

COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE-GENERAL FOR DEVELOPMENT AND COOPERATION



MALAWI

Economic structures
and development problems

June 1973

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VIII/837/73-E

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C O R R I G E N D U M

- Blue pages -

Page 2, § 2.1.

Public finance

line 1 Read :

"Public investment has increased by more than three times ..."

SUMMARY

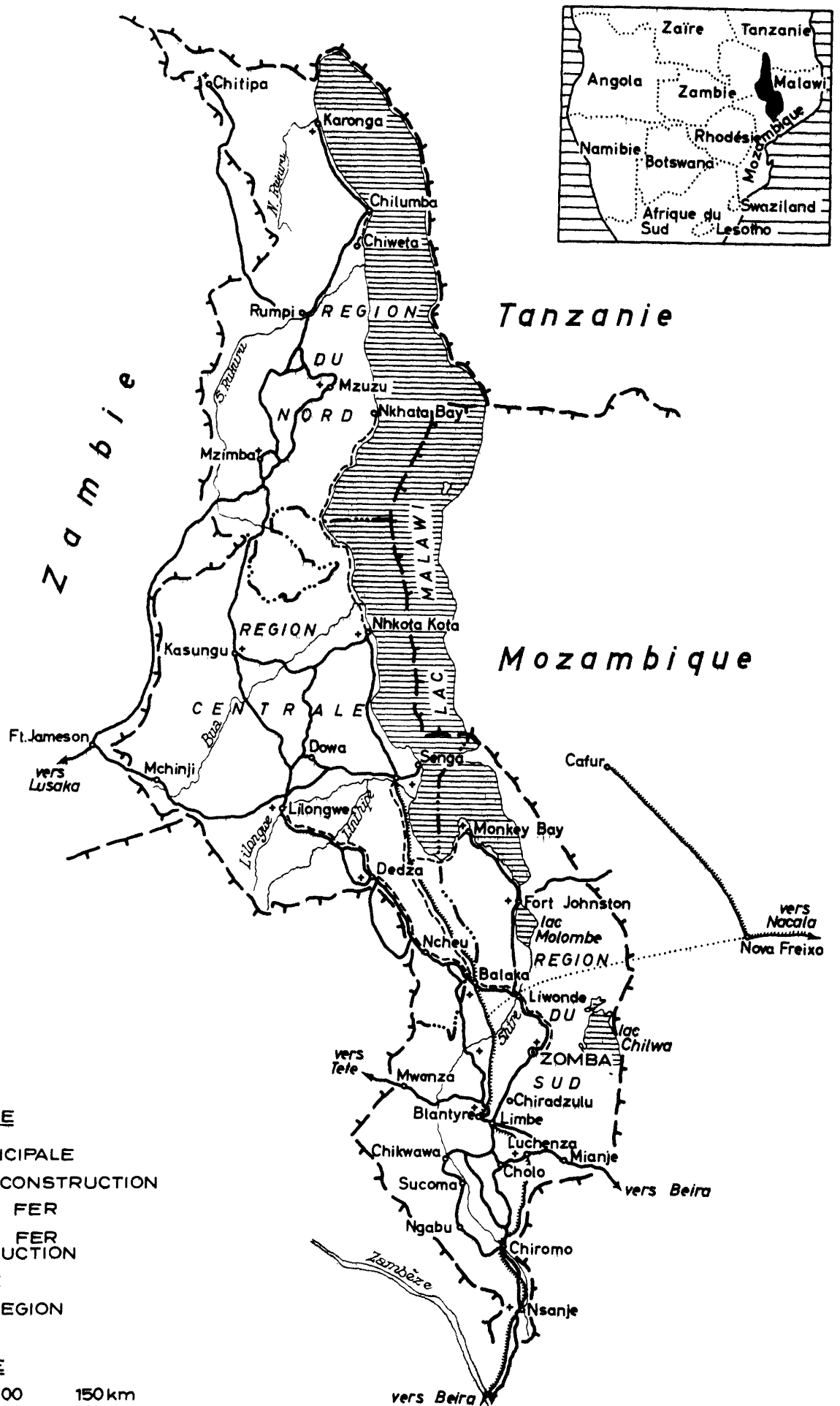
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MALAWI



LEGENDE

- ROUTE PRINCIPALE
- - - - ROUTE EN CONSTRUCTION
- ▬▬▬▬ CHEMIN DE FER
- ⋯⋯⋯ CHEMIN DE FER EN CONSTRUCTION
- + AERODROME
- - - - LIMITE DE REGION

ECHELLE

0 50 100 150 km

Basic data (1)

Area : Total inc. lakes : 118,480 km²
 Land area : 90,080 km²

Population : Total : 4.6 millions (1972)
 Density (excl. lake) : 51 inhab./km²
 Growth rate : 2.6 % (official)

Main urban centres (1966)

Blantyre : 109,460
 Zomba (capital) : 19,670
 Lilongwe (New capital) : 19,430
 Mzuzu : 8,490

Currency

Up to Febr. 1971 : 1 Malawian Pound = 1 Pound Sterling

Febr. 71 - March 1973 : 1 Malawi Kwacha = 100 Tambala = 0.50 Pound Sterling = 1.20 U.A.

Since Marche 1973 : 1 Malawi Kwacha = 1.087 U.A. (fluctuating with the Pound Sterling)(2)

G.D.P.

