted support for those most affected by reforms.

KEY CHALLENGES

- **Chronic External-Account Deficits:** Malawi's persistent and widening trade deficit is at the core of its BoP challenges, with official imports exceeding exports by more than 300 percent. The current account deficit has consistently been above 15 percent of GDP in recent years. In the past, foreign aid and, more recently, external borrowing — mainly from regional lenders — helped bridge this gap. However, declining aid and restricted access to international markets due to unsustainable debt dynamics have depleted official reserves and resulted in high debt servicing costs. Donor project funds and export proceeds remitted to the RBM under mandatory surrender rules are now the main sources of official inflows.

- **Large Fiscal Deficits:** Since 2020, fiscal deficits have frequently exceeded 10 percent of GDP and been financed by costly domestic borrowing. At about 40 – 50 percent per year, the rapid growth of the money supply adds pressure to the parallel exchange rate, as holders of Malawian kwacha seek to convert to hard currency or more stable assets.

- **Multiple Exchange Rates:** Since 2017, Malawi has maintained a managed exchange rate supported by FX swaps. As these swaps matured and debt distress increased, a multiple exchange-rate regime emerged. Attempts to reunify the rate at its market value through one-off devaluations have failed. The overvalued official rate undermines export competitiveness and restricts FX access for importers, and fixed rates do not shield the market from price pass-through effects as most imports are purchased at the parallel rate.

- **Market Distortions and Capital Controls:** While useful for managing shocks, capital controls are costly when used to support a misaligned exchange rate. Tobacco farmers receive far less than their goods are worth on global markets, and the RBM's mandatory surrender requirements deter investors from bringing FX into Malawi. Recent legislation has expanded the control of the

RBM Governor and Minister of Finance over foreign transactions. The mandatory surrender of 25 percent of export proceeds and the conversion of NGO funds at the official rate discourage capital inflows and increase informality in trade, remittances, and capital markets. Goods and sectors favoured by official FX allocations, such as fuel — which has often been cheaper in Malawi than in neighbouring countries — receive broad subsidies, which artificially boost demand and leave insufficient FX available for essential imports like food and medicines, as well as for industrial goods.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Tighten Monetary and Fiscal Policies to Stabilise the Parallel Rate and Control Inflation:** FX challenges reflect broader macroeconomic imbalances and cannot be resolved unless fiscal and external imbalances are reduced. The government should move forward with its plans to achieve a primary surplus by 2027 and end monetary financing of the fiscal deficit. Slowing the growth of the money supply and keeping real interest rates positive will help mitigate exchange-rate pressures. Policymakers should adopt a fiscal consolidation plan that substantially reduces government FX demand by limiting vehicle purchases and foreign travel.

→ **Bolster RBM Credibility and Prepare for Exchange-Rate Unification:** The authorities should consider developing a clear plan for unifying the exchange rate that includes a preferred regime and price-discovery mechanisms. This plan should be formulated in collaboration with trusted advisors, and policy changes should be transparently communicated to the financial sector and the public.

→ **Adopt Cost-Reflective Pricing for Fuel and Strategic Commodities:** Fuel prices should be adjusted according to the statutory Automatic Pricing Mechanism, and a plan for addressing Malawi Energy Regulatory Authority arrears should be put in place. The government should also adopt a plan to shift towards a market-based pricing mechanism for sourcing other essential commodities.

→ **Unify the Exchange Rates and Anchor FX Policy:** The new exchange-rate policy should be communicated to households and the private sector to avoid speculation and support economic planning. The authorities are also encouraged to support the development of an interbank FX market by establishing credible auctions for price discovery. In parallel, the government should consider phasing out distortions in the FX market and external sector according to a set timeline, prioritising measures that boost FX inflows and enable equal market access, especially by removing surrender requirements. Implementing support measures will help cushion the impact of unification, such as tightening fiscal policy in the FY27 budget, maintaining a tight monetary policy, expanding social protection for households facing inflation, and empowering the Competition and Fair Trading Commission to prevent price-gouging in the wake of the adjustment.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Boost Export Capacity and Attract More FDI and Grants:** The government should consider gradually removing administrative measures that exacerbate market distortions, such as trade bans, remaining FX surrender requirements, price controls, excessive licensing fees for banks and bureaus, and restrictions on parallel-market access. Prioritising public financial management reforms will help to encourage more on-budget aid channelled through government systems, accelerating the implementation of development-partner projects by allowing faster access to committed funds.

- **Reform Fuel and Fertiliser Procurement:** The authorities should continue adjusting prices in line with the Automatic Pricing Mechanism and ensure the remittance of funds to the Roads Funds Authority, the Malawi Rural Electrification Programme, and other programmes in line with statutory price changes. Over the medium term, policymakers are encouraged to increase investments that reduce import dependence, including expanding public transport, electrifying the vehicle fleet, and promoting greater use of substitutes to imported chemical fertiliser.

2

How Can Malawi Mobilise More Domestic Revenues?

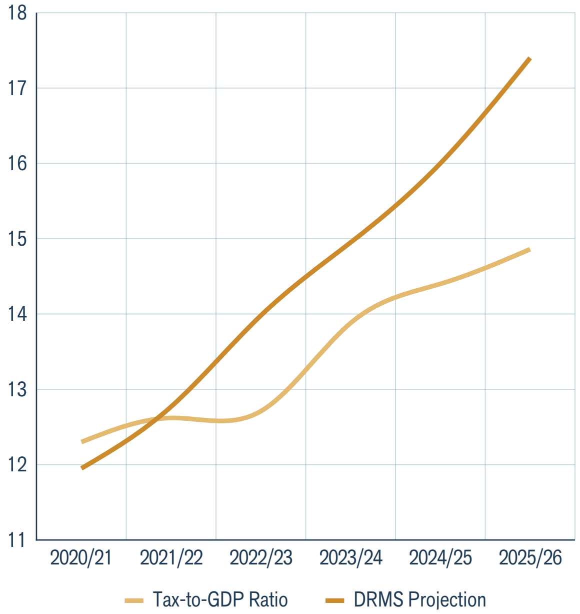
THE POLICY PROBLEM

Structural Weaknesses in the Tax System Contribute to Insufficient Revenue Generation

Malawi faces a severe and persistent fiscal financing gap, driven by a growing mismatch between its substantial development needs and limited revenues. Total public spending has almost doubled over the past decade, rising from 16.0 percent of GDP in FY2011/12 to 30.7 percent in FY2024/25. The tax-to-GDP ratio has improved — averaging 13 percent in recent years — but it remains below both the Sub-Saharan Africa average and the targets set in Malawi's 2021 – 26 Domestic Revenue Mobilisation Strategy (DRMS).

Tax collection has consistently lagged the levels projected in the 2021 – 26 DRMS

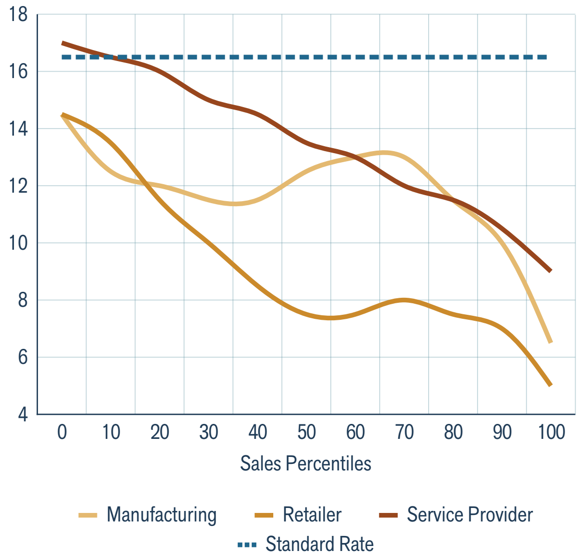
Tax-to-GDP ratio (percent)



Source: MoFEA, MRA, and World Bank staff calculations.

Exemptions increase the gap between the effective tax rate and the statutory rate, especially among firms with the most sales

Net VAT as a share of value added by firm size (percent)



Source: Authors using Malawi Revenue Authority anonymised VAT returns.

As a result, the fiscal deficit has widened significantly and reached 10.5 percent of GDP in FY2024/25, one of the highest levels in the region. The deficit is increasingly financed through high-cost borrowing, creating a vicious cycle in which rising debt-service obligations and other rigid expenditures crowd out growth-enhancing investments. Given the scale of the deficit, the rigidity of current spending, and the urgency of Malawi's development needs, fiscal adjustment efforts will need to focus on strengthening domestic revenue mobilisation. Without a decisive shift toward raising and efficiently managing revenues, Malawi will struggle to restore fiscal sustainability and unlock the resources needed for inclusive development.

The tax system continues to face structural weaknesses that limit its revenue potential. Malawi's tax system creates economic distortions due to numerous exemptions, incentives, and legislative and administrative gaps. These factors undermine revenue performance by eroding the tax base for the value-added tax (VAT), corporate income tax (CIT), and personal income tax (PIT), which collectively contribute over 85 percent to total tax revenue. Addressing key drivers of inefficiency and broadening the tax base could boost tax revenue by at least 2 – 3 percentage points of GDP in the next two years.

KEY CHALLENGES

- **Weak Tax Administration:** Poor tax enforcement leads to high rates of tax evasion and revenue leakages. The system is fragmented, lacks real-time monitoring, and suffers from weak taxpayer data management. Government systems like Electronic Fiscal Devices (EFDs) and Msonkho Online are underutilised and not integrated, limiting their effectiveness. VAT noncompliance alone causes revenue losses estimated at 4.8 percent of GDP.

- **A Narrow Tax Base:** Widespread exemptions and concessions erode the tax base, causing potential revenue losses of 5 percent of GDP. VAT exemptions for "privileged persons" like parliamentarians, former presidents and judges, as well as on non-food items distort the tax system and diminish revenues. Recouping even part of these losses could raise the tax-to-GDP ratio by as much as 2 percentage points. Pervasive informality further limits the tax base.

- **Legal and Regulatory Gaps:** Legislative loopholes enable tax evasion and under-taxation. The presumptive tax regime for small businesses is capped at 12.5 million Malawian kwacha (MWK), yet the VAT registration threshold is twice that level, creating uncertainty for firms in the MWK 12.5 – 25 million range that reduces their compliance. Legacy incentives also allow profitable firms to exploit loopholes and discretionary rules, raising the incidence of under-taxation.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Fully Implement Existing Electronic Systems:** All eligible businesses should be required to use Electronic Invoicing Systems (EIS) for VAT collection, and Msonkho Online should be established as the sole platform for tax filing and processing. Usage of all other legacy systems outside

Msonkho Online must be ceased. These measures will help consolidate tax administration, improve compliance tracking, and lower compliance costs, increasing the number of returns filed and the amount of revenue collected.

→ **Abolish Discretionary VAT Exemptions:** The government is encouraged to eliminate any remaining VAT exemptions for privileged persons and non-food items, including construction machinery and industrial equipment. Fully implementing the already-announced VAT on motor vehicles for privileged persons will broaden the tax base. Political support and empowering of the tax administration is key to ensure effective implementation of the VAT imposition on privileged persons.

→ **Pause New Incentives for Special Economic Zones (SEZs), Export Processing Zones (EPZs), and Mining Projects Until Their Impact Has Been Thoroughly Assessed:** Grandfathering incentives for existing beneficiaries while suspending new ones would boost revenue as current holidays and exemptions expire. Repealing CIT exemptions for EPZs and SEZs could increase revenue by 0.7 – 0.8 percent of GDP. The tax regime could also be strengthened to ensure that mining development agreements more equitably benefit Malawian households.

→ **Reform the Presumptive Tax Regime:** Reintroducing a simplified turnover tax at 2 percent of estimated gross sales for small businesses and aligning the upper threshold with the VAT registration threshold of MWK 25 million will narrow the compliance gap, encourage formalisation, and reduce rent-seeking. Policymakers should also consider taxing foreign-held passive income.

→ **Prepare a New Domestic Revenue Mobilisation Strategy Before the Current One Expires in 2026:** The DRMS informs the corporate plan of the tax administration and prescribes targets that guide revenue performance and efficient tax administration. Hence, a timely formulation of the DRMS is needed to restore stability in the tax system and build taxpayer trust. Partnering with development partners for financing is key to expediting development of the strategy.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Finalise and Enact Pending Tax Legislation:** The government should accelerate its review and enactment of the revised income tax and VAT bills, along with related legislation. An enhanced legal framework will close loopholes and support effective tax administration and revenue enforcement.

→ **Upgrade to an Electronic Invoicing System:** The government should consider launching and scaling the digital system for real-time invoicing and stock tracking. Financing, possibly through development partners, may be available for such an initiative given the high return on investment. Expanding and integrating the tax system's functions could generate 1.1 – 2.0 percent of GDP in additional revenue.

→ **Reform Non-Food VAT Exemptions:** Standardising VAT rates on select non-food items, such as petroleum products — coupled with targeted social protection for vulnerable households — could boost tax revenue by 0.25 – 0.4 percent of GDP.

→ **Review and Revise Tax Incentives:** The government is encouraged to assess the economic impact of Economic Processing Zones incentives and other special regimes, retaining those that effectively attract foreign investment while reforming or repealing those with high revenue costs and limited benefits. This will help ensure incentives support growth rather than causing revenue leakage. All tax incentives could be consolidated within the income tax law, and any new income tax incentive should require legislative approval.

→ **Introduce an Alternative Minimum Tax:** Applying a minimum 1 percent tax on turnover would ensure that all large businesses contribute, including those benefiting from incentives or aggressive tax planning. This would protect CIT revenue and enhance the fairness of the tax system, generating estimated gains of 0.37 percent of GDP annually as the reforms take effect.

3

How Can Malawi Restore Debt Sustainability?

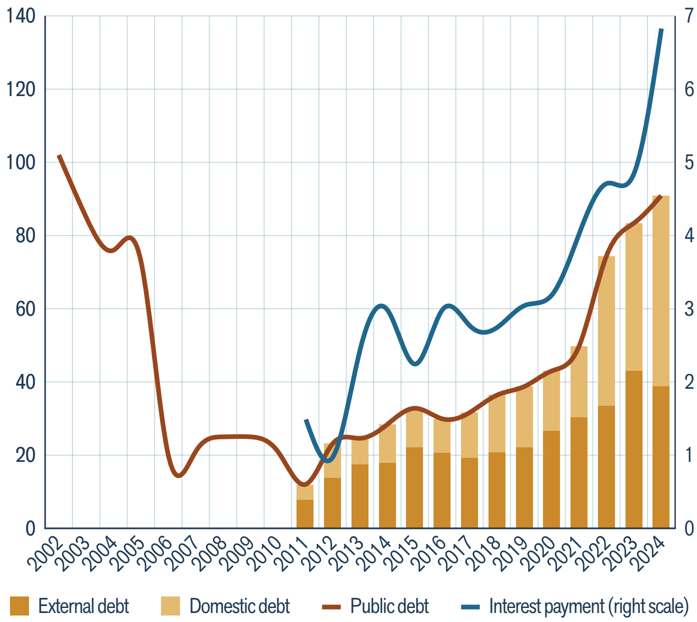
THE POLICY PROBLEM

Malawi's Unsustainable Public Debt Is Crowding Out Spending on Development Priorities

Malawi's public debt is approaching a two-decade high. In 2006, Malawi completed the Heavily Indebted Poor Countries (HIPC) initiative, which brought the debt stock down to 20 percent of GDP. Since then, however, a combination of persistent and growing fiscal deficits, subdued economic growth, exchange-rate pressures, rising arrears, and the realisation of contingent liabilities has driven a rapid increase in the debt stock, which reached an estimated 90 percent of GDP in 2024.

The public debt stock has surged in recent decades, driving a threefold increase in interest payments since 2015

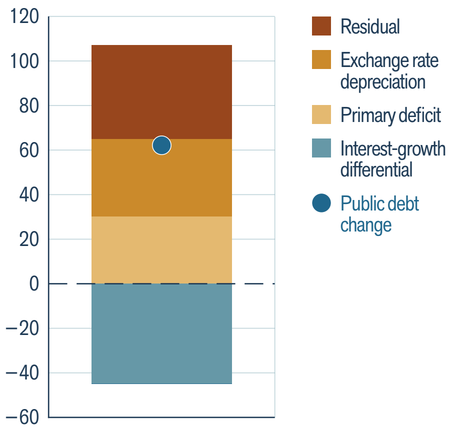
Debt and interest payments (as percent of GDP)



Source: World Bank based on MoFEA, RBM and IMF data.

Persistent fiscal deficits, low growth, exchange-rate pressures, arrears, and realised contingent liabilities all contribute to the rising debt burden

Drivers of debt growth (as percent of GDP)



Source: World Bank based on MoFEA, RBM and IMF data.
Note: Captures cumulative sources the changes in the debt to GDP ratio from 2014 – 2024. The residual is assumed to consist primarily of arrears and the realisation of contingent liabilities.

Public debt dynamics are unsustainable, and the country is now in debt distress, with interest payments absorbing nearly half of domestic revenues. According to the July 2025 Joint IMF-World Bank Debt Sustainability Analysis (DSA), both external and public debt are considered unsustainable under existing policies. The country's risk of debt distress has escalated rapidly, moving from moderate in 2020 to high in 2021 and reaching actual distress in 2022 amidst the initiation of external debt restructuring. Malawi now faces a significant interest-payment burden, particularly on domestic debt. Interest payments have become the single largest budget line, severely constraining the fiscal space available for public investment and social spending, which is impeding economic growth and poverty reduction. Projections indicate that these pressures will likely persist and may intensify in the next five years, highlighting the urgent need for comprehensive policy measures to restore debt sustainability.

KEY CHALLENGES

- **Lack of Budget Discipline:** Although tax revenues have recently risen from an average of 12 percent of GDP to over 14 percent, expenditures have grown much faster, increasing from around 17 percent of GDP in 2015 to over 30 percent in 2025. Budget outturns exceed both the original and mid-year revised budgets. As a result, Malawi has one of the largest fiscal deficits in Africa, averaging around 10 percent of GDP over the past five years. A lack of commitment controls and the inconsistent use of public financial management systems have also led to significant increases in payment arrears. Interest payments, 90 percent of which are for domestic debt, are projected to rise to about 8 percent of GDP.

- **Weak Debt Management:** In the absence of adequate budgetary support, the government has increasingly relied on costly domestic borrowing to meet its financing needs. This reliance, combined with non-concessional external borrowing, has contributed to the country's unsustainable debt dynamics. Moreover, the government's debt management strategies and annual borrowing plans are not consistently implemented as stipulated in the 2022 Public Finance Management Act (PFMA).

- **Expansion of Quasi-Fiscal Activities (QFAs) and Realisation of Contingent Liabilities:** QFAS (or implicit subsidies) have become particularly pronounced in the utilities sectors, which suffer from below-cost-pricing and chronic technical and non-technical losses. Weak enforcement mechanisms have allowed arrears to accumulate, and the resulting financial shortfalls have necessitated government bailouts of state-owned enterprises (SOEs), which are often settled with promissory notes. These interventions have further contributed to the country's rising debt burden.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Enhance Spending Controls to Limit Expenditure Growth and Implement Tax Reforms to Increase Revenue Mobilisation:** The government should introduce immediate measures to control public spending in the mid-year budget, including a hiring freeze for non-essential positions and limits on both domestic and international travel. Policymakers should abolish discretionary value-added tax (VAT) exemptions on non-food items and pause the granting of any new tax incentives.

- **Update the Debt Management Strategy:** The 2022 Medium-Term Debt Strategy should be revised to better reflect the escalating domestic debt burden, with annual borrowing plans aligned to the provisions of the PFM Act (2022). The government may also consider contracting a specialised firm to provide debt advisory support.

- **Reengage in Debt-Restructuring Negotiations with External Commercial Creditors, Limit External Borrowing to Concessional Loans, and Develop a Plan to Reduce the Domestic Interest Bill:** The authorities should proactively engage with external commercial creditors to restructure the existing debt stock and reestablish medium-term debt sustainability. As pledged in the DPP manifesto, government should also refrain from contracting new commercial external debt. These measures will open fiscal space for growth-oriented investments and help reduce the debt-to-GDP ratio over time.

- **Assess Debt-Management Practices and Design Targeted Improvements:** The government should conduct a Debt Management Performance Assessment (DeMPA) to evaluate its current systems against international best practices and develop a roadmap for strengthening its debt-management framework.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Reduce the Domestic Interest Bill:** The government should engage with its creditors in the domestic financial sector to reduce the interest burden, freeing up additional resources for priority investments that can support long-term economic growth.

- **Improve Public-Sector Efficiency:** To reduce the cost of public administration while maintaining service quality, the government should automate wage and pension management, freeze net hiring for nonessential roles, contain wage growth for higher-grade positions, reduce travel and allowance expenses, adopt e-procurement systems, cancel underperforming projects and limit new project approvals, and strengthen the budgeting process to align actual spending with approved budgets.