Total (mn. UA at current factor cost) : 333.6 (1971)

Growth rate (%) - current prices : 6.8 (1964-71)

- constant prices : about 5.8 (1964-71)

Per capita (U.A.) : 70 (1971)

Growth rate (%) : 4.2 (1964-71)

| <u>External trade</u> | <u>1968</u> | <u>1970</u> | <u>1971</u> |
|---|-------------|-------------|-------------|
| Imports (mn. UA) | 95.4 | 110.5 | 122.5 |
| Share of enlarged EEC (%) | 40.2 | 35.1 | 38.1 |
| Exports (mn. UA) | 47.0 | 55.8 | 70.4 |
| Share of enlarged EEC (%) | 64.1 | 58.0 | 58.5 |
| Cover ratio (%) | 49 | 52 | 48 |
| Concentration of exports (%) (tobacco, tea, groundnuts) | 73 | 79 | 81 |

(1) U.A.= pre-devaluation U.S. dollar

(2) June 1973

| <u>Main exports</u> (mn. U.A.) | <u>1968</u> | <u>1970</u> | <u>1971</u> |
|--------------------------------|-------------|-------------|-------------|
| Tobacco | 12.6 | 19.8 | 26.2 |
| Tea | 11.6 | 13.1 | 14.0 |
| Groundnuts | 5.4 | 5.0 | 7.1 |
| Cotton | 1.6 | 3.4 | 3.0 |

External aid

| (average annual net | <u>Value</u> | <u>%</u> |
|--------------------------------------|--------------|----------|
| Total public aid | 31.85 | 100 |
| Multilateral sources (I.D.A. mainly) | 8.58 | 27 |
| Bilateral sources | 23.27 | 73 |
| including U.K. | (15.12) | (15) |

Public aid as % of G.D.P. : 14.5 (Tropical Africa average : 4.5)

Public aid as % of Imports : 27 (Tropical Africa average : 15)

Public aid per capita (U.A.) : 7.2 (Tropical Africa average : 4.6)

Debt situation

Outstanding external debt (mn. U.A.) : 231,2 (1972)

(% of GDP) : 36.5 (end 1971)

Debt service

in mn. U.A. : 8.6 (1971)

as a % of exports : 11 (1971)

Economic structures and development problems

I. Population and infrastructure

Nyasaland, who was part of the Central African Federation from 1953 to 1963 (with present Zambia and Rhodesia) declared its independence on July 6th, 1964, and changed its name into Malawi.

It is a land-locked country, situated in south-eastern Africa, with a total area of 118.5 thousand km² (90 thousand of which are lake surface), about the size of Dahomey. The population is estimated at 4.6 million in 1972, with one of the highest densities in Africa, 5.1 inhabitants per km² (excl. the lake surface). Its growth rate is probably higher than the official estimate of 2.6 %. With a growth rate of 3 %, the population would double in 23 years.

Some 5 % of the population is urbanized, the main urban centres being (popul. 1966) Blantyre (110,000), Zomba (capital : 20,000), and Lilongwe, where a new capital is being built.

The latter has been chosen with the aim of moving the commercial and industrial focal point of the country's development away from the heavily concentrated South, and also of encouraging the opening up of new agricultural areas outside the favoured Shire Valley region.

This regional imbalance in Malawi's development must have caused strong internal migratory movements. Moreover, the overall poorness of the country has brought many Malawians to emigrate to countries offering them better earning prospects. There were some 266,000 Malawians working abroad in 1966, mainly in Rhodesia, South Africa, Tanzania and Zambia.

The road-network is highly developed, with a density of 90 km of roads per 1,000 km², but less than 9 % of the 10.5 thousand kilometres are asphalted. Road transport has been recently boosted by an increase in Zambian imports arriving via Mozambique, following the border blockade with Rhodesia.

Rail connections are good with the nearest Mozambican Harbours of Beira, Mozambique and Nacala, but there is no railway in the mountainous northern half of the country.

II. Economic structures

2.1. Malawi figures on the list of the 25 least developed countries of the world drawn up at the 26th session of the U.N. (1971).

Total GDP at factor cost amounted to 333 million U.A. in 1971 and GDP per capita to 70 U.A.

Growth since independence has been remarkable. GDP per capita grew at an annual rate of about 4.2 % (3.2 % at constant prices) (1) between 1964 and 1971, despite the setbacks caused by unfavourable weather conditions between 1966 and 1968. Investment figures, which fluctuated between 10 and 20 % of GDP, suggest a favourable low capital-output ratio.

Public finance. Public investment has increased by more than three thirds between 1964 and 1971, while public consumption was contained in limits and actually decreased in terms of GDP during the same period. Malawi, which used to run fairly large current budget deficits (regularly covered by British grants), has been able to progressively reduce them, attaining near to perfect equilibrium in 1971/72. If public income is no more dependent from budgetary aid, it has become increasingly dependent on borrowing, which still covers the total amount of development expenditures. The increase in external public debt, which represents over one third of GNP, partly reflects the diminishing importance of grants as a source of external finance.

External trade and balance of payments

Export values grew at an annual average rate of well over 10 % since 1964. This is to be attributed entirely to volume growth up to 1967, while since that year it is due to very favourable price trends.

Between 1964 and 1971, imports grew at an average annual rate of about 18 %. Their share of consumer goods was drastically reduced from some 50 % to 27 % over the period. This partly reflects the success of import substitution, and partly is a consequence of the inadequacy of indigenous industries such as cement, and of supply difficulties in local firms.

The cover ratio of imports by exports is only some 50 %.

Rising imports and the decline in U.K. budgetary aid brought to a deterioration in the current account balance, despite a rapid rise in re-exports (mainly post-auction

(1) on the basis of the official population growth rate of 2.6 %.

packing of Zambian tobacco, previously sent to Rhodesia) and in earnings from non-factor services (mainly local spending by expatriates and tourist earnings).