- **Address SOE-Related Fiscal Risks:** The authorities may consider reducing the number of SOEs, enhance monitoring to prevent the accumulation of contingent liabilities, ensure commercial SOEs adopt cost-reflective tariffs, and strictly adhere to established guidelines for government guarantees and on-lending.

- **Increase Debt Transparency and Strengthen Debt Management:** The government is encouraged to expand the scope and frequency of its reporting to provide a comprehensive and transparent overview of public debt dynamics. In line with the DPP manifesto, it will also be important to adhere to an Annual Borrowing Plan issued in conformity with the Medium Term Debt Strategy. Policymakers should implement the findings of the DeMPA by adopting best practices and strengthening institutional arrangements for debt management

4

How Can Malawi Strengthen Fiscal Governance to Reduce Wasteful Spending and Support Stabilisation?

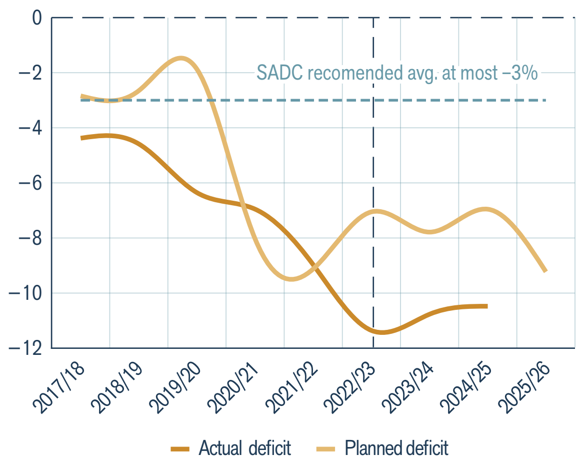
THE POLICY PROBLEM

Fiscal Governance Suffers from Weak Implementation, Chronic Inefficiency, and Lack of Transparency

Inadequate implementation and enforcement undermine the effectiveness of Malawi's relatively high-quality fiscal legislation and modern public financial management (PFM) systems. Previous public financial management (PFM) reforms introduced strong legal and policy frameworks, but these efforts were never fully sustained, and parallel systems persist across ministries, departments, and agencies. Malawi's 2023–28 PFM Strategy provides a clear blueprint with ambitious goals for enhancing PFM and fiscal transparency, but the authorities must now operationalise this framework by embedding commitment mechanisms, strengthening enforcement, and ensuring reforms are implemented consistently across the government.

Deficits have generally exceeded approved budgets, driven by rising expenditures

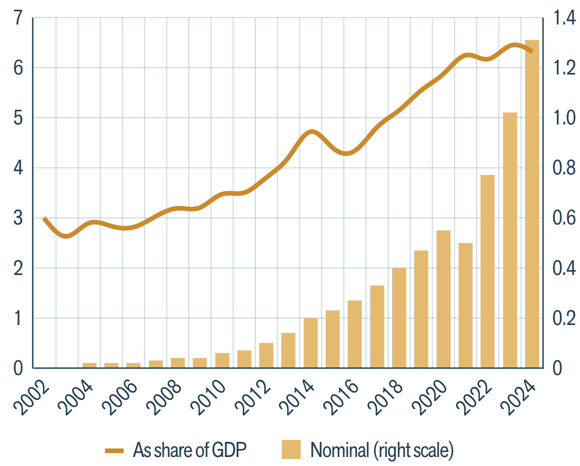
Actual versus Planned Deficits (as percent of GDP)



Source: World Bank calculations using MoFEA data.

The wage bill has doubled as a share of GDP over the past 15 years

Wage Bill (as a percent of GDP and in nominal MWK trillion)



Source: World Bank calculations using DHRMD data.

Recent reform efforts in some ministries have demonstrated that progress is possible. The roll-out of Integrated Financial Management Information System (IFMIS) commitment controls and payroll modernisation in the Ministry of Health show what can be achieved when technical solutions are paired with a strong political commitment. However, the large stock and flow of discrepancies continue to undermine the credibility of PFM reforms.

KEY CHALLENGES

- **Limited Scrutiny of Budgeting Outturns:** Malawi has a clear institutional framework for budgeting, but implementation remains weak. The allocation of fiscal resources is often neither strategic nor developmental, and budget outturns face limited scrutiny — reducing the credibility of the budget as a tool for driving policy priorities. Audit functions outlined in the 2022 PFM Act are not followed.

- **Insufficient Use of IFMIS:** Even after years of investment, IFMIS functions are not used consistently across the government. Due to uneven enforcement, limited institutional capacity, and weak incentives, many ministries, departments, and agencies continue to operate outside the system, which contributes to overspending and arrears accumulation. Moreover, IFMIS-based budget execution and reporting are not consistent with the 2014 Government Finance Statistics Manual.

- **Weak Public Investment Management:** Malawi's public investment management framework suffers from weak project appraisal and preparation processes and the inconsistent application of the Public Sector Investment Programme (PSIP) guidelines and screening mechanisms. As a result, many projects are delayed, over budget, poorly constructed, and misaligned with national priorities — leading to inefficiencies and wasted development resources.

- **Delayed Payroll Reforms:** The long-delayed integration of wage bill management between the Human Resources Management Information System (HRMIS) and IFMIS continues to undermine payroll control. Until the Human Capital Module has been activated in the new SAP IFMIS and all payroll records have been reviewed, ghost workers and duplicate employees will remain pervasive, eroding public-sector efficiency and weakening trust in public financial management.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Activate the Human Capital Management Module in IFMIS:** The government is encouraged to set a firm deadline for mandating the use of the IFMIS Human Capital Management Module across the government. This measure should be accompanied by a systematic cleaning and digitisation of human-resource records, following the example of the Ministry of Health, to strengthen payroll integrity, eliminate ghost workers, and restore confidence in wage-bill management.

→ **Expedite Full IFMIS Implementation:** In line with the DPP manifesto, the authorities should accelerate the integration of IFMIS across all central government agencies and subnational governments, broadening the coverage of transactions to ensure consistent real-time financial reporting and enforce commitment controls. Establishing clear penalties for noncompliance at both the individual and institutional levels would help strengthen accountability and curb the accumulation of arrears. The authorities should also advance the transition from fiscal tables to IFMIS-based budget execution and reporting procedures.

→ **Rationalise the PSIP:** The authorities should comprehensively review the project portfolio to reduce the number of idle and underperforming projects, as well as those experiencing cost overruns. Resources should be reallocated from these projects to investments that deliver the highest economic and social returns, aligning public spending with national priorities. All future projects should be reviewed using the new PSIP screening framework.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Promote Fiscal Discipline through Stronger Rules and Frameworks:** The authorities should develop a Medium-Term Expenditure Framework that is consistent with its development goals and investment plans and ensure adherence to it across the government. Policymakers should also consider introducing fiscal rules, such as a ceiling on recurrent expenditures. These measures will strengthen predictability, curb fiscal vulnerabilities arising from wage pressures, and safeguard long-term fiscal sustainability.

→ **Strengthen Parliamentary Oversight of the Budget:** The Parliament and its committees require technical and institutional capacity-building support to more effectively oversee the budget process and enforce corrective measures. Enhancing access to fiscal information and developing the analytical skills needed to scrutinise expenditure and revenue outturns will enable Parliament to hold ministries, departments, and agencies accountable in a timely and evidence-based manner. The audit requirements outlined in the 2022 PFM Act should be consistently enforced, and a comprehensive stock of arrears should be compiled.

5

How Can Malawi's Local Governments Better Plan, Deliver and Sustain Decentralised Services?

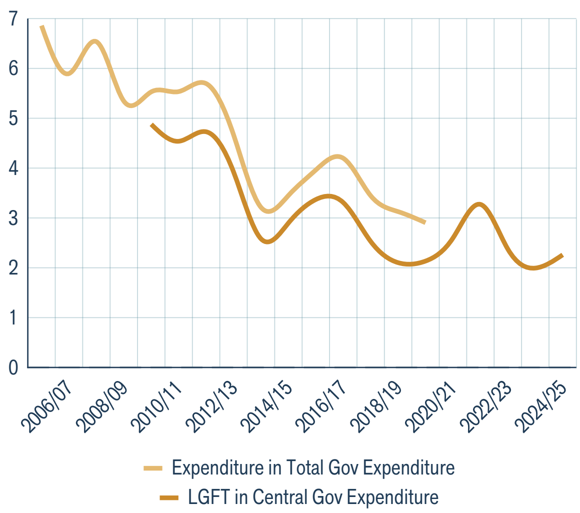
THE POLICY PROBLEM

Limited Political Will and Fragmented Financing Have Slowed the Implementation of Malawi's Decentralisation Agenda, Weakening the Ability of Local Governments to Deliver Public Services

Malawi's decentralisation agenda is at a crossroads. Development transfers to local governments have increased, but recurrent transfers are declining, and the share of local government spending in total spending continues to fall. Lack of political prioritisation and fragmented financing streams further constrain local governments' ability to plan and deliver services. A clear commitment from the government to implement and finance reforms is needed to sustain donor support.

Local government spending as a share of total spending has halved since 2005

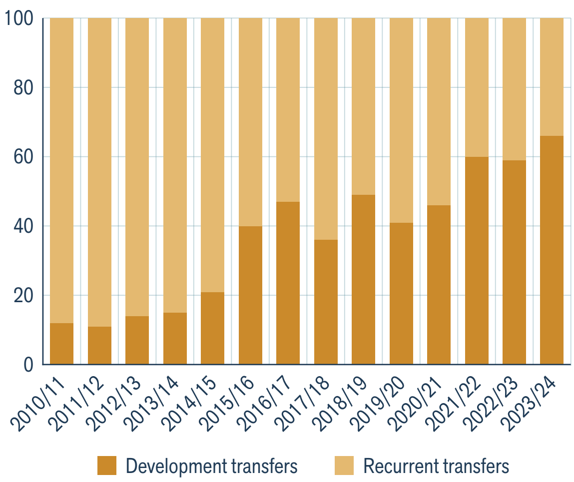
Share of local government spending in total spending (percent)



Source: MoFEA, NLGFC, World Bank.

The share of transfers to local governments for recurrent service delivery has fallen dramatically

Development transfers and recurrent transfers to local governments (as share of total transfers)



Source: NLGFC.

Local governments have shown their capacity to deliver. Results-based financing through the Performance Based Grant (PBG) has proven that District Councils can implement high-quality, citizen-responsive investments such as schools and health centres. Building on this success, harmonising existing funding within a common framework would deepen decentralisation and improve services.

Further efforts are necessary to unlock the full potential of decentralisation. These would also support the achievement of the ambitious DPP manifesto commitments to reform decentralised governance systems for improved and more accountable service delivery. Key priorities include passing a revised Local Government Act and aligning the Secondary Cities Agenda with broader growth and fiscal reforms. Anchoring these measures with a scaled-up performance-based District Development Fund (DDF), stronger incentives for the Constituency Development Fund (CDF), and enhanced local revenue mobilisation will empower District Councils to deliver services more effectively and sustainably.

KEY CHALLENGES

- → **Limited Political Will:** In 2024, the government adopted a new Decentralisation Policy to guide resource allocation from the central government to local governments in line with service-delivery responsibilities, but high-level commitment to the decentralisation agenda remains weak. Outdated devolution plans and management guidelines for devolved sectors complicate this challenge, as local governments face growing responsibilities to deliver key services like health and education but lack sufficient resources, especially to cover recurrent expenses.

- → **Insufficient Recurrent Financing:** While development financing for local governments has increased significantly over the past six years, recurrent financing has declined in real per capita terms by nearly 40 percent. In sectors such as education and health, this shortfall has reduced the impact of decentralised infrastructure investments on service delivery.

- → **Fragmented and Projectised Local Government Financing:** Financing for local service delivery remains fragmented, with Members of Parliament controlling certain funds for District Councils and donor partners implementing vertical off-budget projects. The result is uncoordinated planning and decision-making across government levels, as sector and district processes often overlap. At the district level, political pressures can result in funds from different sources (e.g., DDF, PBG, CDF) spread across multiple small projects serving different constituencies. Similarly, donor funding is often provided off-budget and not coordinated with district planning structures, resulting in duplicative efforts and/or investments that are not aligned with local planning processes.

- → **Unmanaged Urbanisation:** Malawians, especially younger workers, continue to move to urban and peri-urban areas, increasing the challenges faced by City and Municipal Councils in providing services and investing in local jobs and growth. Strengthening rural-urban linkages will be vital to improve the flow of people, goods, services, capital, and knowledge.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Bring Forward a Revised Local Government Act and the Malawi Chiefs Act for Discussion by Parliament:** While the proposed legislation is being discussed, the government should formulate a plan to deliver on the Secondary Cities Agenda as part of a broader economic growth and fiscal decentralisation reform package. This package should include provisions for strengthening women's representation in local decision-making bodies.

→ **Introduce an Ambitious and Harmonised Performance-Based DDF:** The government should design and implement an upgraded version of the DDF parallel with the passage of the Local Government Act, which empowers local authorities to target development financing based on local citizens' priorities. This financing should be tied to explicit performance indicators to strengthen accountability and help ensure that the increased resources flowing to District Councils effectively enhance service delivery.

→ **Approve Reforms to the Intergovernmental Fiscal Transfer Formulae Proposed in Parliament:** These reforms aim to increase the simplicity, transparency, equity, and upward and downward accountability of transfers to local governments. Proposed revisions to the framework for intergovernmental fiscal transfers were developed by the National Local Government Financing Committee and are currently undergoing technical validation.

→ **Finalise and Roll Out a National Decentralisation Strategy, and Accelerate the Implementation of the Secondary Cities Agenda:** As part of this effort, the government should operationalise the Financing and Fiscal Decentralisation Strategy to better address the financing gap for decentralised functions of local governments. Speeding up the implementation of the Secondary Cities Agenda will help secure more national funding to help manage urbanisation.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Establish a Robust Legal and Institutional Framework for the Effective Management of CDFs, Complemented by Performance-Based Mechanisms to Enhance Transparency, Accountability, and Impact:** The framework should guide the allocation and monitoring of CDF resources, link disbursements to measurable development outcomes, and encourage harmonization of Annual Investment Plans developed by District Councils.

→ **Build the Revenue-Administration Capacity of Local Governments:** Strengthening the ability of local governments to collect ceded revenues and property taxes would help reduce their dependence on fiscal transfers. Digitising the collection and management of own-source revenue would facilitate improved revenue administration.

→ **Introduce an Evidence-based Standard for Service Delivery to Guide Policy Decisions on Resource Allocation to Local Authorities:** Policymakers should create incentives for collaboration between central ministries, departments, and agencies and local authorities to enhance service delivery.

- → **Update Sectoral Devolution Plans and Management Guidelines and Standards to Clarify Devolved Functions and the Expenditure Responsibilities of District Councils:** These plans and standards should account for population growth and increasing demand for services. Expenditure responsibilities should be linked to budget commitments under the Fiscal Decentralisation Strategy.

- → **Fully Integrate the Financial Transactions of Local Governments into the Integrated Financial Management Information System (IFMIS).**

OBJECTIVE 2

Enabling a Dynamic Private Sector

6

How Can Malawi Grow and Diversify Its Exports?

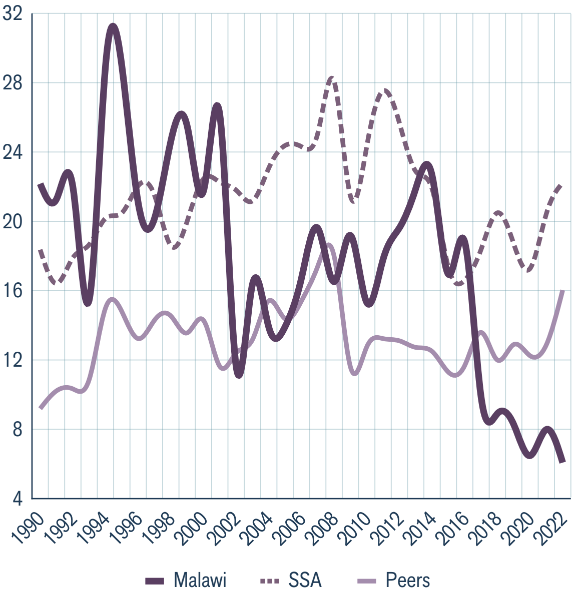
THE POLICY PROBLEM

A Steep Decline in Malawi's Export Performance over the Past Decade is a Major Driver of Its Broader Economic Crisis

Malawi's weak export performance has driven worsening economic imbalances in recent years. During 2023 – 25, goods and services imports exceeded export revenue by a factor of three. A difficult business environment has contributed to chronic underinvestment in tradable sectors. Malawi's trade challenges are exacerbated by exchange-rate distortions and foreign-exchange surrender requirements, high trade barriers and export bans, and its dependence on a declining crop, tobacco.

In contrast to peers and other African countries, Malawi's exports are in decline

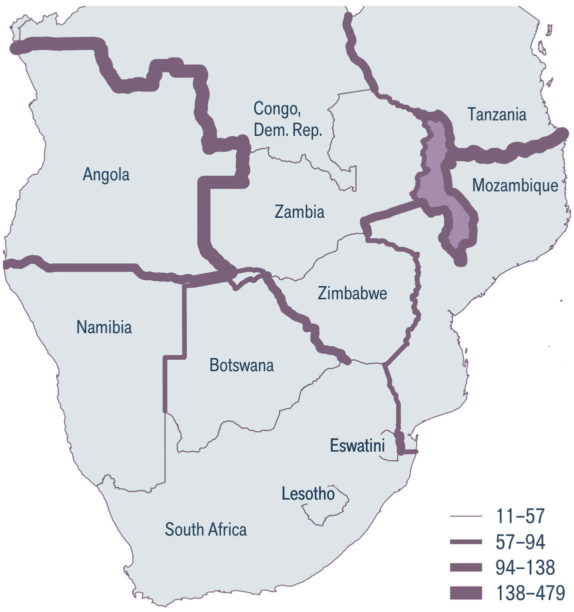
Merchandise exports as a share of GDP (percent)



Source: World Development Indicators.
Note: SSA is Sub-Saharan Africa; Malawi's peers are Burundi, Madagascar, Niger, Uganda, and Zimbabwe.

Malawi's trade costs are much higher than those of neighbouring countries

Border thickness indicates differences between producers and consumer prices



Source: Arvis et al. (2020) based on World Bank-UNESCAP database (2015 – 18 averages).

Compared to neighboring countries, Malawi is falling behind. While others are increasing their exports, Malawi's limited connection to global markets and slow progress in adopting regional trade agreements like the African Continental Free Trade Area (AfCFTA) are holding it back. With international aid expected to decline in the coming years, these problems could become even more severe.

The DPP manifesto recognises the importance of regional and global trade integration as a pathway to expanding exports and stabilising the economy. However, increasing exports and foreign-exchange inflows will require greater policy stability and the elimination of disincentives to trade and investment. Restrictive trade and industrial policies contribute to chronic trade imbalances, which in turn encourage further distortive policy interventions. This vicious cycle has played a major role in Malawi's weak export performance and slow growth.

KEY CHALLENGES

- **Macroeconomic and Foreign-Exchange Distortions Contribute to an Adverse Operating Environment for Existing and Potential Exporters:** An overvalued exchange rate acts as a de facto tax on formal exports, slowing the growth of existing formal exporters, discouraging the entry of new ones, and creating a barrier to formalisation. These challenges are compounded by the nontransparent allocation of available foreign exchange.

- **Excessive Trade Restrictions Create Uncertainty, Increase Transaction Costs, Encourage Smuggling, and Lead to Underinvestment in Export-oriented Sectors:** Malawi's frequent application of ad hoc import and export bans deters investment. Experience from other African countries, such as Nigeria, shows that broad trade bans reduce private investment and government revenues, increase prices and production costs, and do little to foster efficient import-substituting industries.

- **Administrative Delays Result in Increased Smuggling and Lost Exports:** Due to numerous administrative requirements and poor cross-ministerial coordination, obtaining export approvals takes at least four weeks and often longer. Unclear policies and a burdensome export-licensing system create further obstacles and uncertainty for exporters and investors, and mis-invoicing is frequently used to evade taxes. Forgone revenue from smuggling and customs fraud from mis-invoicing likely exceeds US$ 200 million per year.

- **Widespread Price Controls Harm Consumers and Formal Exporters:** The government imposes price controls on fuel, energy, fertiliser, crops, and housing. These policies often act as implicit subsidies paid by taxpayers, leading to underinvestment, lower fiscal revenues, elevated price volatility, and increased illicit trade. Price controls tend to disproportionately benefit wealthy households. Direct transfers to the poor, paired with increased market competition, would more efficiently support poverty reduction and export-led growth.