On capital account the favourable trend has benefited from the rather "soft" terms under which the Malawi Government has been able to borrow until recently.

Malawi's official exchange reserves amount to somewhat more three months imports since a few years.

Debt service payments have been increasing steeply over the past years and represent 11 % of exports in 1971.

2.2. Main sectors of production

Agriculture. Agriculture remains by far the dominant sector, accounting for more than 50 % of GDP, the "subsistence" smallholdings themselves still constituting more than one third.

Over half of the land area is suitable for cultivation, but only one third of the latter is actually exploited. The potential for opening up new land is particularly large in the north.

Over 8 tenths of the cultivated area is under customary tenure, mainly mixed cropping of maize (the main food crop), pulses, millet, sorghum, groundnuts, cassava, potatoes as well as rice, cotton, and tobacco ; the rest being in specialized estates, where the principal export crops are grown : tea, burley, flue-cured tobacco, and tung oil.

Tobacco, tea and groundnuts account for 80 % of total exports.

Mining. Mineral exploration is actively promoted. Large bauxite deposits would seem to have been discovered at Mlanje.

Manufacturing. Monetary manufacturing output grew by more than 200 % in value terms between 1964 and 1971, rising from less than 6 % to more than 10 % of total GDP over the period.

Power. Present total output is about 36 MW (24 MW from the hydro-electric source at Nkala Falls). The new Tedzani Falls scheme will allow to add 16 MW by 1973 and further 32 MW by 1980. In the long term, one foresees a further extension of hydro-electric capacity on the Shire Valley, as well as the possible importation of electrical power from the Cahora-Bassa scheme on the Zambezi.

III. Development imbalances

3.1. Production structures

Lack of mineral resources, limitation of capital and skills and small size of the local market are all factors which have favoured Malawi's largely agriculture-based economic development. Despite a reduction of "subsistence" - smallholding - production from 42 % to 35 % of GDP between 1964 and 1971, agriculture still accounts for over 50 % of GDP.

Growth is partly dependent on exports performance. In this connection it must be remarked that Malawi's exports concentration has been increasing recently. Out of the three main products : tobacco, tea and groundnuts, only the prospects of the first one, the quality of which has very much increased recently, can be said to be really good.

Though production of manufactures experienced a very brisk growth during the same period, this is partly due to an excessive concentration of consumer good industries in Rhodesia during the Federation period (up to 1963). The limited size of the local market does not allow for a further continuation of this trend, unless the possibilities for exploiting the apparently large deposits of bauxite at Mlanje is confirmed, in which case it is envisaged to engage in aluminium smelting.

3.2. Regional disparities

Malawi suffers from a marked regional imbalance, which is due to the historical concentration of farming in the South, which was reinforced by its membership of the Central African Federation between 1953 and 1963. Most activities are concentrated in the Southern region, which brought to a marked regional settlement bias with only about 12 % of the total population to be found in the whole of the Northern Region and more than 50 % in the Southern Region alone.

If the prospects for mineral production materialized, this would contribute to aggravate even further such regional imbalance as they are located in the South-east of the country.

The construction of a new capital in the central region, as well as the plans for opening up new land for cultivation in the Northern Region indicate the Government preoccupation with regional development.

3.3. Employment imbalance

Only 50 % of the population are active, and 24 % of them are in paid employment. However, over 60 % of the latter, or some 300,000 persons, are employed abroad, and principally in Zambia, Rhodesia, Mozambique and South Africa.

It is not difficult to imagine the problem which would arise if even only a part of these migrant workers were forced to come back to Malawi. They would flock into the towns and dramatically increase the arrival of job-seekers in urban areas which are at present fostered already by widening urban-rural income differentials.

3.4. Conclusions

Malawi has good prospects for economic growth, which mainly lie with :

- i) the availability of vast untapped land resources
- ii) the expected export performance of its main foreign-exchange earner : tobacco (in the light of Malawi's application for association with EEC)
- iii) the diversification of its production into sugar and mining.

As to the second point, Malawi's export performance after 1974 will largely depend on it obtaining free entry for its main export products on the European Common Market, in particular tobacco, groundnuts and sugar (production of which is quickly growing). Malawi would further very much benefit from the scheme for the stabilization of export earnings from tobacco, cotton, groundnuts and sugar recently proposed by the European Commission.

However, a heavy and growing imbalance between the rich Southern Region and the poor and poorly inhabited Northern Region has so far contributed in limiting the size of the local market and partly the degree of income distribution, and has been accompanied by a very substantial drain on human resources which are at present gainfully employed in neighbouring countries.

Various aspects of the Government's strategy make clear its determination to offset the concentration of economic activities in the Southern Region, and indeed it is becoming a matter of necessity for the country to make more of its soil resources further north. The most spectacular policy decision in this respect has been to build a new capital at Lilongwe, in the Central region.

Concerning the financial situation, the Government has decided not to call any more on British budgetary aid. As to the country's Development Budget, it will have to be very largely financed by external sources, at least in the next few years. Malawi does therefore need much financial assistance on particularly soft terms.

I. HISTORICAL BACKGROUND

European influence in what was to become Nyasaland began with the arrival of Scottish missionaries in the 1870s, and in 1878 the foundation of the African Lakes Company.

The territory of Nyasaland was declared a British Protectorate and the first Commissioner appointed in 1891. Despite fairly intense rivalry between the settled agricultural peoples - Chewa, Manganja, Tonga, Tumbuka - and the raiding Ngoni and Yao tribes, territorial unification sowed the seeds of nationalist sentiments out of which grew the Nyasaland African Congress, founded in 1944.

The formation in 1953 of the Central African Federation, comprising Nyasaland and North and South Rhodesia (the modern territories of Malawi, Zambia and Rhodesia) was thought to threaten Nyasaland's future autonomy, thus adding to growing rural discontent and giving a new impetus to a militant independence movement. Against this background, Dr. Kamuzu Banda was acclaimed leader of the Congress Party in 1958 after a long absence of forty years from his home country, and in 1961 the Party achieved sweeping success in the parliamentary elections. The Federation was dissolved in 1963 and the State of Malawi was proclaimed independent on July 6th, 1964.

The following year, Dr. Banda consolidated his dominant position as leader in crushing an armed rebellion of the opposition and in July 1966 he was elected President of the Republic of Malawi. Except for a brief skirmish involving a small band of exiled politicians in 1967, Dr. Banda has retained this position unchallenged to this day.

When the nation attained Independence in 1964, the economy was very strongly orientated towards the South. From the last century, European settlers had been encouraged to set up farms and estates in the very fertile Shire valley and the draw of the Rhodesian settlements and mines also encouraged a substantial southern-bound migration. The Federation established in 1953 reflected, and helped to underline politically and economically, this unequal concentration in the South. In the 1960s, Malawi's economy was still entirely dependent on agriculture in the Shire region ; although a major part was subsistence production, the agricultural estates were still European dominated, producing the principal exports - tobacco, groundnuts and tea - for which the only outlets were through Rhodesia and the port of Beira in Mozambique. Today, Rhodesia and South Africa remain not only Malawi's most important trading partners in Africa, but they also provide jobs for thousands of the country's emigrants that seek work there.

At Independence therefore, a firm economic pattern was already established with a large part of the economy still dependent on European resources and control. This pattern has only now begun to be challenged by the Malawian Government ; economically, these very marked historical imbalances remain while politically, Dr. Banda has sought at first to maintain and encourage Malawi's links with southern African countries : Malawi took no sides after Rhodesia's Unilateral Declaration of Independence in 1965, and in 1967 she established diplomatic relations with the Republic of South Africa as a prelude to "dialogue" between black and white regimes.

Very recently, however, Dr. Banda has somewhat modified this diplomatic stance of "entente" with southern white regimes. After a period of bitter exchanges with Zambia and Tanzania in the 1960s over border claims, relations have been patched up between Malawi and her black neighbours. In 1970, diplomatic relations were established with Zambia, with whom economic cooperation, mainly as a result of Zambia's border blockade with Rhodesia, has been accelerating in recent years.

Malawi is a member of the Commonwealth.

II. ECONOMIC GEOGRAPHY

2.1. Natural resources and demography

Malawi is a landlocked country in south-eastern Africa with a total area of 118,480 km² (90,080 km² excluding the lake), making it a great deal smaller than its immediate neighbours and superficially about the size of Dahomey. It is bordered on three sides by Mozambique and has common frontiers with Zambia to the West and Tanzania to the North (see map).

It is a long, narrow country with a maximum length of 830 km. and a maximum width of 160 km., lying along the West side of the East African rift valley system. The northern two-thirds of the valley floor are occupied by the huge Lake Malawi, which is drained by the Shire river running into the Zambezi to the South. Malawi is a plateau country with large variations of height : from the Nyika and Vipya plateaux in the Northern Region that rise to over 2000 metres, the land descends to the Shire valley in the South at little above sea level, to rise again to the Mlanje Mountains reaching 3000 metres. These large differences in height are accompanied by marked climatic variations through the year : May to August is a cool period, followed by a short, hot season in September, October of increasing humidity when the temperature rises to 30°C., and then a wet season of several months between November and April when 90 % of the year's rain falls (see rainfall map, following page).

In the absence of significant known mineral deposits, Malawi's most important natural resources are water and very fertile soil deposits. Lake Malawi provides moderate fishing grounds. Its waters are too deep to support heavy fish populations. However, the Shire river and Lake Malawi represent an enormous potential in terms of irrigation and hydro-electric power which is as yet largely untapped. The soil distribution is somewhat uneven, the best deposits being found principally in the Southern Region, round the shores of Lake Chilwa and along the Upper and Lower Shire valley, although good soils exist also in the Nkhata Bay area and on the Lilongwe-Kasungu plateau. As yet, however, only about one third of the estimated total cultivatable land available is being put to use.

The last official estimate of Malawi's population was made in the 1966 census of which the summary results are reproduced below :