- **Opaque Trade-Facilitation Processes and Non-Tariff Barriers Increase Costs Along Key Corridors:** The vital Beira and Nacala trade corridors are subject to major infrastructure bottlenecks and non-tariff barriers, including manual customs and immigration procedures. Easing trade flows through these corridors would reduce costs and expand access to regional markets under AfCFTA. The limited ability of exports to comply with sanitary and phytosanitary standards also reduces trade, as many products can only be shipped to markets with less stringent rules.

- **A Fragmented and Inefficient Export-Development Ecosystem Hinders Export Growth and Wastes Public Funds:** While the international experience suggests that publicly funded, privately led export-promotion agencies tend to perform well, the Malawi Investment and Trade Centre (MITC) is inefficient and its operations are not well integrated with export-financing initiatives. These deficiencies undermine its effectiveness.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Implement Regulatory Reforms to Lower Non-Tariff Trade Barriers:** Current import and export bans should be replaced with tariffs that comply with the rules of the Southern Africa Development Community, and all new trade measures should follow a transparent data-driven process. The government should ensure that the 30-day market consultations required by the Control of Goods Act are enforced. Regulations should be simplified to avoid duplication, reduce paperwork, and shorten approval times for export and import licenses. Commissioning a review of the economic impact of all existing trade restrictions would help prioritise further reform measures.

- **Strengthen Competition:** Trade policies should be enforced proactively. Current price controls on export products should be revised, and the overall use of price controls should be scaled back. Government should encourage proactive enforcement of trade policies, and review and rationalise price controls on export products. The authorities should issue implementing regulations for the Competition and Fair Trading Act, including guidance on price-control schedules. Prioritising the implementation of the Single African Air Transport Market would help increase flights to Malawi and reduce prices.

- **Establish the Conditions for Exchange-Rate Unification and Support the Development of an Interbank Foreign-Exchange Market:** The authorities are encouraged to also phase out foreign-exchange surrender requirements and other export disincentives. During the transition period, the government should also establish measures to ensure the transparent allocation of foreign exchange.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Streamline Export-Development Institutions to Mobilise More Financing:** To eliminate duplication, the MITC's export-promotion functions should be integrated with the export-financing initiatives supported by development finance institutions (DFIs). More efficient DFI export financing could also attract private investment for recapitalisation. Building the private sector's capacity for quality management through systems like hazard analysis and critical control points would enhance compliance with international standards and certifications.

- **Strengthen the Regulatory Framework for Trade Facilitation and Scale Up the Digitalisation of Regional Trade and Payments Infrastructure:** The government should fully implement its AfCFTA and WTO commitments, particularly those related to trade facilitation. Integrating Malawi's national payments infrastructure with the AfCFTA's Pan-African Payments and Settlement System would enable bilateral currency conversion for intra-regional trade.

- **Streamline Border Procedures by Reducing the Number of Agencies Operating at Border Posts:** Administrative consolidation and continued digitalisation of customs and immigration processes are vital to reduce trade costs. The authorities should begin by more efficiently coordinating border management at the Muloza, Mwanza, and Dedza crossing points.

- **Implement Consistent Policies to Support Export Growth:** Foreign-exchange shortages can be alleviated through consistent fiscal, monetary, and exchange-rate policies. Reducing the regulatory burden on investors, addressing gaps in transportation and logistics infrastructure, and expanding access to financing are necessary to improve the investment climate. The authorities should define strategic, time-based objectives for trade facilitation and develop a medium-term fiscal framework that supports export growth.

7

How Can Malawi Make It Easier for Firms to Borrow and Grow?

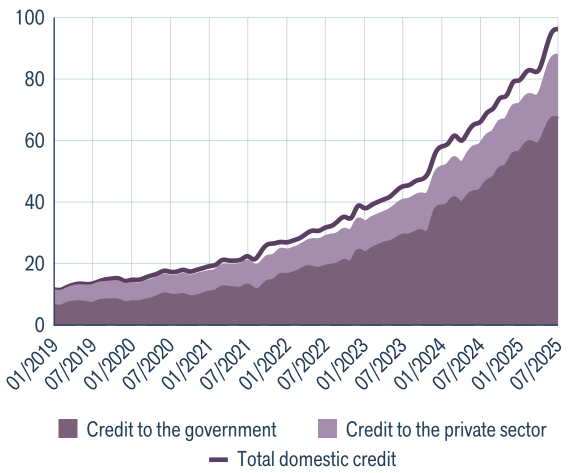
THE POLICY PROBLEM

Businesses Cannot Access Finance at Affordable Rates

Malawi's entrepreneurs and business owners face major challenges accessing credit — a vital ingredient to achieving higher rates of economic growth. Credit constraints limit firms' ability to invest, hire, and compete. The public sector is crowding out private borrowing: in the last ten years, loans to the government have risen from 30 percent of total domestic credit to almost 80 percent. Lower borrowing costs and greater credit access will be crucial to support sustainable development.

Lending to government has grown dramatically, making up almost 80% of total credit

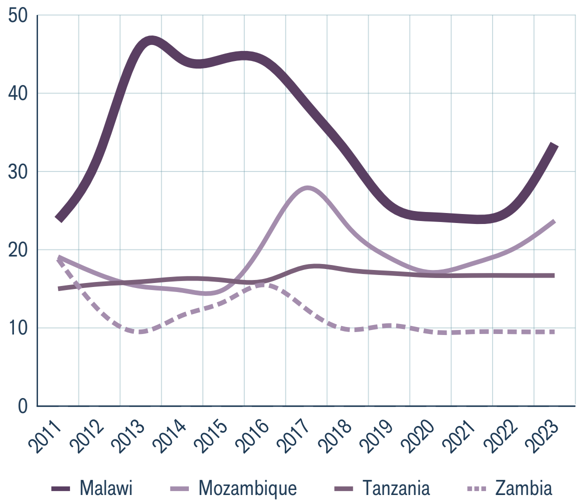
Credit-to-GDP Ratio (percent)



Source: RBM.

Interest rates are significantly higher than in neighboring countries

Lending rates, 2011 – 23 (percent)



Source: World Bank World Development Indicators.

Macroeconomic factors have been critical to undermining affordable access to finance. High inflation has kept the RBM policy rate at 26 percent, well above the regional average of 15 percent. Monetary financing of the fiscal deficit has fuelled rapid inflation, sharply increasing the cost of private-sector borrowing, and banks prefer lending to the government over riskier private clients.

High interest rates and extensive government borrowing have made Malawian banks among the region's most profitable while starving the private sector of credit. However, banks are increasingly exposed to the risks associated with government's unsustainable debt trajectory.

Lack of access to foreign exchange exacerbates a difficult financing environment, as an overvalued exchange rate and surrender requirements on export proceeds encourage informality and smuggling. The latest Foreign Exchange Directive (2025) requires exporters to repatriate their proceeds within 120 days and sell 25 percent (previously 30 percent) to the RBM at the official exchange rate. Non-compliance can result in significant penalties. Limited access to foreign exchange constrains imports of key inputs like machinery and fertiliser, reducing productivity and threatening the survival of firms. Policy actions to address macroeconomic imbalances and reduce the crowding out of private borrowing are urgently needed to support productive, job-creating investments.

KEY CHALLENGES

- **Macroeconomic Imbalances:** The monetary financing of large, recurrent fiscal deficits has driven a sharp increase in inflation, nominal interest rates, and borrowing costs. The resulting cash-flow difficulties for borrowers have at times led to the premature termination of loan agreements, and the share of non-performing loans (NPLs) is rising and approaching 10 percent. In this environment, banks lend to the government to help preserve the real value of their assets against their liabilities, which are mainly short-term and non-interest, leading to a severe credit shortage.

- **Excessive Bank Margins and Collateral Requirements:** Despite regulatory efforts, banks maintain high margins and steep collateral requirements, often valuing assets at just 50 percent due to delays in recovery amid a high-risk environment. Asset-based lending is rare, and even companies that can pay high interest rates find that banks prefer government securities.

- **Financing is Mostly Short-Term and Poorly Structured, Designed for Trading Rather than Long-Term Investments in Productive, Job-Creating Sectors:** Lending terms, which typically specify short tenors and offer no grace periods, are unsuitable for capital investments and value addition in agriculture, manufacturing, mining, and other export-oriented sectors.

- **The Development Financing Ecosystem is Fragmented and Poorly Governed:** Institutions like the Export Development Fund (EDF), the Malawi Agriculture and Industrial Investment Corporation (MAIIC), the National Economic Empowerment Fund (NEEF), and the Greenbelt Authority have overlapping mandates, weak governance and widespread inefficiencies. Many pursue objectives unrelated to development, worsening institutional fragmentation. For example, NEEF's NPL ratio exceeds 15 percent, hindering business growth and reducing its attractiveness to institutional investors.

- **Underdeveloped Capital Markets and Limited Long-Term Financing Force the Private Sector to Rely on Costly Bank Credit:** Despite a sound regulatory framework, there are few listed equities or syndication opportunities, and institutional capital is concentrated in government bonds. The Pension Act restricts outward investment, limiting institutional investors' ability to make long-term developmental investments in Malawi.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Promote Fiscal Discipline to Slow Domestic Debt Growth, Free Up Credit for Private-Sector Lending, and Reduce Inflation:** The authorities can address the crowding-out effect on private lending and mitigate the inflationary impact of fiscal policy by setting clear targets for reducing government borrowing. Over time, these measures will also ease pressure on the parallel exchange rate.

→ **Lay the Groundwork for Exchange-Rate Unification and the Development of an Interbank Foreign-Exchange Market:** This process should be supported by phasing out foreign-exchange surrender requirements and other export disincentives. During the transition period, interim measures should be put in place to support the transparent allocation of foreign exchange.

→ **Strengthen Moveable-Collateral-Based Lending by Rolling Out the Personal Property Security Registry Across All Relevant Ministries, Departments, and Agencies:** The comprehensive integration of the registry into government operations will help ensure that records are complete, incentivise lenders to use the registry, and encourage the acceptance of moveable assets such as vehicles, machinery, or equipment as loan security.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Reform Malawi's Development Finance Institutions (DFIs) to Increase Their Efficiency, Scale, and Readiness to Mobilise More Private Investment:** Expanding the successful independent investment committee model used by MAIIC, which is currently limited to a specific line of credit, would help to attract additional private capital from institutional investors, regional multilaterals, and impact investors. In parallel, strengthening the performance, governance, and management systems of DFIs would also enhance their ability to attract private and multilateral funds. The authorities should begin recapitalising DFIs based on performance indicators, including development outcomes and private co-investment goals.

→ **Support the Deepening of Capital Markets to Diversify Financing Sources:** Gradually implementing results-based management investment guidelines would help strengthen the pension-fund investment framework and promote the diversification of productive investments, including through a blended-finance facility for infrastructure leasing. The authorities should review and update regulations to allow corporate bonds from non-listed firms and streamline issuance procedures for small and medium enterprises.

8

How Can Malawi Achieve Food Security?

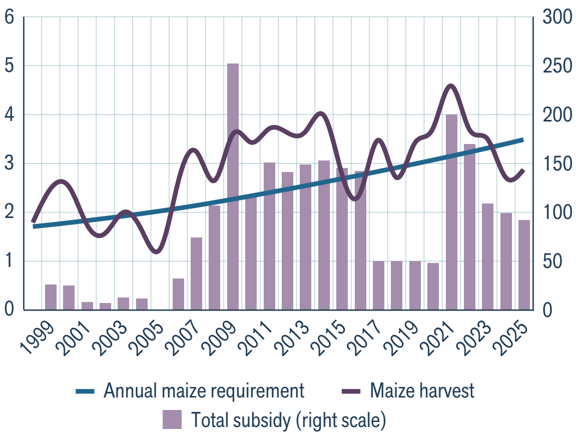
THE POLICY PROBLEM

Agricultural Policy Has Neither Increased Productivity nor Strengthened Food Security

Agriculture is the backbone of Malawi's economy, but agricultural productivity remains low and stagnant, resulting in frequent food security crises. The sector contributes 25 percent to GDP, employs over 50 percent of the population, and accounts for over 80 percent of exports, but although agriculture spending absorbs more than 10 percent of the national budget, the sector continues to dramatically underperform. The value of Malawi's agricultural exports has declined steadily since the early 2010s. Maize yields average 2.1 metric tons per hectare (MT/ha), far below both the 2024 National Adaptation Plan (NAP) target of 4 MT/ha and the estimated potential level of 10 MT/ha. Land and labour productivity indicators lag regional averages and NAP benchmarks. Due to low productivity and shrinking average farm sizes, few rural households produce enough to feed themselves: on average, only one-third of a rural household's consumption comes from subsistence farming.

Spending on fertiliser subsidies is weakly linked with maize production

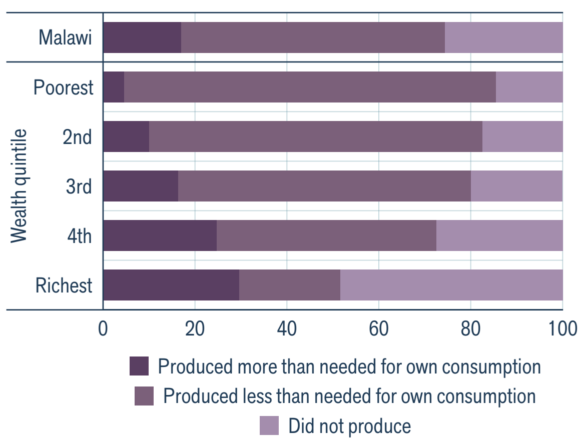
Subsidy spending (US$, million), Maize (in millions of metric tons)



Source: IFPRI based on MoA APES data.

Most households have not been able to produce enough food for their own needs

Reported production and consumption by households (percent)



Source: IHS.

For the past five decades, government policies have focused on ensuring food security by focusing on subsistence farming at the expense of commercial farming. This strategy has not produced the desired results. Because of low subsistence production, insufficient off-farm income, and volatile markets, between 2 and 5 million Malawians require food assistance every lean season, and even a sharp increase in the productivity of current farming systems would fail to lift much of the population out of poverty. Instead, the commercialisation of agriculture offers the greatest potential to support growth and job creation. With the right policies in place, commercial farmers can boost local demand and stimulate off-farm labour markets in rural areas.

For the agricultural sector to achieve food security and drive economic growth, two conditions must be met. Productivity must increase, while input and output markets must improve. Progress in these two key areas will require well designed and appropriately prioritised policy actions.

KEY CHALLENGES

→ **A Subsistence-Oriented Smallholder Model:** Malawi's heavy reliance on subsistence farming, particularly smallholder maize production, fails to meet national food needs. Although input subsidies account for almost half percent of the agricultural budget, productivity remains very low, and millions of Malawians require food assistance each year. A systemic shift away from smallholder farming will be required to protect and improve the welfare of rural households.

→ **Shrinking Landholdings and Limited Economic Alternatives:** The average farm size is small and shrinking. Most households now cultivate less than one hectare, which is insufficient to support meaningful income growth or poverty reduction. As the population continues to increase, the average cultivated area per household is set to decline further. Meanwhile, non-agricultural employment and business opportunities remain scarce, trapping many Malawians in low-return farming.

→ **Vulnerability to Climate and Market Shocks:** Malawi's agricultural sector is predominantly rain-fed and highly exposed to climate risks. Despite the country's abundant water resources, irrigation infrastructure is limited, underutilised, and expensive. Soils in many parts of Malawi are highly weathered, sandy, acidic, low in organic matter, and inherently nutrient-poor, which reduces yields and necessitates intensive fertilisation. However, soil health is declining due to poor soil-management practices, diminishing the effectiveness of fertiliser. An overreliance on maize, which is sensitive to drought and pests, further undermines the sector's resilience to shocks.

→ **Market Distortions and Ineffective Institutions:** Government interventions, including price controls, import and export bans, and unpredictable market operations by state-owned enterprises (ADMARC and NFRA), increase volatility and discourage investment. These institutions often have conflicting mandates and inadequate financing, which undermines their effectiveness in stabilising markets and ensuring food security. Only about 15 percent of agricultural output is sold on formal markets, as poor storage systems, inadequate roads, and policy unpredictability limit participation in the formal sector.

→ **Policy and Investment Constraints:** Malawi's exchange-rate policy keeps the currency overvalued, making exports uncompetitive and driving many producers into informality or out of business. Fiscal constraints limit public investment in agriculture, while unfriendly business policies deter the domestic private and financial sector from investing in agriculture and discourage foreign investors from investing in Malawi altogether.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Reorient Agriculture Spending:** The DPP manifesto acknowledges the inefficiency of current input subsidy schemes and commits to reforming these. The FY2026/27 budget is an opportunity put this into practice. Fertiliser procurement and distribution should be left to the private sector. The government should fix its own annual contribution to the sector rather than fixing sales prices and should consider substituting flexible input coupons for the present approach of providing subsidised fertiliser. Redirecting resources to improving extension services, addressing declining soil health, and providing legume seeds would improve value for money in public spending.

→ **Strengthen Market Institutions:** Stronger market institutions will accelerate commercialisation by reducing policy uncertainty and ensuring a predictable, rules-based environment. Key measures include the consistent implementation of the Control of Goods Act (COGA). Curtailing the use of ad hoc price controls and other discretionary interventions, as well as selective regulation enforcement, would help attract investment and promote competition.

→ **Improve Seed Quality:** The Seed Policy (2018) and Seed Bill (2022) remain unenforced due to pending regulations. Finalising these rules and publishing them in the official gazette are urgently needed to combat counterfeit seed and ensure that quality inputs reach farmers.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Repurpose Existing Subsidies from Lowering Input Costs for Maize Production to Incentivising the Uptake of Technologies that Improve Soil Health:** After two decades, subsidies have convinced farmers of the utility of fertiliser, but subsidy policies now drain the budget while generating limited results. Incentivising the adoption of yield-increasing technologies for soil health and crop diversity will deliver higher returns.

→ **Strengthen the Environment for Agricultural Investment:** The government should establish predictable, evidence-based agricultural trade and pricing policies, advance land-tenure reforms, and modernise collateral systems to improve farmers' access to finance. Key actions include limiting ad hoc export bans, addressing inconsistent price policies, securing transferable land rights, expanding collateral registries for movable assets, and simplifying collateral registration and enforcement to lower investment risk.

→ **Accelerate the Adoption of Climate-Smart Technologies:** Over 100 technologies (e.g., drought-tolerant seeds, resilient practices) have been approved by the Agriculture Technology Clearing Committee, yet few have reached farmers. Coupled with the right market incentives, efforts to scale up dissemination, strengthen public extension services, and incentivise private extension providers will boost uptake and increase resilience.

9

How Can Malawi Unlock the Potential of Its Mining Sector?

THE POLICY PROBLEM

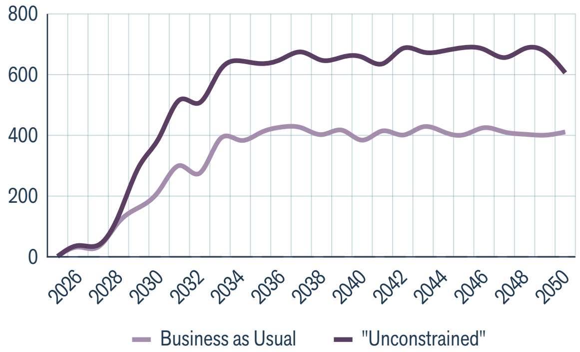
Malawi's Mining Sector Has the Potential to Reshape Malawi's Economy but Requires Significant Reforms and Investments

Malawi's mining sector is poised to become a transformational driver of economic growth. The country possesses significant deposits of energy-transition minerals (ETMs), including graphite, rare earth elements, uranium, rutile, and niobium, which are essential to produce clean-energy technologies. Currently, mining contributes just 0.7 percent to GDP and exports, but projections indicate that mining exports could rise to more than twice the level of all existing exports under an optimistic development scenario.

Mining could become Malawi's largest export sector within a decade, fundamentally altering the country's economic structure and development trajectory. Seven advanced projects with the potential to generate a combined US$10 – 30 billion in exports over their lifespans are now at the pre-feasibility or feasibility stages. Implementing these projects could boost domestic revenues by 10 – 30 percent, create thousands of direct and indirect jobs, and position Malawi as a reliable supplier of ETMs. However, the window of opportunity is narrow. Under a business-as-usual scenario, only the Kayelekera (uranium), Kangankunde (rare earth elements), and Kasiya (rutile[1]) mines are likely to proceed, limiting annual revenue potential to US$300 – 400 million from 2030 onward.

Fiscal revenues from the mining sector will likely peak at 2 – 5 percent of GDP depending on the number of operational projects

Projected mining revenues, 2025 – 2050 (US$, million)



Source: World Bank Group staff estimates.
Note: The chart shows peak energy demand under the World Bank's "Unconstrained" Scenario. Mines shown in teal are believed to progress to production, while mines shown in purple have not yet been sufficiently de-risked for the World Bank to include in projections to government.

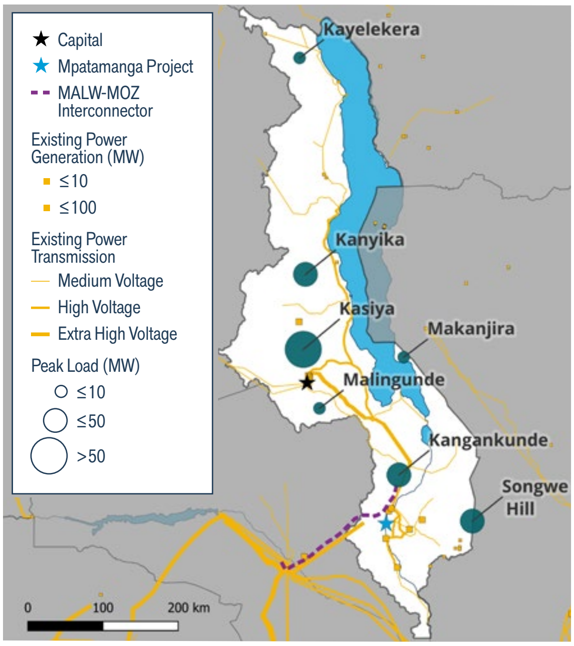
1 Kasiya holds the world's largest natural rutile deposit.

Targeted policy actions will be necessary to unlock the full project pipeline and significantly increase long-term government revenues.

The mining sector's strategic importance extends beyond revenue generation. With support from its development partners, the government has developed an ETM Roadmap designed to leverage Malawi's mineral reserves to transform the country's export profile while supporting the global transition to clean energy. Financing the roadmap will require an estimated US$4.6 billion, with about 90 percent mobilised from private-sector sources. The World Bank Group's planned Malawi Mineral Value Chains Support Project will provide critical technical and capacity-building assistance starting in 2026, but its success will hinge on maintaining policy consistency, strengthening institutional capacity, and ensuring transparent stakeholder engagement. With coordinated government action and robust international support, Malawi can transform its mineral wealth into sustainable economic development and improved livelihoods for its citizens.

The mining sector will become a significant energy user, driving demand for new generation projects

Circle size reflects estimated peak load (MW)



Source: World Bank Group staff estimates.
Note: Transmission lines represent existing infrastructure by voltage class.

KEY CHALLENGES

→ **An Inhospitable Investment Climate:** Malawi is perceived as a high-risk investment destination due to slow, opaque, and inconsistent licensing processes. Uncapped state equity participation creates uncertainty for investors, while the weak institutional capacity of the Mining and Minerals Regulatory Authority (MMRA) and the Malawi Environmental Protection Authority (MEPA) hampers effective sectoral oversight. An outdated mining cadastre and limited access to geological data further deter investment.

→ **Infrastructure Constraints:** Gaps in critical infrastructure are a major barrier to mining development. An unreliable electricity supply, poor transport connectivity to mining areas, and lack of accredited laboratories for mineral valuation significantly increase operational costs. Power demand from mining projects could reach 200 MW by 2032, requiring substantial grid expansion and additional generation capacity.

→ **Fiscal Framework Limitations:** While Malawi's fiscal framework provides an adequate foundation for the development of the mining sector, several challenges persist. Uncapped state equity participation necessitates complex negotiations; fixed royalty rates lack progressivity; and the resource-rent tax formula is overly complex and susceptible to base erosion and profit-shifting. Mining development agreement (MDA) negotiations have historically taken up to 12 years, risking delays and missed market opportunities.

→ **Environmental and Social Governance Gaps:** Limited institutional capacity for managing environmental and social risks creates challenges for sustainable mining development. The absence of standardised frameworks for Community Development Agreements leads to arbitrary terms and limited transparency. Weak coordination between regulatory agencies and inadequate emergency-response capabilities compound governance challenges, and the social issues associated with mining — including worker rights and environmental impacts — are not adequately addressed.

→ **Labour Shortages:** The mining sector faces acute shortages of skilled professionals, including geologists, engineers, and environmental experts. The movement of skilled workers from the public to the private sector weakens institutional capacity, while limited coordination between academia, government, and industry constrains workforce development.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Establish a State Equity Cap:** Imposing a legal cap on free carried interest would set clear limits on state equity, providing greater investment certainty and streamlining MDA negotiations.

→ **Strengthen Negotiation Capacity:** Developing a standardised MDA template with core fiscal and legal clauses would reduce negotiation times and provide predictable terms for investors. The authorities should request donor financing to contract a transaction advisory support firm to support the Malawian government in negotiations with mining firms. Establishing a Cabinet Committee led by the Ministry of Finance with a clear accountability matrix for mining-sector development would strengthen cross-ministerial coordination.

→ **Modernise Information Systems:** To reduce exploration risks and showcase the country's mineral potential, the government should: (i) upgrade the mining cadastre system to a modern digital platform with transparent, accessible geological data and (ii) improve the Geo-Data Management Information System.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Accelerate Key Infrastructure Investments:** Achieving further progress on the Mpatamanga hydropower project and regional interconnections would help address critical electricity constraints. Investments in new generation and transmission infrastructure will be necessary to meet the mining sector's growing power needs. In parallel, improvements in road and rail networks would help ease constraints on export access via regional ports in Mozambique and Tanzania.

→ **Strengthen Regulatory Foundations:** The government should adopt updated mining regulations, build the capacity of the MMRA and MEPA through targeted training programmes, and establish digital systems to support inter-agency coordination.

→ **Manage Revenues Transparently and Address Volatility Risks:** Creating a fiscal stabilisation fund with clear operational rules and integrating it with the overall fiscal framework would help manage revenue volatility from commodity-price fluctuations. The authorities should strengthen the MRA and MMRA's technical capacity to perform audits, conduct mineral valuations, and prevent transfer pricing. The MRA's mining tax unit should receive capacity-building support and clear guidance on mineral valuations.

→ **Strengthen Linkages with the Broader Domestic Economy:** In line with the DPP manifesto, The government should formulate a local-content policy with input from industry groups and civil society. The policy should include supplier-development programmes and skills training to maximise the economic benefits of the mining sector's growth.

10

How Can Malawi Harness the Potential of Tourism?

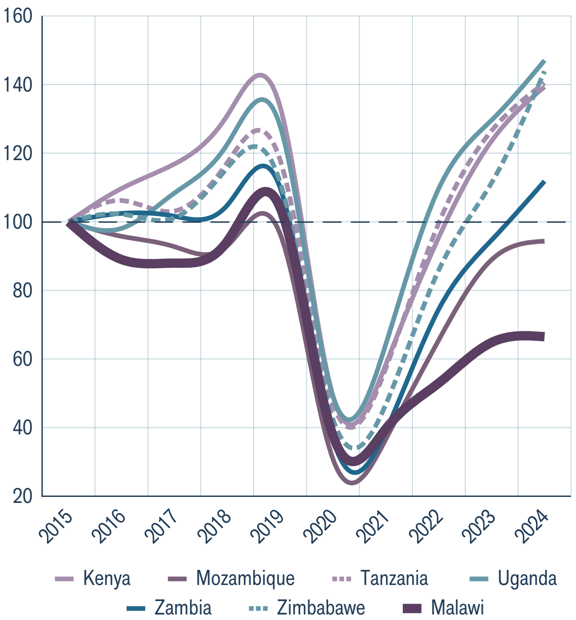
THE POLICY PROBLEM

Malawi's Tourism Sector is Overly Reliant on Donor-Driven Business Travel with Limited Product Diversity

Malawi's tourism sector has significant untapped potential to boost economic growth, create jobs, and generate foreign exchange. The sector is currently dominated by short-stay international visitors and business travelers, often linked to donor-funded meetings, conferences, other events at larger hotels and resorts. This approach is vulnerable to reductions in government spending and declining aid budgets, threatening the sector with stagnation.

Tourism arrivals by air have declined significantly since 2015 and have not reached pre-COVID totals

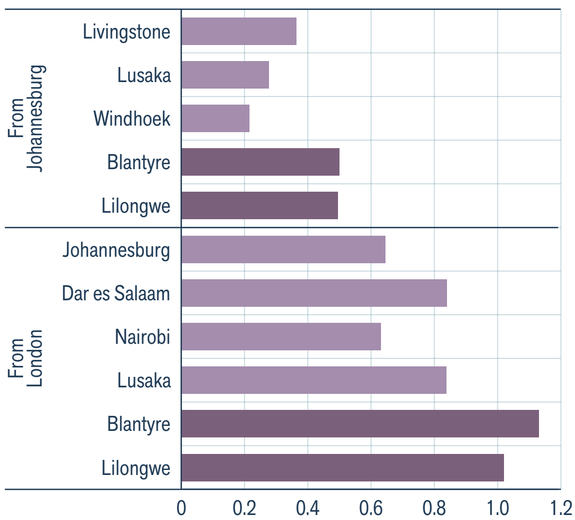
Tourism arrivals from 2015 – 2024 (2015=100)



Source: World Bank estimates based on OAG Traffic.

Flight prices to Malawi are significantly higher than to popular Southern African destinations

Prices of flights from Johannesburg and London to select destinations in Southern Africa (US$, thousand)



Source: IFC analysis.

Note: Estimates based on flight booking website, showing the lowest cost flight available for arrival and return flights on the same dates.

Malawi could expand tourism around its natural attractions. Nature-based tourism is underdeveloped despite the country's unique assets, which include UNESCO World Heritage Sites at Lake Malawi and Mount Mulanje, as well as revitalised wildlife reserves. These attractions are well suited to take advantage of rising global demand for eco-conscious "off the beaten path" travel. Regional peers such as Tanzania and Botswana demonstrate the transformative impact of such tourism, which contributes up to 10 percent of their GDP and 25 percent of exports. Successful regional tourism sectors attract higher-spending tourists, keep visitors longer, and increase arrivals steadily over time.

To unlock growth, Malawi's tourism sector must diversify beyond its current focus on meetings, conferences, and events and reposition itself as a high-quality, nature-based destination. This will require raising service standards, broadening tourism experiences, and strengthening market linkages, while implementing public investments to improve access. With the right mix of policies, Malawi can increase arrivals, extend visitor stays, and secure the economic and social benefits of a competitive, sustainable tourism sector.

KEY CHALLENGES

- **Underdeveloped Tourist Attractions:** Many lakeshore and park-adjacent accommodations offer pleasant stays but lack curated experiences like hiking, cycling, guided tours, or water activities that attract tourists and drive spending. Few of the over one hundred Tourism Masterplan projects are investment-ready, with secure land tenure, clear investor terms, and risk-reducing measures such as community benefit-sharing. Weak safeguards further reduce long-term appeal.

- **Limited Accessibility:** Few international air routes and high ticket prices make Malawi expensive to reach, while the overvalued official exchange rate means that accommodation and other services are far more expensive than they should be for visitors. Poor road infrastructure and frequent police checkpoints make it difficult and time-consuming for tourists to access main attractions, hindering visitor flows and deterring investment.

- **Low Visibility in Regional and International Source Markets:** Weak branding and fragmented marketing weaken Malawi's profile as a destination, constraining arrivals, competitiveness, and growth.

- **Cumbersome Regulations:** Outdated, ad hoc registration and licensing procedures cause delays, reflecting poor inter-agency coordination, unclear requirements, and hidden costs. These issues make planning and executing tourism projects difficult, hindering operations and deterring investors.

- **Weak Data Systems:** Paper-based records and fragmented data management complicate efforts to analyse visitor flows and determine whether investments are viable. While Tourism Satellite Accounts track tourism's contribution to GDP, a lack of real-time digital systems limits the production of actionable insights. Without digitisation, policymakers and operators cannot identify trends, improve services, or maximise growth.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Prioritise Road Maintenance for Tourism Routes:** Policymakers should direct existing road funds to key corridors like the M5 (Blantyre–Lake Malawi) and M10 (Mangochi–Salima–Lilongwe). Improving pothole-ridden roads and reducing travel delays will enhance visitor experiences, lower operator costs, and allow more time at attractions.

→ **Enhance Destination Management Through Scenic or Thematic Routes:** These routes can be developed at a modest cost with signage, downloadable maps, and joint branding by local operators. For example, Malawi could create a Mulanje–Zomba–Liwonde–Cape Maclear route with coordinated branding and better access. Successful models include South Africa's Garden Route, Tanzania's Northern Circuit, and Ireland's Wild Atlantic Way, which attracted 2 million additional visitors and created 35,000 jobs in a decade. Scotland's NC500 similarly transformed a remote region. Such initiatives can help Malawi boost arrivals, extend stays, and spread tourism benefits.

→ **Establish a Destination Management Organisation (DMO):** Creating a DMO to implement scenic or thematic routes aligned with the Tourism Master Plan would focus development resources on high-potential areas. By fostering collaboration between public and private stakeholders, a DMO can enhance branding, sustainability, competitiveness, and visitor experiences, while distributing the benefits of tourism to new areas. Effective destination management can help Malawi build a competitive edge and vibrant brand identity.

→ **Prioritise the Implementation of the Single African Air Transport Market (SAATM) and Liberalise Additional Routes:** Fast-tracking SAATM commitments would expand regional air connectivity, lower ticket prices, and increase arrivals. Extending liberalisation to non-SAATM routes, such as Malawi–Tanzania, would further expand access and boost the competitiveness of the tourism sector.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Offer Low-Cost Training Courses for Tourism Workers:** The Malawi College of Tourism and private partners should develop short courses in guiding, social media marketing, and visitor experience.

→ **Develop Concessions for Priority Sites:** Concessions based on clear land-tenure arrangements could fast-track investment readiness. The authorities should identify Malawian operators that could act as sponsors.

→ **Ease the Burden on Tourism Businesses from Permits, Licenses, and Fees:** A five-year moratorium on new permit requirements could give operators time to plan operations, maintenance, improvements, and expansion projects. The authorities could also consolidate licenses and extend their validity.

- **Invest in Airports to Achieve International Certification:** Certification is a prerequisite for long-haul airlines and flights. It requires targeted investments in safety and security. Upgrading airports will improve Malawi's connections to local and long-haul markets, benefiting the tourism sector while also facilitating exports of high-value perishables like fresh mangos.

- **Establish a Digital Platform to Improve Tourism Decision-Making:** Developing an AI-powered platform that aggregates data from booking and travel sites (e.g., Airbnb, Booking.com, TripAdvisor) would provide real-time market intelligence, enabling evidence-based policy decisions and maximising benefits for local communities.

11

How Can Malawi Make Better Use of Its Land to Drive Growth?

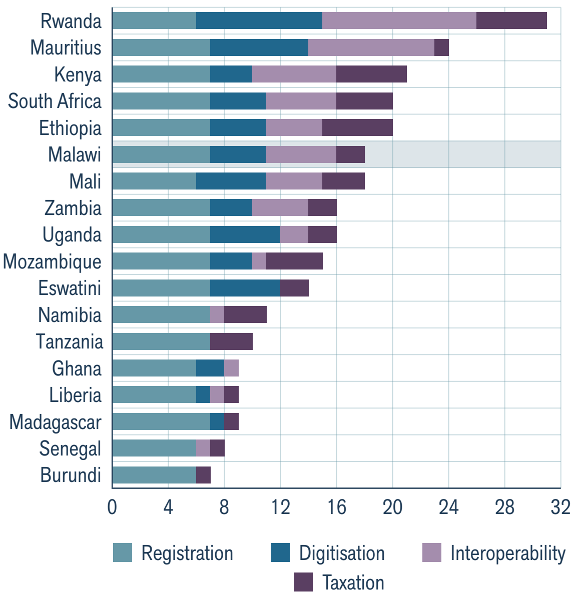
THE POLICY PROBLEM

Weak Governance is Undermining Efficient and Productive Land Use

Administrative challenges have prevented Malawi from fully leveraging its land resources to support economic growth. Weak systems for documenting, enforcing, and transferring land rights have limited market activity and investment, while state interventions have made land use less efficient, accelerated degradation, and increased vulnerability to disasters.

Malawi performs well against regional comparators in land governance but is held back by its low taxation score

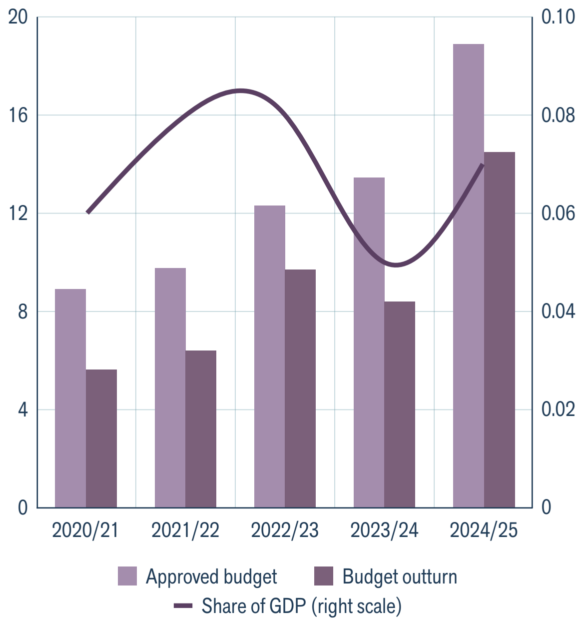
Land Governance Index Scores, Malawi and Regional Comparators



Source: Global Land Governance Index.
Note: Turquoise, blue, light purple and dark purple bars indicate scores for registry digitisation, interoperability to protect rights, and property taxation and effective public service delivery, respectively.

At less than 0.1 percent of GDP, revenues from property and land remain far below potential and the approved budget

Property tax collection in MWK billion and as a share of GDP



Source: Ministry of Finance, Economic Planning and Economic Development and National Local Government Financing Committee.

Over the past decade, the government has made significant progress in addressing these issues. Key legal reforms include the 2016 Land Acts, which allow the registration of customary land to boost smallholder productivity, and the 2024 Sectional Title and Valuation Acts, which require land valuations to strengthen land and financial markets, support urban growth, and increase property-tax revenue. Malawi has also introduced a digital land registration system (LIMS) to enable electronic billing and set up land offices at the district level. Land-administration services have been devolved to local authorities, and 319 Land Clerks have been appointed at the Traditional Land Management Area level.

KEY CHALLENGES

- **Low Public Revenue from Land:** Valuable public land is transferred to investors at very low rates. While 25 percent of Malawi's agricultural land is under leasehold, only about 5 percent of leases are estimated to pay ground rent. Limited data on land values makes it impossible to tax capital gains from real estate transfers. Combined with the difficulty of updating valuation rolls and weak enforcement, this prevents local councils from collecting property taxes needed to fund public services and manage ongoing urbanisation.

- **Limited Attractiveness for Investors:** Accessing land for investment involves complex discretionary processes, and leases are frequently renegotiated. A challenging business climate discourages top-tier foreign investors, hinders local entrepreneurship, and limits the use of land rights as collateral. These factors also encourage speculative and unproductive land uses that create few jobs and little revenue.

- **Incomplete Coverage of Registered Rights:** The software used by the central registry can only support active land or credit markets if it contains accurate land-rights data. These data must be created by digitising and validating paper records (mainly leaseholds) or through the field-based adjudication of customary land.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Increase Revenue from Public Land:** In line with the DPP manifesto commitment to introduce fair land taxation, the Cabinet should consider approving a strategy to boost the revenue generated by public land. This would be supported by establishing new regulatory and IT infrastructure, including a valuation database and digital billing systems. These measures would help to increase ground rent and enhance collection efficiency while strengthening the taxation of capital gains from real estate transactions. Conducting an inventory of public land for at least one major city in Malawi would help identify effective ways to gazette and protect public land.

- **Eliminate the Malawi Investment and Trade Centre's Monopoly on Private Sector Access to Public Land:** Section 11 of the Land Act could be replaced by an electronic platform allowing competitive, transparent auctions of public land for private use. Auction information should be made public after the process is complete. Launching high-profile land transfers could attract investors in housing, industry, and agriculture, raising significant amounts for the state budget especially if the changes to section 37 of the Land Act to prohibit any new grants of rights to foreigners are rescinded.

- **Expand the Coverage of Registered Rights:** The authorities should pilot a district-led, integrated, and low-cost approach for issuing customary certificates and leasehold offer letters while also confirming the boundaries of public land. The results of the pilot should be evaluated, and a costed national rollout plan should be developed based on lessons learned. The Ministry of Lands' Data Analysis and Monitoring Unit should systematically track land-governance indicators, including land-use plan approvals, documented rights coverage, lease collection rates, disputes, land prices, and other relevant metrics.

- **Establish and Train Customary Land Committees and Related Institutions:** District support should be provided as needed to develop and ratify land-use plans, and documentation should be issued for at least 80 percent of Traditional Land Management Areas and Group Village Headmen by February 2026.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Further Increase Revenue from Public Land:** Implementing the previously adopted Land Revenue Enhancement Strategy will help meet targets for ground rents, land dispositions, auctions, and capital gains taxes. The strategy should be adjusted as necessary to reflect market trends. The authorities should use data from the national valuation database to conduct mass land valuations nationwide. The results of the valuations should be publicised to support market-price discovery, mortgage-market regulation, and property taxation at the central and local levels.