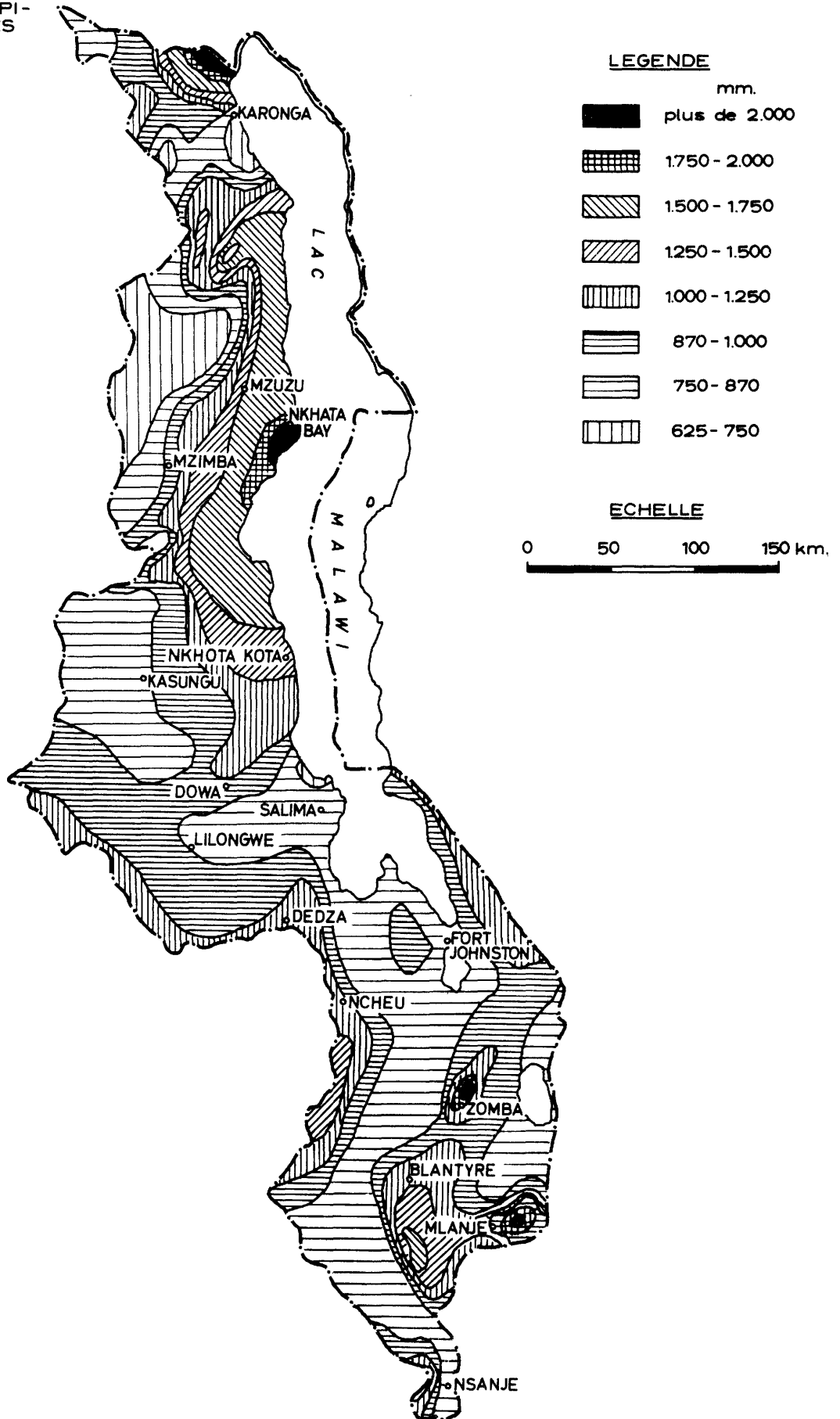
| | |
|-------------------------------|-----------|
| TABLE 1 - Total population | 4,305,583 |
| of which, Africans | 4,020,724 |
| Malawians abroad [⊛] | 266,000 |
| Asians | 11,299 |
| Europeans | 7,395 |
| Others | 165 |

⊛ principally in Rhodesia, Tanzania, South Africa and Zambia

Source : 1966 Census

MALAWI

CARTE DES PRECIPITATIONS MOYENNES ANNUELLES



SOURCE : "MALAWI" une étude géographique par J.G. Pike et G.T. Rimmington - London 1965

The preceding census of 1945 indicated a population of about half that of 1966, implying an annual average rate of growth of 3.3 % which is extremely high. However, even on the most conservative estimate, the population of Malawi probably exceeds 4.5 million in 1973.

Given that a high proportion of the total area is covered by water (more than a fifth), and that only about 56 % of the land is suitable for cultivation, Malawi has one of the highest population densities in Africa with more than 47 inhabitants per km² of land and more than 85 inhabitants per km² of land suitable for cultivation. Moreover, despite a very low rate of urbanisation - only 5 % of the population were living in centers with more than 2000 inhabitants in 1966 (see Table 3) - there is a marked regional settlement bias with only about 12 % of the total population to be found in the whole of the Northern Region and more than 50 % in the Southern Region alone. (see demographic map, which follows).

TABLE 2 - Population in Urban and Other Areas in 1966

| | |
|----------------------------|-----------|
| <u>Malawi</u> : total | 4,039,583 |
| <u>Urban Areas</u> : total | 202,057 |
| Blantyre Urban | 109,461 |
| Zomba Urban | 19,666 |
| Lilongwe Urban | 19,425 |
| Mzuzu Urban | 8,490 |
| Other Urban | 45,015 |
| <u>Other Areas</u> : total | 3,837,526 |

Source : 1966 Census

The regional imbalance reflects not only the traditional importance of agriculture, which still supports about 90 % of the population, but also the historical concentration of farming in the southern part of the country.

Taking the population as a whole, the activity rate is rather low in Malawi with (in 1966) only about 50 % of the population in the age-group 15 to 60 years, and the male population outnumbered by the female by about 5 %. With rapid population growth, however, the rate of activity is expected to rise.