- **Boost Private-Sector Participation in Land Markets:** Based on the results of the pilot phase of the electronic auction platform, the government should consider options for allowing private firms to access public lands under a suitable business model. Establishing a land working group under the Public Private Dialogue Forum would help expand land access for foreign investors, local entrepreneurs, and the financial industry. The group would connect investors with land users, recommend actions, and draft legal solutions to address obstacles.

- **Roll Out Land Registration:** The government should support a results-based, district-led nationwide rollout of the comprehensive rural land registration model, adjusting as needed from pilot feedback. Procedures and fee structures should be established to underpin the digital registration of land transactions and mortgages in LIMS, and a mobile app should be created for local officials — with an appropriate interface for the private sector — to maintain registry accuracy and trust. Regularly sharing property valuation data would help improve awareness of trends in the real estate market and ensure free access to granular information for interested parties.

OBJECTIVE 3

Building Human Capital and Resilience

12

How Can Malawi Create More and Better Jobs Through Improved Education and Skills Training?

THE POLICY PROBLEM

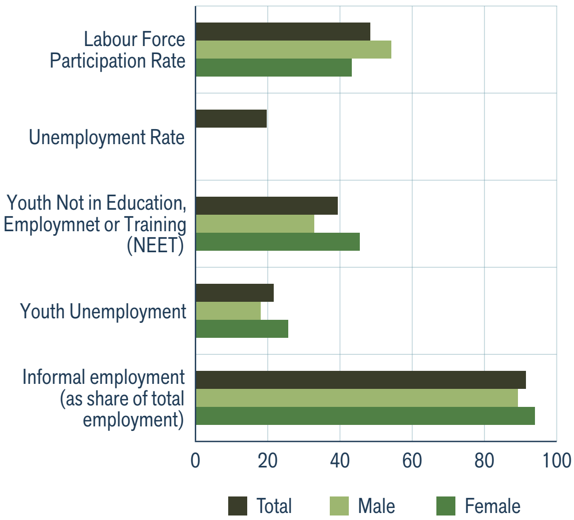
Malawi Faces a Growing Mismatch Between Labour-Market Demand and the Skills of Young People

Malawi's young, rapidly growing population presents a major development opportunity. Nearly half of the population (46 percent) is under the age of 14, and the median age is just 18.1 years. The Malawian economy, however, is not generating enough high-quality jobs to absorb the influx of new workers. About 270,000 young people enter the labour market every year, but only 30,000 formal jobs are created. Because education and training systems are not well aligned with labour-market demand, many young people graduate with diplomas but lack the skills employers need. Most students in Malawi — especially girls — leave school without the foundational and practical skills required either for wage work or self-employment. Given limited fiscal resources, it is essential to prioritise policies and leverage partnerships for the highest impact.

Malawi's school system does not effectively teach core skills. The average Malawian child receives 9.4 years of schooling by age 18, but this figure falls to just 5.4 years when adjusted for learning. In effect, poor learning outcomes mean that time spent in school generates only about half the expected value. Due to the low quality of the education system, many Malawians lack the foundational skills necessary to thrive in the labour market.

Malawi's jobs challenge is particularly acute for young people

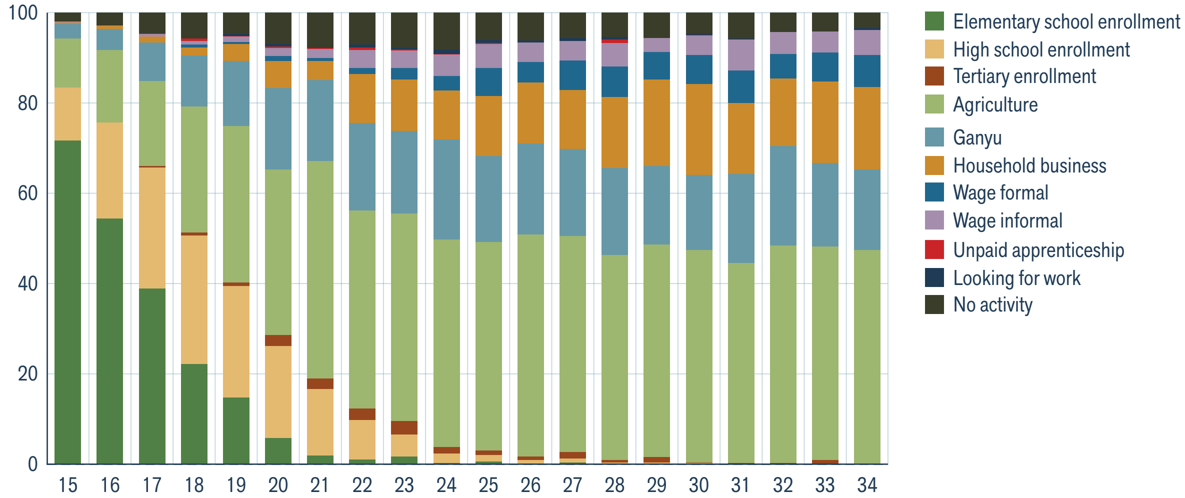
Labour market outcomes in 2024, based on Labour Force Survey (percent)



Source: NSO.

Few younger workers are able to find jobs outside of agriculture and casual, short-term ("ganyu") labour

Education and labour-market status by age cohort (percent)



Source: IHS.

As recognised in the DPP manifesto, Malawi must strengthen the connection between education, skills development, and employment in order to accelerate job creation. Implementing a targeted set of low-cost, high-impact actions developed in collaboration with employers can help young people transition into productive self-employment and wage employment. To reap the full benefits of education investment, special attention should be devoted to the unique needs of girls and other vulnerable learners.

KEY CHALLENGES

→ **Low Transition Rates:** Challenges related to access, retention, quality, and financing hinder the transition from primary to secondary and tertiary education. While primary education focuses on foundational skills, only about half of students who complete primary school go on to enrol in secondary education. Alarmingly, just 13 percent of 10-year-olds can read a simple message, and nearly 40 percent of youths are not in education, employment, or training. Almost one million adolescents ages 10 – 19 are out of school, a majority of whom are women and girls.

→ **Weak Connections with the Private Sector:** Most workers in Malawi have only basic schooling, and many technical and vocational education and training (TVET) programmes are poorly aligned with the skills employers need. These programmes often lack modern equipment and offer few opportunities for hands-on experience, which limits students' ability to acquire practical skills and reduces their readiness for the labour market.

→ **Limited Fiscal Resources:** Tight budgetary constraints require cost-neutral measures, targeted reallocations toward secondary education and skills development to strengthen the transition from school to work, and increased co-financing from employers and development partners. With teacher salaries accounting for more than 80 percent of recurrent basic education spending, there is little flexibility to fund other critical areas without additional resources.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Establish Compacts with the Private Sector in Six Priority Areas:** These compacts should include the creation of skills councils to ensure that TVET curricula are closely aligned with industry requirements. Structured apprenticeships and other direct links to the private sector, as well as formal arrangements for recognising prior learning should be used to quickly build and certify the job skills of younger workers. Where possible, initiatives should be co-financed with private-sector partners. Training curricula should include modules on digital skills and entrepreneurship.

- **Strengthen Support for Gender Equality and Vulnerable Young People:** The authorities should streamline bursaries into a single, transparent scheme to improve efficiency and better target vulnerable young people in upper-primary and secondary education. Mentorship programmes, safe-transport pilots, and robust protocols for reporting and addressing gender-based violence would help protect vulnerable girls. Efforts should focus on districts where school dropout rates are highest. Integrating health and nutrition programmes would boost attendance and improve learning outcomes.

- **Create Second-Chance "Bridge-to-Work" Pathways for Young People Who Are Not in Education, Employment, or Training:** The government should develop and expand short modular programmes that combine life skills, entrepreneurship, digital literacy, and financial literacy, with curricula tailored to local value chains. Work placements with local businesses and farmer organisations would improve the employment prospects of graduates. Targeted support provided through social protection measures such as cash transfers would increase participation.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Upgrade Flagship TVET and Secondary Hubs by Modernising Two to Three TVET Centres, and Create Industry Partnerships and Performance Contracts:** These arrangements should emphasise student placements and employer satisfaction, and they should prioritise areas where private partners are prepared to co-invest. Policymakers should expand technical secondary education to include modules on digital skills, entrepreneurship, and career guidance. Investing in classrooms, laboratories, information technology infrastructure, and sanitation facilities would improve overall learning conditions.

- **Institutionalise Continuous Teacher and Trainer Development:** The education system should provide opportunities for the ongoing professional development of teachers, focusing on practical teaching methods, digital tools, and industry exposure – particularly for TVET instructors. Training opportunities for primary and secondary school teachers should focus on improving curriculum delivery, promoting gender-sensitive teaching practices, and strengthening foundational skills.

- **Implement Results-Based Financing:** The government should reward meaningful links to the private sector (i.e., work programmes that provide students with practical, job-relevant skills), as well as programme completion, female participation, and digital skills development. The focus should be on cost-effective, scalable interventions that leverage co-financing from public, private, and donor sources.

13

How Can Malawi Use Digital Innovations to Improve Health Services?

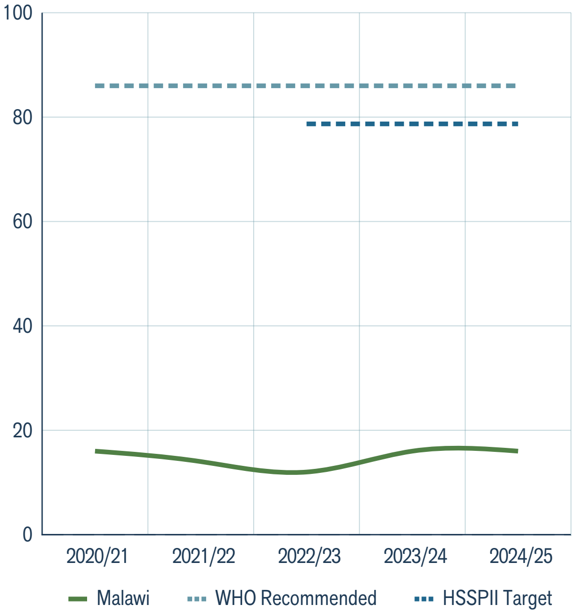
THE POLICY PROBLEM

Malawi's Health System Is Underperforming Due to Insufficient Funding and Widespread Inefficiencies

Malawi's health sector faces persistent resource constraints and systemic inefficiencies. Total health spending is US$21 per capita, well below the target of US$78.7 in Malawi's Third Health Sector Strategic Plan (HSSP III) and the minimum of US$86 recommended for low-income countries by the World Health Organization (WHO). Health spending accounted for 9.5 percent of total government

Malawi's per capita health expenditure is far below local and international targets

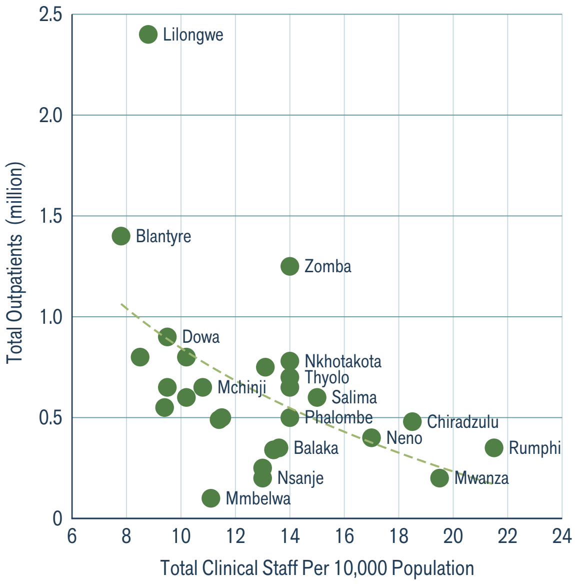
Per capita health spending



Source: UNICEF Malawi.

Districts with lower staffing levels see more outpatients than those with higher staffing levels

Distribution of health staff and outpatient visits



Source: Malawi Public Expenditure Review 2020.

spending in 2025/26, below the Abuja Declaration target of 15 percent. Limited resources and fragmented initiatives result in duplication and gaps in service delivery. As a result, only 44 percent of health facilities can provide the full package of essential services, undermining the overall performance of the health system.

Expanding the use of digital tools and technologies could improve health system efficiency, resilience, and service delivery in a resource-constrained environment. Digital tools in healthcare help clinics share patient information securely and track patient health over time. They can make care more efficient by speeding up referrals, reducing unnecessary tests, and allowing clinics to see more patients — benefits that are especially important for rural and underserved communities. Digital supply-chain management (SCM) systems help prevent stockouts and reduce waste, while mobile applications and dashboards support frontline workers and real-time decision-making. The international experience has demonstrated that these tools can enhance coordination, transparency, and efficiency, with Uganda and Rwanda offering especially instructive examples.

KEY CHALLENGES

→ **An Inadequate and Inefficiently Distributed Health Workforce:** Malawi continues to face shortages of health workers and is only 23 percent of the way to achieving its WHO-recommended core health workforce density target of 23 workers per 10,000 people. This shortage of staff adversely impacts service access, cost, quality of care, and health outcomes. Moreover, the health sector's limited human resources are not efficiently distributed. In some districts, few health workers are responsible for very high patient loads, which reduces the quality of care. The underutilisation of digital systems to track and manage health workers makes it difficult to deploy staff where they are needed most, including in crisis response.

→ **Fragmented SCM Systems:** Malawi's medical supplies are managed through two weakly connected systems — one managed by the government and another by donors. The redundancy of these systems and the poor coordination between them often result in stock shortages in some facilities and excessive supplies in others, while limited oversight encourages waste, theft, and the misuse of medical supplies.

→ **Fragmented and Underutilised Health Information Systems:** Malawi's data landscape suffers from siloed and slow data flows, and health information systems are not consolidated or aligned. A reliance on multiple disconnected data systems complicates efforts to get a full and accurate picture of what is happening in real time. Lack of data hinders timely decision-making, limits transparency, and weakens efforts to plan and use resources effectively. Without digitalisation, decision-makers rely on outdated data and manual reporting, which contributes to stockouts, misallocated investments, and delayed public health actions.

→ **Weak Financial Management:** Fragmented funding streams and donor-driven financing cycles can undermine the long-term viability of health investments. Public financial management (PFM) suffers from critical deficiencies; guidelines for managing public money are not always followed; and health facilities are not treated as independent units in the budgeting process. Digital tools meant to improve oversight and control, like the Integrated Financial Management Information System (IFMIS), are not used effectively.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Optimise the Impact of the Existing Health Workforce:** Enforcing the full utilisation of digital Human Resources for Health (HRH) systems to deploy, track, and manage health workers would improve the quality of care, boost HRH productivity, and support rapid mobilisation for crisis response. The government should finalise and roll out upgraded HRH systems and require all health authorities to consistently use only the designated HRH systems through a supervised directive.

- **Stabilise Medical Supply Chains:** To ensure the consistent availability of essential medicines and reduce losses from mismanagement, the government should develop and implement a roadmap for integrating supply-chain systems. This roadmap should specify how to integrate existing supply-chain dashboards to monitor and track supplies across government and donor-funded systems in near real time.

- **Strengthen Financial Oversight:** The government should enforce the consistent and mandatory use of IFMIS to track budget allocation and spending across all health-sector entities and issue a policy directive mandating the use of IFMIS by all relevant cost centres. IFMIS training for finance officers and facility managers should be scaled up to address capacity issues, and regular visits should be conducted to monitor compliance.

- **Leverage Private-Sector Engagement to Support Digitalisation:** Developing a clear strategy and framework for public-private partnerships would encourage investment in digital health. The government should map all leading private-sector digital health providers in the country and hold meetings with key players to explore partnership opportunities.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Integrate and Modernise Health Information Systems:** To strengthen data quality, decision-making, and transparency across the health system, the government should scale up the Malawi Health Information System (MaHIS) to serve as a fully nationwide network and develop and deploy an interoperable, integrated national health dashboard leveraging DHIS2 to enable seamless data exchange and AI-based analytics.

- **Digitise and Streamline SCM Systems:** To ensure continuous availability of essential medicines, reduce inefficiencies, and strengthen accountability over SCM, the government should implement a nationwide electronic Logistics Management Information System for all facilities, digitise facility-level inventory management, and establish pooled procurement for essential medicines and supplies.

- **Build the Capacity of the Health Workforce to Utilise Digital Technologies:** Developing an e-learning programme for community health workers would improve access to training and reduce the cost of providing it. Scaling up telemedicine interventions and expanding digital mentorship tools would support health workers in remote areas.

- **Enhance Performance-Based Budgeting:** To improve spending efficiency, strengthen accountability, and direct resources to where they will have the greatest impact, the government should develop a digital system for facility-level budget allocations based on HSSP III outcomes and leverage IFMIS to allow for informed resource allocation and improved transparency.

14

How Can Malawi's Social Protection System Be Reformed to Sustainably Pull Beneficiaries Out of Poverty?

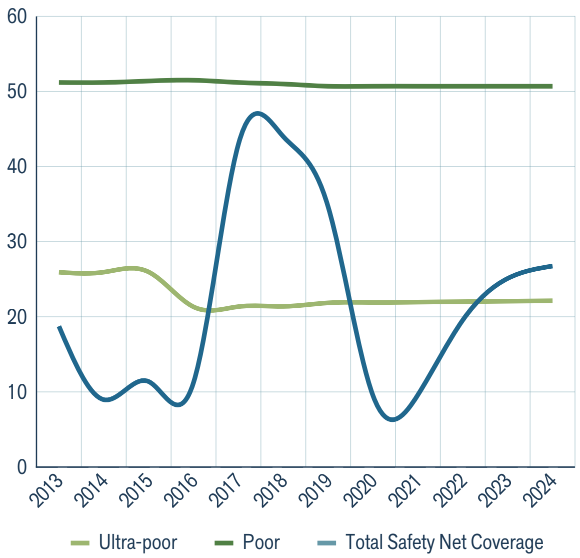
THE POLICY PROBLEM

Low and Unsustainable Social Protection Coverage Amidst Rising Vulnerability

Malawi's social protection programmes have played a pivotal role in improving human capital, food security, local economies, and resilience among the poorest and most vulnerable households. The Social Cash Transfer Programme (SCTP) has increased food consumption by 23 percent, improved food security by 13 percent among extremely poor households, and raised primary and secondary school enrolment rates by 11 percent and 13 percent, respectively. The Climate Smart

After declining prior to the COVID-19 pandemic, safety-net coverage has been rising in recent years

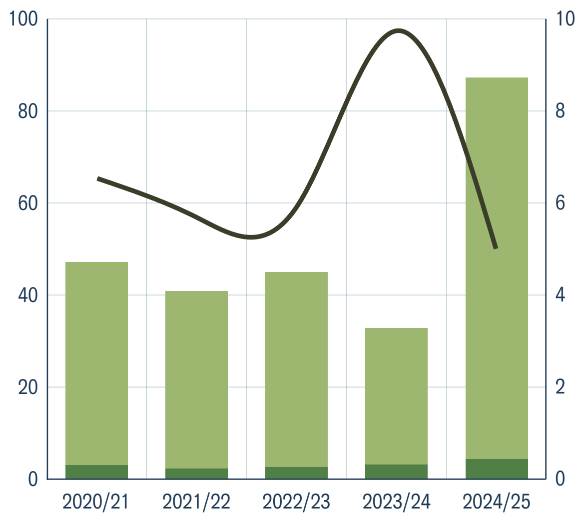
Combined population coverage of Social Cash Transfer, Public Works, and School Meals (percent)



Source: Author tabulation and World Bank and IMF data.

The Social Cash Transfer Programme was 95% donor-financed in the last fiscal year

Social Cash Transfer financing by source (in billion MWK) and share of Government contribution (percent)



Source: Author tabulation and UNICEF Malawi data.

Enhanced Public Works Programme (CSEPWP) has also boosted food consumption, raised incomes, and helped restore degraded land. Without these programmes, many households would experience deeper poverty and greater vulnerability to shocks.

Despite these benefits, Malawi's social protection programmes mostly provide short-term relief and have had limited impact on sustainable livelihoods, economic inclusion, and job creation. Coverage is limited, financial stability is uncertain, and the balance of programme types is not optimal. Although 51 percent of Malawians live below the national poverty line, and 75 percent survive on less than US$3 per day, social safety net programmes — including cash transfers, public works, and school meals — reach only 27 percent of the population. Spending on safety nets is below the regional average and heavily dependent on donors. In 2024, Malawi allocated about 0.9 percent of GDP to safety nets, compared to the regional average of 2 percent, and a decline in aid threatens the system's sustainability.

Due to persistent poverty, vulnerability to shocks, high rates of youth unemployment, and a growing young population, social protection remains a critical investment. Climate and economic shocks tend to hit the poorest households hardest, often pushing them deeper into poverty. Droughts and floods can increase poverty rates among affected groups by as much as 14 percentage points.