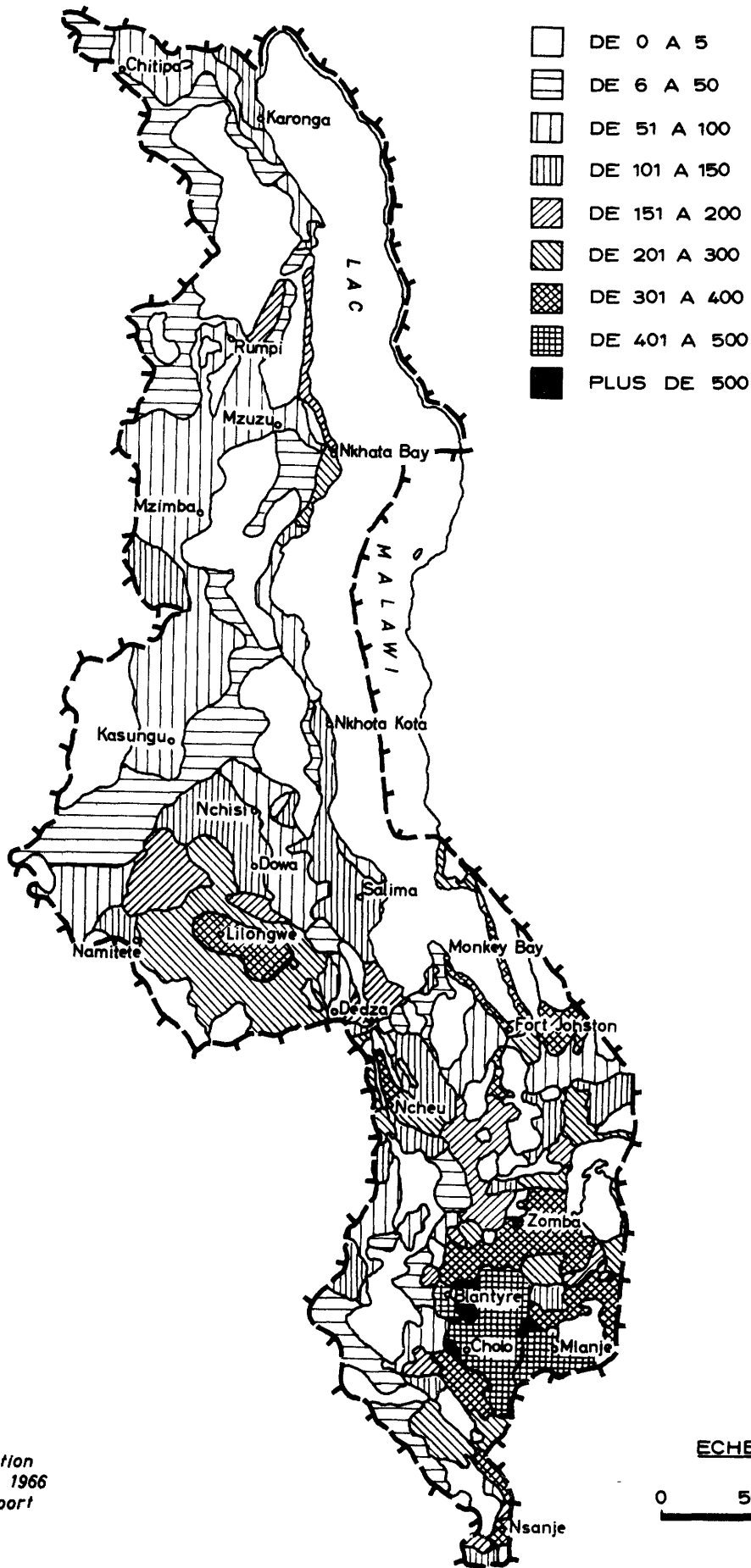
2.2. Transport and Communications (see map 3)

Given the harsh geographical, climatic and relief conditions, transport is generally good in Malawi with main roads of reasonable quality connecting all the principal towns and a rail network linking the country with both Nacala and Beira on the Mozambique coast. With the landlocked geographical location of the country, external communications, especially through Mozambique, are an essential lifeline of Malawi ; the external as well

MALAWI

DENSITE DE LA POPULATION

NOMBRE D'HABITANTS
PAR MILLE CARRE:



SOURCE : Malawi population
Census august 1966
Provisional report

ECHELLE

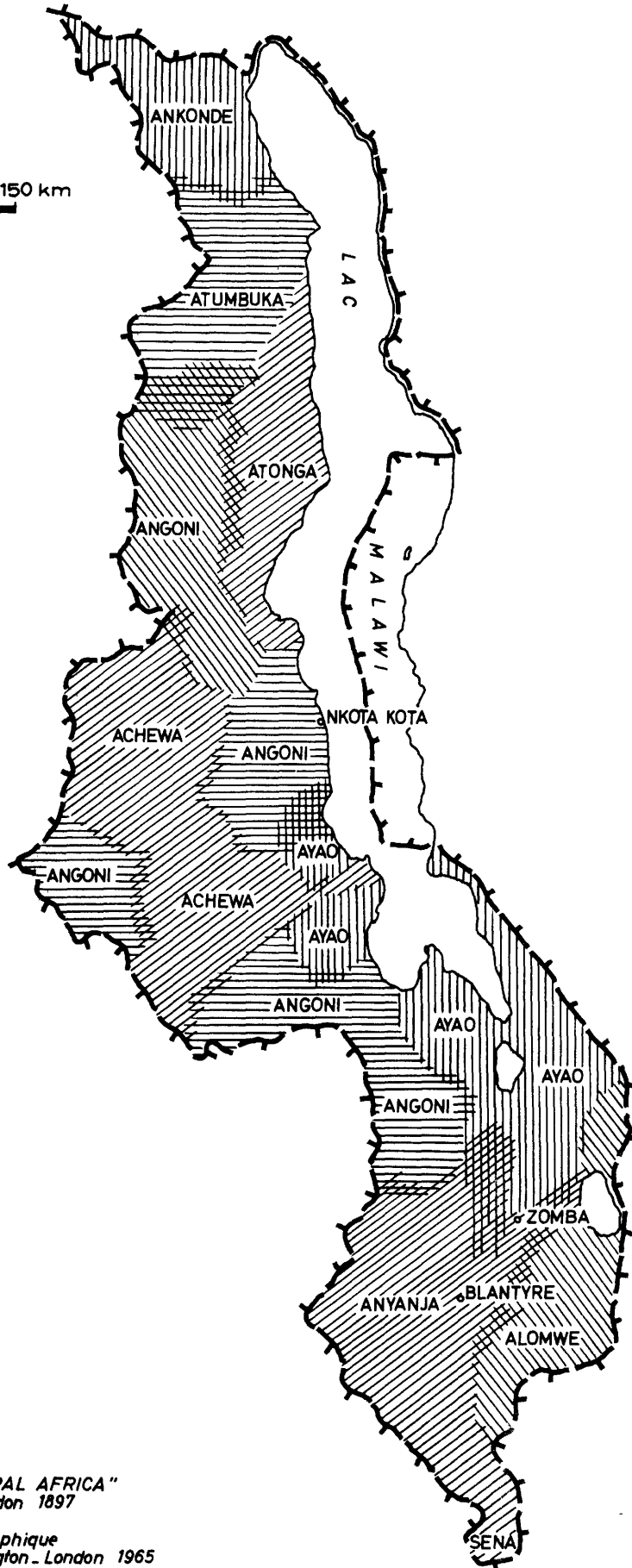
0 50 100 km.

MALAWI

CARTE DES TRIBUS

ECHELLE

0 50 100 150 km



SOURCE : "BRITISH CENTRAL AFRICA"
par Sir Harry Johnston - London 1897

et
"MALAWI" une étude géographique
par J.G. Pike et G. T. Rimmington - London 1965

as the internal communications network has recently been considerably extended, transportation representing the second largest category of public development spending.

2.2.1. Road transport

The construction and improvement of the road network has progressed rapidly since Independence and in 1971 roads covered a total of 10,600 kms.

TABLE 4 - Road Kilometrage by Class and Surface, 1971

| Administrative Classification | Type of surface | | | |
|-------------------------------|-----------------|---------|--------|-------|
| | Total | Bitumen | Gravel | Earth |
| Main | 2,927 | 799 | 509 | 1,620 |
| Secondary | 2,281 | 56 | 237 | 1,988 |
| District | 5,007 | - | 9 | 4,997 |
| Branch | 113 | - | 5 | 108 |
| Estate | 84 | 3 | 16 | 64 |
| Township | 84 | 32 | 10 | 40 |
| Private streets | 23 | - | 14 | - |
| Undesignated | 26 | - | - | 25 |
| All classes | 10,545 | 890 | 809 | 8,842 |

Source : Cabinet Economic Planning Division

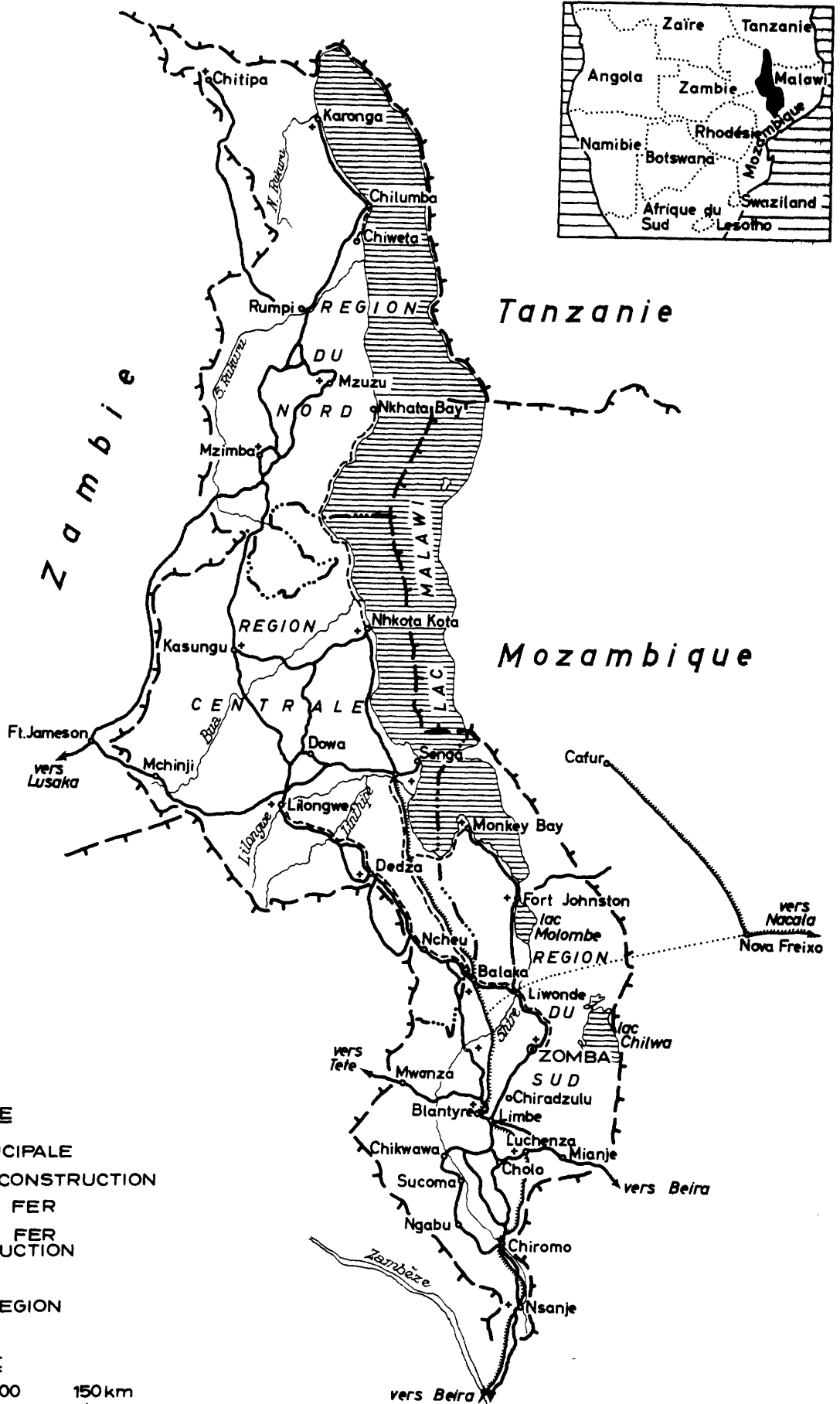
About 9 % of all roads (27 % of main roads) are bitumenised (1971), while 8 % of the roads are gravel-laid. Even on district earth roads, which are practically all earth-surfaced, access by landrover is possible almost throughout the year, thus providing many agricultural areas with essential links to distribution centres.