KEY CHALLENGES

- **Donor Dependence:** Malawi's social protection system is financed almost entirely by external donors. In 2025, donors supplied over 95 percent of SCTP funding and 97 percent of CSEPWP funding, and shifting foreign-aid priorities put both programmes at risk. Meanwhile, countries like Zambia have moved toward cost-sharing, with increased government contributions to improve sustainability.

- **Targeting Issues:** Recent changes to SCTP targeting have led to significant overlap with the CSEPWP, even though these programmes are intended to be mutually exclusive. As a result, some beneficiaries receive support from both, draining resources and reinforcing the misconception that cash transfers create dependency, which undermines public support.

- **Low Benefit Levels:** SCTP and CSEPWP benefits are modest and further reduced by inflation and currency depreciation. Around 70 percent of SCTP households receive transfers covering less than 20 percent of their consumption needs. Social protection remains focused on social assistance, with little support for economic inclusion, entrepreneurship, social insurance, or labour-market interventions — areas crucial to the livelihoods of low-income households.

- **No Viable Exit Strategy:** A 2025 SCTP evaluation found that households exiting the programme are 9 percentage points poorer, consume 14 percentage points less, and own less livestock than current participants two years after leaving. This underscores the need for robust exit plans, including comprehensive "cash-plus" and linkage packages, to reduce long-term dependency risks.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Develop and Implement a Joint SCTP Reform Plan for the Government and Its Partners:** The Ministry of Gender, Disability Affairs and Social Welfare should formulate this plan in collaboration with the Ministry of Finance, Economic Planning and Development, and involving other key ministries and civil society. The plan should update objectives, adjust benefits annually, secure sustainable financing, and improve targeting to prevent overlap with the CSEPWP. It should also define exit pathways, set domestic financing goals, and include monitoring and evaluation mechanisms to assess the impact of reform actions. Complementary reforms are also needed for public works and economic inclusion programmes.

→ **Establish Cost-Effective Mechanisms to Ensure That the Malawi Social Registry (MSR) Data are Up to Date and That the MSR Supports the Efficient Targeting of Social Services:** The government should consider improving the integration of the MSR with the National Identification System, the BOMALATHU data platform, and other databases such as NAMIS. Introducing on-demand data updates would help to ensure accuracy, harmonisation, and programme integration.

→ **Enhance Engagement with the Private Sector to Create More Opportunities for Wage Employment and Apprenticeships Through the CSEPWP:** Partnerships with the private sector will help transition beneficiaries from temporary public works or cash transfers to sustainable livelihoods while supporting skills development, entrepreneurship, and enhanced access to credit, markets, and business support.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Pass the Social Protection Act:** This legislation would establish a legal framework for stronger government leadership, programme expansion, and sustainable funding to address key vulnerabilities throughout the programme lifecycle.

→ **Gradually Increase Domestic Funding for Key Social Protection Programmes:** The authorities should leverage fiscal reforms targeting improved tax collection and greater expenditure efficiency to raise domestic SCTP funding from 5 percent to 15 percent and CSEPWP funding from 3 percent to 10 percent by 2027, as targeted in the SCTP Strategic Plan.

→ **Utilise Payment-for-Ecosystem-Service Models and Access Global Climate Finance Through CSEPWP:** This approach would encourage private investment in restoring degraded catchments linked to hydroelectric power and commercial agriculture.

→ **Enhance the Mix of Social Protection Programmes:** The government should better integrate vulnerable groups including women into economic inclusion initiatives that promote job growth, entrepreneurship, improved market access, and expanded public-private partnerships. In parallel, the government efforts should focus on strengthening social insurance systems and active labour market programmes including employment services, apprenticeships, and public works.

15

How Can Malawi Improve Water and Sanitation Services Through Enhanced SOE Performance?

THE POLICY PROBLEM

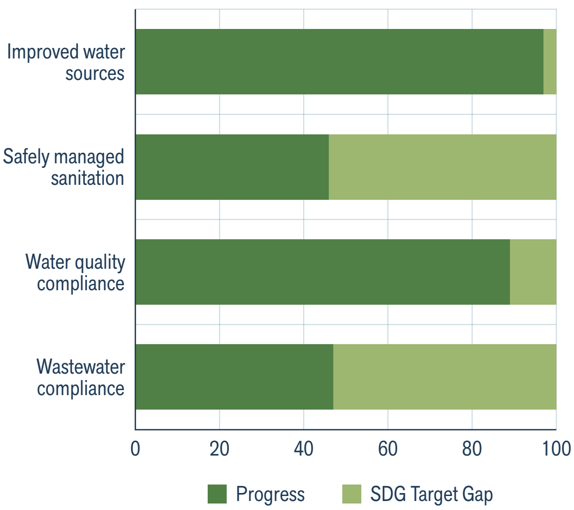
Progress Towards Universal Access to Clean Water and Sanitation Has Been Slow, as Water Boards Are Struggling to Meet Expanding Demand

Improved access to sustainable Water, Sanitation, and Hygiene (WaSH) services is vital to build human capital, combat endemic cholera, and support access to education. Access to WaSH services also lessens household time and financial burdens, boosting productivity and job creation.

While Malawi has made notable progress in expanding WaSH services over the past decade, achieving universal access to clean water and sanitation by 2030 remains a challenge. In April 2025, the Ministry of Water and Sanitation (MoWS) reported that 97.1 percent of urban households had

Ensuring access to quality WaSH services remains a challenge

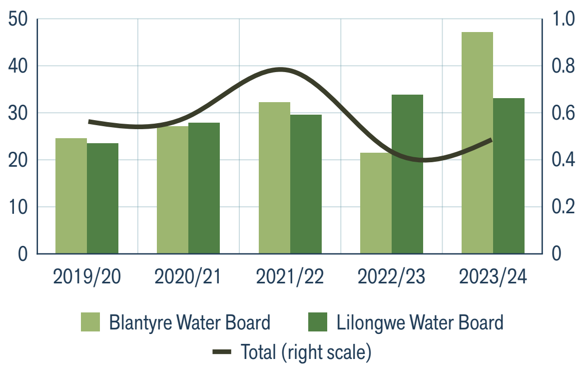
SDG targets for water supply and sanitation (percent)



Source: Joint Monitoring Program, 2024.

The total losses from Blantyre and Lilongwe Water Boards have cost MWK 300 billion between 2019/20–2023/24

Costs from quasi-fiscal activities through mispricing, arrears and excessive losses (MWK billions and in percent of GDP)



Source: World Bank staff estimates based on LWB and BWB data
Notes: Cost reflective tariffs are estimated by World Bank sector specialists.

access to improved water sources, and 46 percent had safely managed sanitation systems. However, sustainability and service quality are ongoing concerns. In 2023/24, only 88.7 percent of water samples met national standards, and wastewater compliance was just 46.7 percent. Rapid population growth and urban migration are increasing demand, requiring major investments to expand access and maintain infrastructure.

Although urban WASH services have improved, the sustainability and technical and financial performance of state-owned enterprises (SOEs) remain problematic. Population growth is hindering the efforts of the Water Boards to achieve greater progress. Without structural governance, regulation, and financing reforms, Malawi risks missing its SDG 6 target and will face continued health and human capital challenges.

KEY CHALLENGES

→ **Rapid Population Growth and Urban Migration:** A 2.6 percent annual population growth rate and significant movement to urban centres make it difficult for Water Boards to sustain and expand WASH services.

→ **Institutional Capacity Constraints:** The government's strategy for accelerating rural WASH services involves transferring all operations and maintenance (O&M) responsibilities for rural piped-water supply schemes to the Water Boards. This shift is expanding their service areas and adding new responsibilities on already overstretched and financially constrained SOEs.

→ **Weak Sanitation Management:** Government has been shifting on-site sanitation responsibilities to Water Boards to professionalise service delivery and ensure proper network maintenance. While this process was successfully implemented in Lilongwe with support from the World Bank, Malawi still lacks a standardised sanitation framework and tariff methodology.

→ **Below-Cost Tariffs and Limited Capital Expenditures:** Maintenance is often deferred because tariffs set by the Ministry of Water Services and Ministry of Finance do not cover O&M costs. Meanwhile, capital expenditures — which come mainly from development partners, bilateral aid, and NGOs — are insufficient to meet demand.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Improve Access To Sustainable WASH Services:** The MoAIWD is expected to finalise the sectoral investment plan, identify priority projects, and define financing sources. It should also complete the establishment of a regulator and a regulatory framework covering service levels and tariffs, as well as the adoption of the necessary legislative changes. With support from development partners, MoWS needs to strengthen Water Boards' creditworthiness through performance improvements and the establishment of cost-reflective tariffs.

- **Enhance WaSH Services in Rural Areas:** The MoAIWD is encouraged to create a framework for transferring fragmented rural water schemes to the Water Boards, with phased implementation and clear timelines to avoid overburdening them. The regulator needs to consider designing an urban-rural service mix that enables cost-spreading and cross-subsidies to sustain rural supply. Investments must first strengthen existing schemes to address current access and sustainability issues.

- **Revamp Urban Sanitation Services:** The MoAIWD needs to develop a national framework for transferring sanitation infrastructure from City Councils to Water Boards, ensuring professional management, cost recovery and infrastructure maintenance. A sanitation tariff methodology drawing on Lilongwe's experience ought to be urgently developed and implemented. MoWS is encouraged to also assess the feasibility of expanding the role of Water Boards to include off-site sanitation to ensure service continuity, leverage economies of scale, and exploit circular-economy opportunities.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Ensure Sustainability and Climate Resilience of WSS Infrastructure:** The authorities should accelerate the development of national WSS standards and guidance documents for Malawi. In collaboration with the regulator, the ministry should require Water Boards to prepare multi-year business plans that outline priority investments — taking climate change and disaster risks into account — as well as O&M needs and resource requirements to improve WaSH services nationwide.

- **Promote Private-Sector Participation in WaSH:** The MoAIWS should strengthen WaSH service delivery by encouraging Water Boards to engage with the private sector. The new Water Supply Act should foster private-sector participation by allowing licenses for bulk water suppliers, enabling utilities to partner with private operators, and permitting investments in services outside Water Boards' designated areas, subject to regulatory oversight. Effective legislation and a strong regulatory framework are essential to attract private investment, enhance service quality and efficiency, and expand access to WaSH services.

16

How Can Malawi Strengthen Disaster Preparedness?

THE POLICY PROBLEM

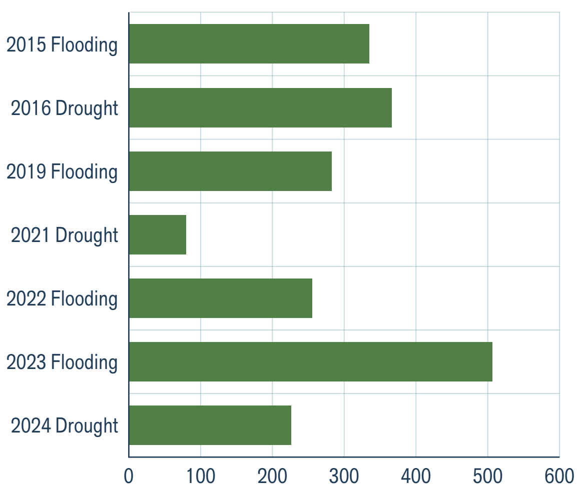
Disasters in Malawi Are Becoming More Frequent and Severe, and Current Adaptation Efforts Are Inadequate

Since 2000, Malawi has experienced an increasing number of floods, droughts and other disasters. On average, 100,000 people were affected by floods and 1.5 million by droughts each year. These events have caused major damage to infrastructure, agriculture, and livelihoods, with annual losses estimated at US$200 million or 1.7 percent of GDP.

Climate projections indicate that floods and droughts will become even more frequent and severe, with disaster-related losses reaching as much as 16 percent of GDP by 2050. Measures to increase disaster resilience could reduce these losses while offering opportunities to accelerate GDP growth. Integrating risk management into sectoral policies will be essential to preserve livelihoods, enable investment, and protect vulnerable communities.

Malawi has endured multiple costly disasters since 2000

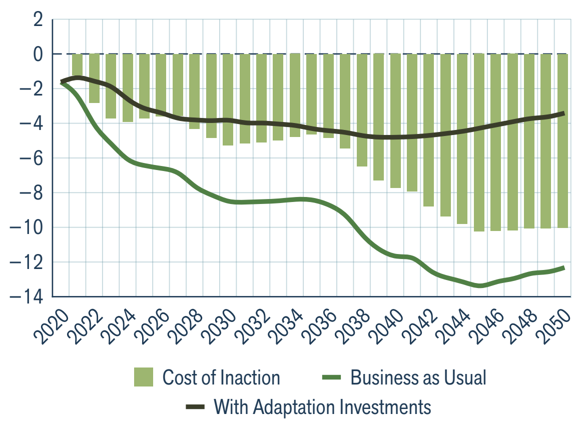
Financial impact of recent disasters (in US$ millions)



Source: World Bank.

A focus on resilience can significantly reduce the long-term economic impacts of climate change

Impacts of climate change on GDP (in percent of loss)



Source: World Bank Malawi Country Climate Change and Development Report.
Note: Modelling results based on SSP-119 (Dry) climate scenario.

Malawi is shifting from a humanitarian-driven response approach to a proactive, whole-of-government model focused on risk reduction, disaster preparedness, and sustainable financing. The 2023 Disaster Risk Management (DRM) Act and the new National DRM Policy are key steps, but further measures will be required to strengthen DRM institutions and establish coordinated, cross-sector resilience. Mitigating disaster risk will be vital to realise the government's "Malawi 2063" vision.

KEY CHALLENGES

- **Rapid, Unplanned Urbanisation and Poor Land Management:** Malawi's cities face growing challenges from unmanaged expansion, especially the growth of informal settlements that lack basic services. This increases disaster risk and deepens vulnerability, particularly for the poorest households. Blantyre and Lilongwe are developing resilience plans, but they need operational and financial support. National urban planning should integrate hazard mapping into spatial and investment decisions. About 12 million Malawians are both poor and affected by land degradation, representing 55 percent of the population — the largest share in the world. Ongoing land degradation could increase infrastructure damage from flooding by 25 percent by 2050. Fiscal constraints further limit investment in resilient urban infrastructure, compounding vulnerabilities. Improving land valuation could greatly boost municipal revenues, enabling improved services and enhanced risk reduction.

- **Limited Integration of Disaster and Climate Risks Into Policies, Plans, and Budgets:** Resilience efforts are fragmentary and uncoordinated. Legislative and strategic gaps, along with weak investment planning and limited institutional capacity, hinder long-term resilience. Key priorities include harmonising the DRM Act with the Water and Land Acts, enacting the Meteorological Bill, and enhancing digital capacity for real-time information sharing. The pending Buildings Bill and new building code will modernise regulations, replacing outdated bylaws with national standards focused on climate resilience and risk reduction.

- **Insufficient Emergency Preparedness and Response Capabilities:** Limited funding, low institutional capacity, and poor coordination among ministries, departments, and agencies undermine disaster preparedness. The response to Tropical Cyclone Freddy in 2023 revealed critical gaps in timely access to resources and operational constraints that hinder efforts to address complex crises. The government is strengthening the Emergency Management Planning framework by unifying annual and sectoral plans and operationalising the National Disaster Management Fund (NDMF) to improve resource mobilisation and implementation. This integrated approach will lay the foundation for more effective emergency response.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Operationalise the National Disaster Management Fund (NDMF):** The government should provide appropriate administrative and fiscal support for the NDMF and adopt the National Emergency Preparedness and Response Framework to enable an integrated approach. These measures will allow for faster, more effective post-shock response efforts and proactive risk reduction.

→ **Enact the Meteorological Bill, Adopt the Strategic Plan for Meteorological and Climate Services Delivery, and Launch Early Warning Services via Malawi's E-Government Portal:** In line with the DPP manifesto commitment, concurrently build institutional and technical capacity for effective Early Warning Systems across national and local levels to ensure timely, accurate, and actionable climate and disaster information. These measures will improve the policy environment, enhance service quality, enable cost recovery for meteorological services, and strengthen national preparedness and response capabilities.

→ **Submit the Buildings Bill to Parliament to Establish a Coherent Regulatory Framework for the Built Environment:** Policymakers should ensure that urban expansion drives sustainable and resilient development rather than increasing disaster risk. The passage of the Buildings Bill will be the first step toward establishing an improved Building Code.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Strengthen the Building Code to Improve Risk Reduction and Build Local Capacity for Disaster Preparedness:** Local governments, disaster-management agencies, and other stakeholders should collaboratively develop integrated DRM plans and identify resilient infrastructure investments. These plans should inform the new urban structure plans and augment their implementation in areas where they have already been initiated (e.g., Blantyre). They should also integrate identified flood-prone areas, flood-zone maps, and appropriate design standards[2] into urban planning.

→ **Leverage Market-Based Instruments such as Land Pooling, Value Capture, and Blended Finance to Boost Funding for Improved Service Delivery:** The authorities should consider expanding the coverage and collection of city-level land-based revenues through property mapping and valuation. A cost-effective Computer-Assisted Mass Appraisal methodology should be adopted to support City Rate assessment.

→ **Develop Standards for Lifeline Infrastructure and Enhance Local Implementation Capacity:** The Ministry of Lands needs to raise engineering standards for critical infrastructure (e.g., from 10 to 50 years), which would significantly reduce risks. This effort should be supported in part through public works initiatives that reduce land degradation and enable the continued viability of new or rebuilt infrastructure.

2 Design standards that enable 50 percent of urban infrastructure to withstand a flood depth of 0.5 meters would reduce flood damage by 40 percent.

17

How Can Malawi's Refugee Crisis Be Sustainably and Fairly Resolved?

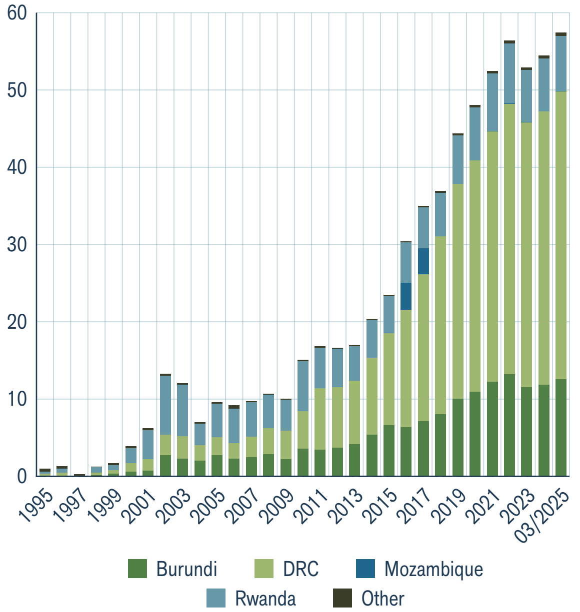
THE POLICY PROBLEM

Pressures on Refugees and Host Communities Are Increasing as Humanitarian Resources Dwindle

The refugee population living in Malawi is increasing amid declining humanitarian resources. The number of refugees and asylum-seekers at Dzaleka Refugee Camp has more than tripled since 2013 to nearly 58,000. Meanwhile, humanitarian funding has declined significantly over the last decade and is set to drop further in the coming years. Without decisive policy action, the current trajectory is unsustainable. The continued growth of the refugee population is straining public services and heightening the risk of tensions between refugees and host communities.

The number of refugees in Malawi has tripled since 2013

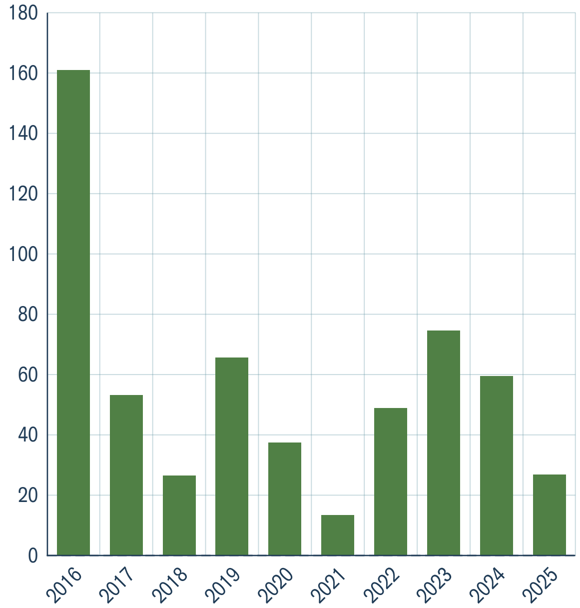
Refugees hosted in Malawi by nationality (thousand)



Source: UNHCR.

Funding to support refugees has declined significantly

Humanitarian assistance to Malawi (in US$ millions)



Source: OCHA Financial Tracking Service.

The experience of countries such as Kenya, Rwanda, and Uganda demonstrates that with the right laws, policies, and programmes in place, hosting refugees can lead to wage growth, improved service access, and stronger social cohesion. In Uganda, host households — particularly subsistence farmers near refugee settlements — have seen improved livelihoods due to increased investment and the economic dynamism generated by aid flows and infrastructure improvements. Moreover, integrating refugees into Ugandan national systems has expanded service access without reducing quality for citizens. Humanitarian aid has freed up resources for the most vulnerable Ugandans and for broader development priorities. In northeastern Kenya, local wages near Dadaab have risen by an estimated 60 percent due to economic activity related to the presence of a large refugee population.

Enabling refugees to participate in the local economy can expand jobs, broaden the tax base, and stimulate underserved areas — but failure to do so can reinforce a cycle of aid dependency and underdevelopment. Shifting to an inclusive model will require additional financing but can unlock development resources, including from the World Bank's Window for Host Communities and Refugees (WHR).

KEY CHALLENGES

→ **Overcrowding and Strained Public Services:** Built for 10,000 – 12,000 people, Dzaleka Refugee Camp now hosts over 50,000 refugees and asylum seekers. Overcrowding has led to inadequate housing, food insecurity, and growing mental health concerns. Public services — including education, health, and water — are overstretched, affecting both refugees and nearby Malawian communities. With no land available for expansion, economic and social pressures are mounting, and protection risks for the most vulnerable are increasing.

→ **Legal and Economic Barriers to Refugee Self-Reliance:** Malawi's legal framework restricts refugees' freedom of movement, right to work, and access to tertiary education. The encampment policy confines businesses to the camp, cutting them off from wider market opportunities. Refugees also face financial exclusion due to the non-recognition of identity documents and business registration rules that treat them as foreign investors — imposing prohibitive fees and complex procedures. These constraints undermine self-reliance and limit local economic growth that could benefit both refugees and Malawians.

→ **Humanitarian Financing Gaps:** Refugee support faces growing funding shortfalls due to aid cuts. UNHCR, WFP, and other agencies have been forced to reduce food, health, education, and livelihood support. Inadequate funding for humanitarian assistance risks reversing gains in protection and self-reliance, increasing poverty, and reducing access to services also used by host communities.

→ **Environmental Pressures and Risks to Social Cohesion:** A prolonged refugee presence has contributed to deforestation and water depletion. Competition over scarce services can fuel tensions between refugees and host communities. Without proactive measures, these pressures threaten local development and social cohesion.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Complete the Legal Reform Process to Enable Improved Refugee Inclusion:** Finalising the ongoing review of the 1989 Refugee Act by December 2025 would provide the basis for adopting a revised law that removes key restrictions on refugee rights in line with Malawi's international human rights commitments. Lifting reservations to the 1951 Refugee Convention would ease constraints on freedom of movement, employment, and access to education.

→ **Include Refugees in Malawi's National Registration and Identification System:** Providing valid identification documents would enable refugees to access economic opportunities and enhance their contribution to local economies. In addition to including refugees in the national ID system, the authorities should expand the legal recognition of refugee identity documents for use in banking, business registration, and social services.

→ **Identify Priority Development Projects:** Rapidly implementing district-level health and education projects could ease pressure on service delivery. These efforts could help offset humanitarian funding cuts and strengthen service delivery both for host communities and refugees.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Accelerate Refugee Status Determination (RSD) and Expand Access to Legal Identity:** Building the capacity of the Refugee Committee, streamlining procedures, and ensuring timely RSD processing would help address the asylum application backlog. Issuing longer-validity Convention Travel Documents and standardising the use of refugee identity cards would facilitate access to jobs, education, and financial services.

→ **Adopt a More Sustainable, Integrated Hosting Model:** Supporting the transformation of Dzaleka Camp into an integrated community would help address economic and security concerns. Refugees should also be allowed to relocate to nearby areas with economic opportunities ("voluntary decongestion"). Business support, skills training, and financial-inclusion initiatives would promote greater self-reliance, while investing in public services and projects would benefit host communities and refugees.

OBJECTIVE 4

Strengthening Critical Infrastructure for Growth

18

How Can Malawi Benefit From Digital Transformation and AI?

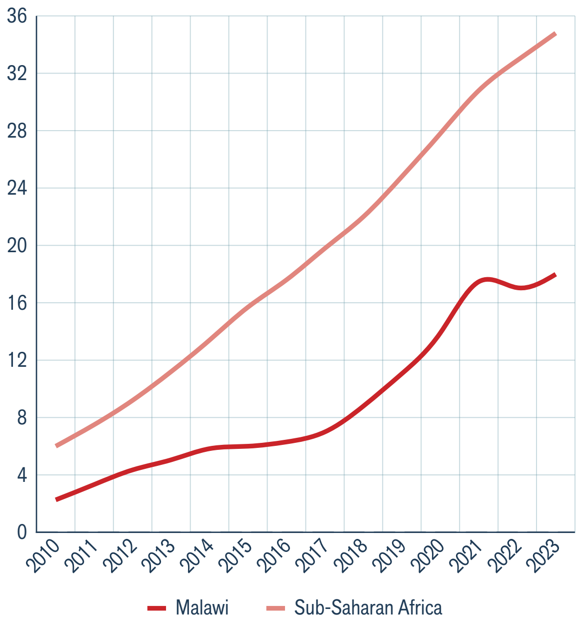
THE POLICY PROBLEM

Malawi Faces a Persistent Digital Divide, Impeding Its Ability to Turn Digital Infrastructure Into an Engine of Growth

Malawi is at a decisive moment in its digital development. Over the past decade, the country has achieved significant progress: internet penetration has grown from under 5 percent to over 20 percent, while wholesale bandwidth prices have fallen by more than 97 percent. Major infrastructure investments, including a national fibre backbone, 98 percent coverage of digital IDs, and the connection of hundreds of government sites, now form the core of Malawi's digital economy.

The growth of internet access has slowed down since 2021 and is falling further behind the regional average

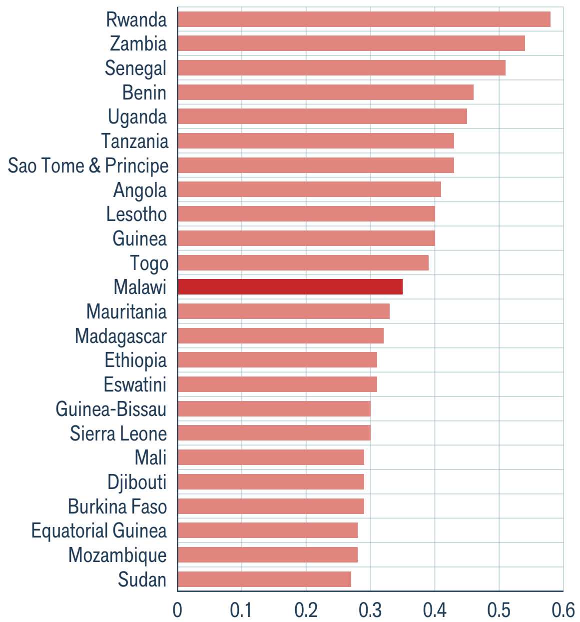
Individuals using the Internet (percent of population)



Source: WDI databank.

Malawi's e-government systems are less mature than those of some comparable countries

E-Government Development Index



Source: publicadministration.un.org.

However, these advances mask persistent structural gaps. Rural areas remain largely disconnected, with a 74 percent gap in internet usage rates compared to urban centres, and only 2 percent of micro, small, and medium enterprises use the internet for business. Just 3 percent of Malawians use computers, mainly due to affordability and skills barriers. Malawi scored 2.7 out of 5 on the 2025 Digital Readiness Assessment, placing it at an "opportunistic" stage of digital maturity. It is advancing in key areas but lacks a coordinated strategy.

Decisive reforms are necessary to advance digital transformation. Experience from digital leaders such as Rwanda, Kenya, and Ghana shows that strong institutional leadership, coherent strategies, and enabling regulations can transform digital infrastructure into engines of economic growth and social inclusion. Without decisive reforms, Malawi risks entrenching exclusion, undermining past investments, and missing the opportunity to leverage digitisation and AI to accelerate progress on the "Malawi 2063" strategy.

Unlocking the full potential of digital transformation requires a whole-of-government approach, centralised leadership, predictable financing, and targeted efforts to close the divide. Development partners including UNDP, the World Bank, AfDB, the Digital Public Goods Alliance, and the "50-in-5" campaign stand ready to support this reform agenda.

KEY CHALLENGES

- → **Weak Institutional Coordination:** Responsibilities are split across multiple agencies, including the Department of E-Government, the Malawi Communications Regulatory Authority, and the National Commission for Science and Technology, causing duplication, incoherence, and slow implementation. No single authority is empowered lead digital transformation, develop a national AI policy, or leverage partner financing.

- → **Legal, Regulatory, and Economic Barriers:** Outdated policies governing information technology, high spectrum fees, and heavy taxes on devices and services raise costs and deter investment. Small businesses and entrepreneurs face financing and regulatory obstacles that discourage digital participation.

- → **Financing and Sustainability Gaps:** Project-based investments have built assets like the national fibre backbone, the digital ID system, and a national data centre, but operational costs are not systematically budgeted. Without sustainable financing, these assets risk falling into disuse after donor support ends.

- → **Accessibility and the Digital Divide:** Digital access is highly unequal by geography, gender, and socioeconomic status. Mobile internet and devices are costly, and rural electricity access is limited. Without inclusion measures, digital transformation and AI may worsen inequality.

- → **Public Sector Digitisation Challenges:** Fragmented ICT systems, weak interoperability, and limited user-centred design adoption undermine service delivery. E-government platforms often operate in silos, restricting secure data-sharing and frustrating citizens.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Establish a Central Coordinating Authority:** Reform the Department of E-Government into an autonomous information technology authority legally established under the Office of the President. The agency's mandate should encompass coordinating digital transformation, overseeing financing, aligning partner support, and integrating new technologies such as AI and robotics. Consolidating these functions would support greater policy coherence, attract investment, and strengthen accountability.

- **Adopt a National Digital and AI Strategy:** The authorities should finalise and implement a unified strategy positioning digital technology and AI as cross-cutting enablers of Malawi 2063. The strategy should set targets for broadband access, digital literacy, and digital ID coverage as part of digital public infrastructure, e-service adoption, and AI readiness, and it should be integrated with the national budget and sectoral strategies.

- **Remove Barriers to Digital Growth:** The government should mandate the recognition of digital IDs and verified credentials via the National Registration Bureau and Reserve Bank of Malawi to expand financial access and business inclusion. Reviewing and strengthening the policy framework for information technology would help boost investment and affordability, streamline licensing, set appropriate tax rates and spectrum fees, and promote competitive data pricing.

- **Protect Core Digital Infrastructure:** Further actions are needed to safeguard national digital systems and capacities. The authorities should ensure the continuity of the data centre, fibre backbone, and e-service platforms through bridge financing and bolster resilience by strengthening operational protocols, cybersecurity, and workforce capacity.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Strengthen Digital Public Infrastructure:** Sustainable financing, strong governance, investments in systems, and greater rural connectivity would help build a more resilient digital public infrastructure ecosystem. The government should expand broadband access to underserved areas, reduce data costs via public-private partnerships and donor support, and integrate recurrent costs into the national budget. Digital public infrastructure should include the digital ID system, payments planforms, mechanisms for secure data exchange, and interoperability standards.

- **Advance Data Governance and Digital Trust:** Enacting comprehensive data governance and cloud policies will help protect privacy, clarify ownership, and regulate cross-border data flows. The government should establish a National Cybersecurity Operations Centre to monitor threats and implement mandatory cybersecurity standards in ministries. Transparent digital platforms will help build citizen trust in e-government services.

- **Foster Innovation and Inclusion:** The government should launch a National Digital Inclusion Framework addressing access, affordability, skills, and local content. The framework should include training in AI, cybersecurity, and software development, as well as initiatives to preserve local languages for training AI models.

- **Improve Public-Sector Coordination:** Establishing interoperability frameworks and common data standards would help break down ministerial silos. To promote accessibility and engagement, the government should emphasise user-centred design for e-services. Aligning platforms and processes would enhance efficiency, strengthen accountability, and bolster public confidence in digital transformation.

19

How Can Malawi Develop A More Efficient and Resilient Transport Sector?

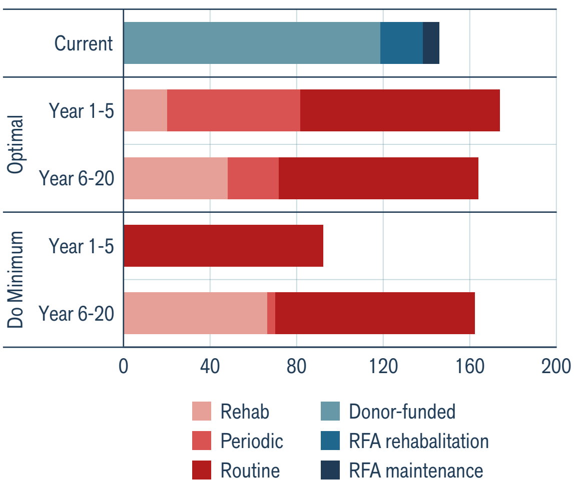
THE POLICY PROBLEM

Malawi's Road Network Is Highly Vulnerable

An efficient and resilient transport sector is crucial for Malawi's economic transformation. Road transport accounts for 99 percent of passenger travel, 70 percent of domestic freight, and 90 percent of international freight. Sustainable transport promotes inclusive growth, expands access to services, and helps address the impact of climate change. In the absence of interventions, climate-related impacts on roads and bridges could lead to annual losses of up to 12 percent of GDP. Integrating climate change risks into all phases of transport planning, design, construction, operations, and maintenance will help protect infrastructure investments.

Malawi is expected to need $166 million per year to maintain the current road network optimally over the next five years

Current spending structure and estimated financing needs (in US$ millions)



Source: World Bank InfraSAP (using 2022 data).

The backbone network is strong, but weak feeder roads constrain economic activity

Paved road condition by class

Source: Roads Authority.

The total economic risk associated with climate events affecting Malawi's road network is estimated at US$163 million per year, equivalent to about 1.3 percent of GDP. About 4,350 km of the country's 15,551 km classified road network is vulnerable to once-in-fifty-years fluvial flooding, and a disaster of this magnitude is likely to disrupt 34 percent of the network (3,600 km of roads). Insufficient maintenance exacerbates the vulnerability of Malawi's roads. For instance, the 2024/25 budget allocated about US$50.5 million for Road Fund Administration (RFA), less than one-quarter of the estimated annual maintenance requirement of US$222 million.

KEY CHALLENGES

→ **Vulnerability of Roads to Climate Change:** Intensifying climate risks are eroding infrastructure, straining budgets, and isolating communities. Without urgent adaptation measures, climate impacts could reverse development gains, weaken market access, and slow inclusive growth. More frequent extreme weather events could reduce annual GDP by as much as 20 percent and push 4 million more people into poverty by 2040 unless risks are effectively unaddressed.

→ **Road Funding Deficit:** Road projects rely mainly on the national development budget, with donors providing support for major works. The 2020 – 2025 Comprehensive Medium-term Investment Framework (CMTIF) estimates the sector's needs at US$2.24 billion, including donor funding for 355.7 km of preservation works. However, only US$402 million (or 30 percent of the total) is available, leaving a US$1.84 billion funding deficit for paved and unpaved projects.

→ **Arrears to the RFA:** Malawi's per liter fuel levies align with international norms, but the Malawi Energy Regulatory Authority (MERA) has not consistently remitted these levies to the RFA since late 2023, resulting in arrears equal to 80 percent of the maintenance budget. Maintenance is now mostly reactive, triggered by visible damage, rather than systematic or preventive.

→ **Technical Capacity Gaps:** Transport agencies rely on inefficient, costly input-based contracting and face technical and managerial gaps in planning and maintenance. Because Malawi lacks a centralised Road Asset Management System (RAMS) and has limited climate-vulnerability data, investment priorities tend to overlook asset criticality and climate risks. Without regular information on climate damage and risks, maintenance focuses on emergency repairs instead of climate-resilient planning.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Ensure the MERA Remits Fuel Levies to the RFA on Time:** To address the US$50 million annual road-maintenance financing gap, revenue from fuel levies — which represents 85 percent of RFA revenue — must remain legally ring-fenced and non-discretionary. Clear consequences for MERA in the event of non-remittance should be established and enforced. The full and timely remittance of fuel levies could reduce the financing shortfall by up to 90 percent, greatly improving the sustainability of Malawi's road network.

- **Operationalise the Disaster Risk Management (DRM) Fund:** The DRM Act of 2023 establishes a Trust Fund for disaster-risk reduction, preparedness, and recovery. With climate events posing a US$163 million annual risk to roads, the transport sector should be included in the DRM Fund. The Ministry of Finance, Economic Planning and Development and the Department of Disaster Management Affairs should work together to operationalise the fund.

- **Implement a RAMS:** The authorities should develop a geo-spatial database to capture asset conditions and identify vulnerable infrastructure. Multi-criteria decision models can be integrated into participatory planning systems and adapted to policy priorities.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Introduce Output- and Performance-Based Road Contracts (OPBRC):** The RFA should promote private investment in road infrastructure through performance-based concessions or maintenance contracts like OPBRC. This approach can strategically allocate risk and improve cost effectiveness by integrating budgeting and performance metrics for climate resilience, including contractor readiness for emergency works.

- **Strengthen the Legal and Institutional Frameworks for Remitting Fuel Levies:** The government should enforce existing laws and, if needed, amend the relevant legislation to ensure that fuel levy revenues are protected and that the remittance of the funds is automatic and complete, minimising discretion or delays from intermediaries such as MERA or the Ministry of Finance.

- **Implement Local Road-Development Bonds and a National Toll System:** While most RFA revenue comes from fuel levies, new strategies are being developed to increase and diversify funding. A local road-development bond strategy has been launched, and a comprehensive national road-tolling programme is planned.

20

How Can Malawi Sustainably Increase Power Generation?

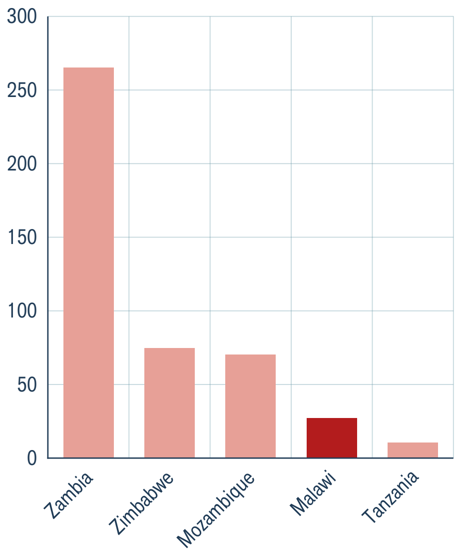
THE POLICY PROBLEM

Malawi's Macroeconomic Crisis Is Constraining Private Investment in Energy Generation

Under the Mission 300 (M300) Energy Compact signed in January 2025, Malawi aims to scale installed generation capacity to 848 MW by 2030 — driven by renewables and largely financed by the private sector. In 2022, Malawi's installed electricity capacity was estimated at 0.027 kW per capita. Over 85 percent of the population still relies on biomass for cooking and lighting, resulting in rapid deforestation. An amount of forest cover equivalent to a soccer field is cut down every 10 minutes.

Malawi's generation capacity is below the levels of most of its peer countries

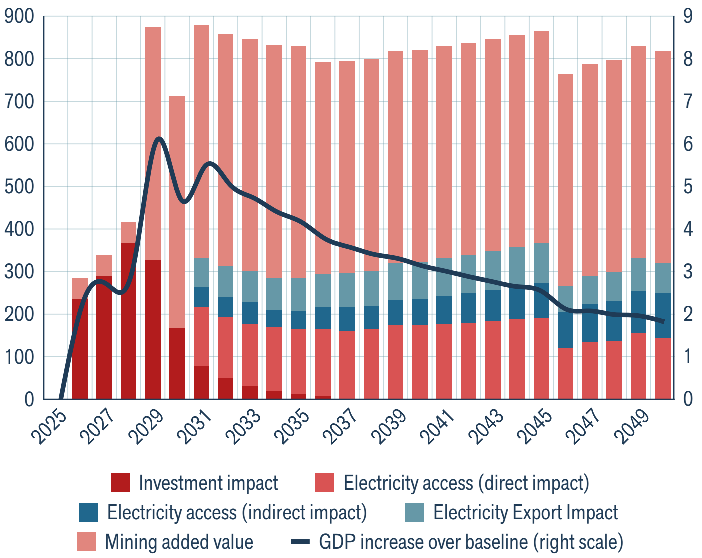
Installed capacity per capita
(Watts per capita)



Source: IREA and UN World Population Prospects.

Mpatamanga could be a game-changer, but realising its potential will require large-scale investment over the next five years

Projected economic impact of Mpatamanga, including four related mining projects (US$, million) and impact on GDP over baseline (percent)



Source: World Bank based on GSA analysis.

The new administration plans to advance M300's targets through a broad pipeline of renewable projects. The 358 MW Mpatamanga Hydropower Storage Project will anchor the sector's development. Expected to come online by 2030, the project will help reduce daily load-shedding by balancing demand and supply. Malawi's energy future will also depend on scaling additional hydropower, solar, wind, and other renewables to meet rising demand from households, agriculture, and industry.

Achieving the government's objectives for the energy sector will require an additional US$1.5 billion in private investment. Investors remain hesitant due to transfer and convertibility risks, ESCOM's weak financial position as an off-taker, political interference in tariff rates, and issues around contract enforcement. If reforms stall, Malawi will fail to build the energy capacity needed for industrialisation. By 2030, access rates would remain below 50 percent; consumption would be close to 150 KWh/person; system outages would exceed 90 hours per year; and private investment would be less than US$200 million. In addition to the failure of M300, the Agriculture, Tourism, Mining + Manufacturing (ATM+M) strategy would also fall short of its goals. Irrigated agriculture would be unable to expand; mining projects requiring over 200 MW would be unable to proceed; and manufacturing and tourism would remain constrained by an unreliable power supply.

A combination of stronger financial governance, risk-mitigation instruments, streamlined project delivery, and transparent planning could lower the cost of capital, accelerate the closure of underperforming independent power producers (IPPs), and put the sector on track to meet M300 generation targets. If new reforms and projects are implemented swiftly and efficiently, the country could:

→ Achieve over 50 percent electricity access and an average consumption of 400 – 500 kWh per capita;
→ Cut outages by half;
→ Mobilise US$1 – 1.5 billion in private investment;
→ Create 25,000 – 30,000 jobs across construction, manufacturing, and services;
→ Advance the ATM+M strategy; and
→ Reduce biomass dependence and deforestation.

KEY CHALLENGES

→ **ESCOM's Financial Sustainability:** ESCOM's balance sheet is highly stressed, with a debt-to-equity ratio exceeding 200 percent in recent years. Quasi-fiscal losses from mispricing, arrears, and excess losses have increased from 0.6 to 1.5 percent of GDP. Statutory tariff adjustments are often frozen for political reasons, undermining multi-year tariff frameworks and weakening investor trust. With tariffs below cost and automatic adjustments suspended, ESCOM's operating surplus has collapsed, leaving little capital for maintenance or expansion and weakening investor confidence that IPPs will be paid.

→ **Transfer and Convertibility Risk:** Severe foreign-exchange shortages, wide spreads between the official and parallel exchange rates, and surrender requirements create convertibility risk for investors. This situation leads to higher project costs, demand for sovereign guarantees, and lender reluctance. Critical foreign-exchange reforms under the Mpatamanga grant have enabled ESCOM and export-linked firms to transact in and retain US dollars, but these measures must be fully institutionalised. Past IPP disputes have shown that ad hoc negotiations and unclear foreign exchange arrangements increase risk. Standardised protocols for retaining foreign exchange, enforcing power-purchase agreements (PPAs), and transparently resolving disputes would boost investor confidence.

→ **Process Inefficiency and Contracting Delays:** Licensing, permitting, and PPA negotiations lack clear timelines and are vulnerable to political interference. Malawi has a pipeline of 28 stalled IPP projects, mostly due to foreign-exchange constraints and transmission bottlenecks. PPA negotiations often take 2 – 3 years — well above the regional average of 12 – 18 months — driving transaction costs and further deterring investors.

→ **Data Gaps in Decision-Making:** Malawi has conducted strong sectoral analyses and generated useful datasets, but this information is underutilised in tariff reviews, demand forecasts, and least-cost planning. Without transparent, data-driven decision-making, tariff adjustments remain ad hoc, project pipelines are unclear, and investor risks are heightened.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Secure the Bankability of Priority IPPs:** The government should consider establishing pre-funded escrow accounts for new PPAs and formalise Mpatamanga exemptions into a standardised protocol approved by the Reserve Bank of Malawi. Launching a blended-finance platform to retain foreign exchange, provide liquidity backstops, and ensure partial payment guarantees for IPPs would strengthen ESCOM's credibility and move stalled projects forward without the need for case-by-case negotiations.

→ **Prepare and Tender Solar Sites:** Identifying and pre-clearing 3 – 5 large solar sites — with provisions for land access, grid-connection studies, and environmental scoping — would cut procurement timelines. Bundling these into competitive tenders will create a visible pipeline of bankable, private-sector projects ready for investment.

→ **Ensure ESCOM's Financial Discipline:** ESCOM's financial recovery plan should be converted into a binding performance compact between the Ministry of Finance, MERA, and ESCOM, with quarterly public reporting on arrears, collections, and liquidity. The Automatic Tariff Adjustment Formula (ATAF) should be operationalised so that tariffs systematically track costs, avoiding politically driven freezes and ad hoc tariff spikes.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Accelerate the Delivery of Flagship Projects:** In line with the DPP manifesto commitments, the authorities should fast-track the rehabilitation of Kapichira, complete the Mozambique interconnector, and resolve financing, permitting, and resettlement bottlenecks on stalled projects. Pairing hydropower rehabilitation with a Shire River catchment programme would help address sedimentation and climate risks. Progress on these projects will signal the government's commitment to investors and citizens.

- → **Strengthen Transmission and Regional Integration:** An independent Transmission System Operator (TSO) should be legally established with transparent rules for grid access and wheeling. Advancing regional integration by initiating the Malawi–Zambia and Malawi–Tanzania interconnections would enable Malawi to participate in the Southern and Eastern African Power Pools.

- → **Link Tariffs to Ability to Pay and Productive Use:** The government should consider introducing a tariff roadmap that phases out broad subsidies while protecting low-income households through targeted lifeline tariffs. Pairing this roadmap with programmes that promote productive electricity use (e.g., irrigation, agro-processing, and microenterprises) would boost the capacity of clients to pay. Expanding energy efficiency and clean-cooking options would further ease affordability pressures.

21

How Can Malawi Expand Electricity Access?

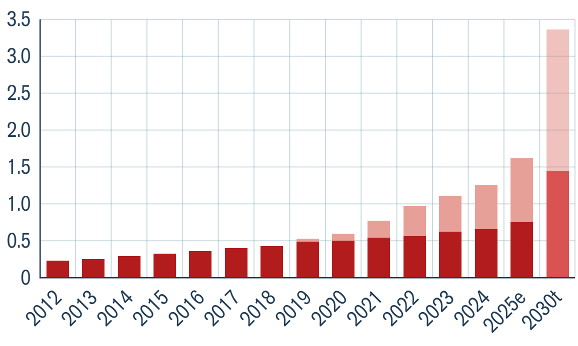
THE POLICY PROBLEM

Electricity Access Is Insufficient to Achieve Malawi's Development Goals

Malawi's energy sector is at a pivotal juncture as it strives to reach last-mile customers while achieving financial sustainability. The country's electricity access rates remain among the lowest worldwide, with 11 percent of the population connected to the grid and 14 percent using off-grid solutions. Electricity consumption averages just 90 kWh/person, far below the Sub-Saharan African average of 521 kWh/person.

Meeting the 2030 Compact target of a 70% electricity access rate will require a significant expansion over the next five years

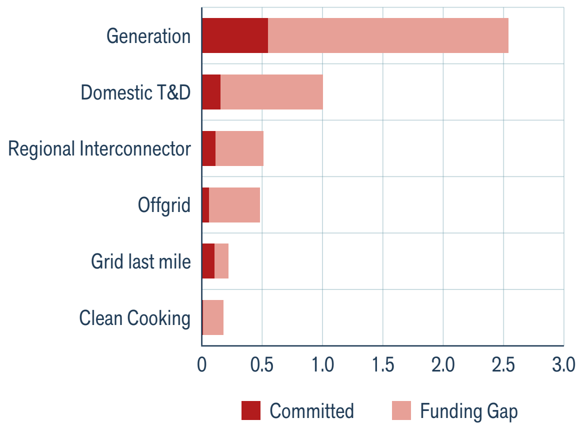
Connected households, off-grid and on-grid in thousands (millions)



Source: ESCOM, MOE, WB Estimates for 2024 /2025.
Note: e = estimate; t = target.

Reaching the 2030 Compact targets will also require additional financing to address funding gaps

Committed and outstanding funding by category (US$, billions)



Source: National Energy Compact for Malawi, 2025. Updated by MOE.

To achieve its long-term development goals, Malawi will need to rapidly expand access to reliable, affordable electricity. The government aims for 70 percent of the population to have electricity access by 2030, which will require connecting over 303,000 households each year — far above the recent peak of 180,000 per year. More than 85 percent of the population lives in rural areas, many near transmission and distribution lines, yet only 2 – 4 percent is connected to the grid. Off-grid solutions have grown faster than grid connections, but efficient grid densification remains the lowest-cost, high-quality option in the medium term. The upcoming completion of 132 kV Eastern Backbone and 400 kV North-South Link will provide new connections to regional power pools.

Because limited electricity access constrains development, energy-sector reform is crucial to support job creation and economic transformation. If current challenges remain unaddressed, access rates will increase to just 30 – 35 percent by 2030, and Malawi will continue to face some of the region's lowest electricity consumption and economic growth indicators. However, bold reform measures could more than double access rates, enabling Malawi to reach its 70 percent target while tripling electricity use, halving outages, mobilising over US$1 billion in private investment, and creating 25,000 – 30,000 jobs by 2030.

KEY CHALLENGES

- **Fragile Grid:** Malawi's electricity grid is unreliable, with limited infrastructure and high transmission and distribution losses. Nearly half of ESCOM's assets are over 30 years old. In 2024/25, ESCOM reported 20 outages per customer per year, with an average duration of 106.6 hours — far short of target levels. Unreliable electricity access slows the growth of businesses, especially small and medium enterprises, and affects education, healthcare, and other social services.

- **Weak Governance:** Fragmented responsibilities, weak accountability, and inconsistent corporate governance constrain the administrative efficiency of the energy sector. Some government institutions owe large arrears to ESCOM, creating cashflow shortages that weaken service delivery and undermine the utility's financial viability. Political decisions frequently undercut MERA's authority over tariff regulations and market oversight. Tariffs remain below cost-recovery levels, while rising inflation and import costs increase financial pressure on utilities and deter private investors.

- **Foreign-Exchange Shortages:** Insufficient access to foreign exchange has hindered procurement, delayed projects, and made it difficult for independent power producers (IPPs) to repatriate profits. Even investors with export-linked dollar earnings face obstacles, and creative solutions, like foreign-exchange exemptions for Mpatamanga, are not yet systemic.

- **Limited Climate Resilience:** Malawi's slow recovery from recent tropical cyclones highlights the need for more resilient power infrastructure. Electricity generation largely depends on the Shire River, which suffers from sedimentation due to the use of wood for fuel, poor agricultural practices, and climate impacts.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

- **Operationalise the Compact Delivery and Monitoring Unit:** A high-level oversight body will be necessary to ensure that energy policies and projects under the Malawi Energy Compact accurately reflect the sector's needs and challenges. The Office of the President and Cabinet will host the Compact Delivery and Monitoring Unit, which will be tasked with initiating implementation, alleviating policy constraints, and enhancing government coordination. However, the unit has yet to be operationalised.

- **Reform the Corporate Governance of Utilities:** ESCOM and EGENCO require stronger corporate governance based on OECD principles and guidelines. Starting in 2026, the use of annual performance compacts among the Ministry of Energy (MoE), the Ministry of Finance (as shareholder), ESCOM, and EGENCO would help align expectations and promote accountability. The government must respect MERA's authority to set cost-reflective tariffs and enforce market rules, and it must improve public communication around pricing.

- **Increase the Operations and Maintenance Budget for Solar and Grid Connections:** Significant investments in electrifying public schools and health facilities have yielded little benefit because these projects do not include funding for operations and maintenance. To ensure the long-term sustainability of these projects, the annual public budget must include the recurrent costs of operations and maintenance in the electricity sector.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

- **Institutionalise the Ngwee Ngwee Ngwee Fund:** This fund channels concessional financing to private companies for scaling off-grid solar installations. Established under the Malawi Electricity Access Project (MEAP), the fund has supported the installation of 240,000 solar home systems serving over one million people. This success has prompted the MoE to formally establish the fund as a key long-term financing platform. The MoE and relevant agencies should secure additional concessional funds to further scale electrification and clean-cooking solutions.

- **Provide Foreign Exchange for Energy Projects:** Building on the Mpatamanga model, a mechanism should be established to allow IPPs to retain and repatriate foreign-exchange earnings. ESCOM should be permitted to pay IPPs in US dollars and to receive payments in dollars from domestic firms earning foreign exchange. Foreign-exchange provisions (e.g., cash, guarantees, hedging) are needed to help importers of energy equipment avoid delays. The Reserve Bank of Malawi will play a critical role in this process and should be proactively engaged in sector dialogue.

- **Promote the Productive Use of Energy:** The expansion of electricity access can more effectively boost incomes and facilitate entrepreneurship if coupled with support for agro-processing, irrigation, refrigeration, and microenterprises. These interventions should be integrated into national growth and employment strategies, and results-based financing should be considered to boost uptake. To maximise these gains, efforts should also leverage Community Colleges and other training platforms to build the capacity of technicians, artisans, and entrepreneurs in renewable and alternative energy technologies, ensuring that gender and social inclusion considerations are mainstreamed. These interventions should be integrated into national growth and employment strategies, with results-based financing mechanisms used to incentivise uptake and sustainability.

- **Promote Clean Cooking to Reduce Biomass Dependence and Protect Forests:** Launch a national clean cooking drive that combines targeted subsidies, results-based financing, and private-sector partnerships to accelerate adoption of efficient electric, LPG, and improved biomass stoves. Integrate clean cooking targets into energy access and electrification plans to reduce deforestation.

22

How Can Malawi Reduce Food Insecurity Through Increased Irrigation Access?

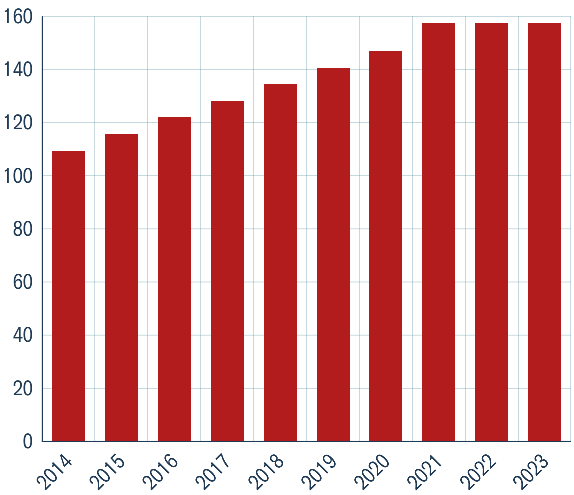
THE POLICY PROBLEM

Malawi's Heavy Reliance on Rainfed Agriculture Leaves the Country Highly Exposed to Climate Shocks

Malawi's economic development and food security are highly vulnerable to climate shocks. Climate change has increased the frequency and severity of extreme weather events, leading to declining food production and rising hunger. The IPC Chronic Food Insecurity Report estimates that about 5.4 million people in Malawi's rural and secondary urban areas face moderate or severe chronic food insecurity (IPC CFI Levels 3 and 4), driven by poverty and repeated natural disasters. A large share of poor households are exposed to floods, and droughts and floods reduce annual GDP by an estimated 1.7 percent. These impacts are worsened by extensive land degradation: about 80 percent of Malawi's land — nearly 8 million hectares — is degraded and in need of restoration.

Irrigation access has stagnated since 2021

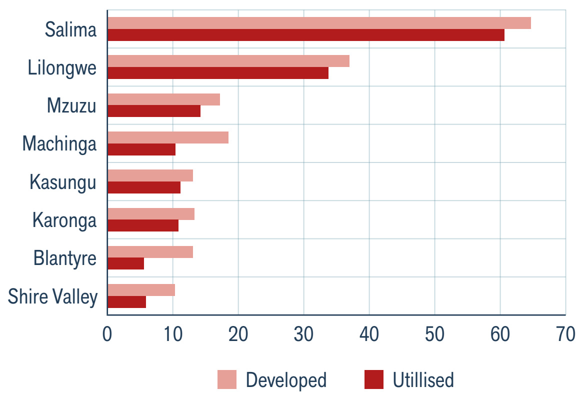
Land area equipped for irrigation (ha, thousand)



Source: FAOSTAT.

Only a small share of irrigable land is developed

Irrigation area developed and utilised as a share of the estimated potential area (percent), by Agricultural Development District



Source: Ministry of Agriculture, Irrigation and Water Development.

Despite having significant potential, irrigation remains underdeveloped. Of an estimated 407,800 hectares suitable for irrigation, only about 156,351 hectares (38 percent) have been developed. The 2015 National Irrigation Master Plan targets an increase in irrigated area from 104,000 hectares to 220,000 hectares by 2035. Malawi's water resources could support a fourfold increase in irrigated land, reaching over 400,000 hectares.

Expanding irrigation access is essential to reduce Malawi's vulnerability to shocks. Malawi remains overly reliant on maize for consumption and on tobacco, tea, and sugar for exports. Addressing these vulnerabilities will require diversifying value chains, technologies, and markets. Irrigation strengthens food-system resilience by allowing farmers to diversify crops, increase production cycles beyond the rainy season, and reduce the impact of dry spells on crop yields.

KEY CHALLENGES

→ **Limited Policy Implementation:** The implementation of the 2015 Irrigation Master Plan and Investment Framework (IMPIF) has progressed slowly, particularly in terms of expanding access among smallholder farms. Since the plan's launch, only 28 percent of the targeted increase in smallholder irrigation has been achieved, far short of the goal of 100 percent.

→ **High Capital Costs:** Irrigation development requires substantial capital, with high initial costs that smallholder farmers in Malawi cannot afford. Given the constraints on public funding, successful implementation of the IMPIF depends on both public- and private-sector involvement to address financing and technical gaps.

→ **Little Emphasis on Adaptation, Market Efficiency, and Diversification:** Further actions in agribusiness and water resource management are needed to realise the benefits of irrigation. Irrigation can boost incomes and food security if farmers have access to input and output markets, if food pricing reflects actual production costs, and if crop diversification extends beyond staple cereals. While current crop-management policies focus on increasing yields, greater emphasis must be placed on adapting irrigation to climate variability and climate change by optimising water-use efficiency.

→ **A Weak Legal Framework:** Unclear land tenure and water rights undermine livelihoods, especially for those excluded from irrigation schemes. These ambiguities can also contribute to conflicts over land use, hindering sustainable land management. Despite these challenges, farmers have shown innovation by adapting technologies to protect their interests, reduce labour demands, and increase production.

RECOMMENDATIONS

IMMEDIATE PRIORITIES (FIRST 3 MONTHS)

→ **Review the Implementation Strategy for the IMPIF:** Policymakers should identify the reasons behind its delayed implementation, revise cost estimates, and develop strategies to accelerate progress. Targets specified under externally financed projects have yet to be met, and their implementation is also delayed. The irrigation committee and irrigation trust fund, for example, are not operational. Special attention should be paid to ongoing projects targeting the expansion of irrigation services at scale, such as the Shire Valley Transformation Programme, the Malawi Food Systems Resilience Project, and the Programme for Rural Irrigation Development.

MEDIUM-TERM PRIORITIES (FIRST 18 MONTHS)

→ **Strengthen Farmer-Led Irrigation Development:** Smallholder farmers need support from professional farm-management services and access to modern irrigation technology. The available professional training services, however, are currently insufficient, and vital equipment cannot be imported. Farmer-led irrigation can be strengthened by integrating local knowledge into project design and coordinating interventions at the catchment level.

→ **Improve Efficiency and Utilisation of Existing Public Irrigation Systems:** The government can strengthen irrigation effectiveness by enhancing the capacity and governance of local institutions such as Water User Associations (WUAs) and cooperatives. Addressing the design and operational challenges facing existing schemes and providing budgetary support for rehabilitation efforts would help sustain the benefits of irrigated agriculture.

→ **Promote Private-Sector Involvement:** The authorities can facilitate private-sector participation in financing and managing irrigation and agribusiness development by easing access to foreign exchange for equipment imports and by reducing on-farm development costs. Improving the utilisation of public funding sources, including official development assistance, and pooling resources would help scale up successful pilots into larger, sustainable programmes.

→ **Mainstream the Principle of Cost Recovery:** To achieve the government's vision for agricultural commercialisation and attract additional private-sector participation, the Ministry of Agriculture, Irrigation and Water Development should promote both increased production and diversification into high-value cash crops by strengthening WUA capacity, as improved water management would enable multiple cropping cycles per year. Complementary measures include facilitating timely access to farm inputs and markets, easing export procedures for high-value crops, improving transportation services, and incentivising agro-processing investments.