The main roads join the important focal points of the principal North-South economic axis of the country between Blantyre/Limbe, Zomba, and Lilongwe, and up until now development efforts have been rather concentrated on the improvement of principal existing routes, such as the upgrading of the 270 kilometres of the Zomba-Lilongwe road to first-class bitumen standard (completed in 1970) and of the Liwonde-Monkey Bay route, due for completion in 1974. Parallel to the North-South M1 road linking Blantyre to Tanzania in the North, a Lakeshore road, from Salima to Karonga, is under construction (the Nkhotakota-Nkhata Bay stretch should be completed in 1973). Existing road links with external territories are, besides the North-South M1 road, the M2 South-West link to Rhodesia (through Tete) and the North-West M4 road linking Lilongwe with Zambia.

Two major hauliers account for about 40 % of the road freight traffic while over 60 % of all operators, owning no more than one vehicle, account for about 16 % of total haulage. Due to a buoyant demand, there is a lot of scope for small private enterprise and from 1969 to 1971 the number of private carrier permits rose by 15 %. United Trans-

MALAWI

CARTE DES TRANSPORTS



LEGENDE

- ROUTE PRINCIPALE
- - - - ROUTE EN CONSTRUCTION
- ▬▬▬▬ CHEMIN DE FER
- ⋯⋯⋯ CHEMIN DE FER EN CONSTRUCTION
- + AERODROME
- - - - LIMITE DE REGION

ECHELLE

0 50 100 150 km

Table 6 shows the development of freight and passenger rail traffic since Independence. It can be seen that there is an overall long-term upward trend up until 1971, although this is rather slow. The sharp rise in freight traffic in 1967 and 1968 was mainly due to the re-routing of Zambian transit consignments after the UDI in Rhodesia ; this traffic fell off again markedly with the opening of the Tam-Zan oil pipeline. Recent rises reflect the opening of the new line, and estimates also show that during the first half of 1972 traffic was 10 % up on the equivalent period in 1971 ; this growth-rate is certain to have accelerated since then with the rapid rise in transit freight.

TABLE 6 - Traffic on Malawi Railways, 1964-71

| Year | Freight in net short ton-kms. ('000) | Passengers |
|-------------|--------------------------------------|------------|
| 1964 | 85,300 | 513,400 |
| 1965 | 99,200 | 581,990 |
| 1966 | 148,600 | 737,180 |
| 1967 | 193,200 | 665,300 |
| 1968 | 203,500 | 665,000 |
| 1969 | 145,500 | 737,500 |
| 1970 | 189,500 | 840,600 |
| 1971 (est.) | 199,600 | 837,000 |

Source : Ministry of Transport and Communications

2.2.3. Lake Service

Malawi Railways obtained full ownership of the assets of the Lake Service in 1968 ; although it runs at a heavy loss, the Service has enjoyed rapid growth since Independence.

TABLE 7 - Freight and Passengers Moved by the Lake Service, 1964-71

| Year | Freight (short tons) | Passengers |
|-------------|----------------------|------------|
| 1964 | 13,800 | 66,000 |
| 1965 | 16,600 | 40,950 |
| 1966 | 22,400 | 60,190 |
| 1967 | 19,500 | 73,360 |
| 1968 | 17,700 | 108,000 |
| 1969 | 23,400 | 114,000 |
| 1970 | 25,600 | 109,100 |
| 1971 (est.) | 30,000 | 130,000 |

Source : Ministry of Transport and Communications

The losses of the Lake Service are principally due to under-utilisation and inadequate port facilities, the latter being the cause of the former ; efforts are being made to modernise and improve the Service.

2.2.4. Air Transport

Air Malawi, a wholly Government-owned fleet of seven aeroplanes, operates from Chileka both internal services to all three regions and international routes to Salisbury, Beira, Lusaka and Johannesburg. Foreign airlines, also operating from Chileka (Air Rhodesia, Zambian Airways, BOAC, EAA, DETTA) link Malawi directly with other capitals in Africa and Europe. A bitumen runway also exists at Lilongwe where it is proposed to build a second international airport.

Air traffic has recently witnessed a rapid development and in 1971 nearly 200,000 passengers passed through Chileka airport, which also handled 1500 short-tons of freight. From 1964 to 1971 estimated annual growth-rates of traffic volume through Chileka and Lilongwe airports were as follows :

TABLE 8 - Growth of Traffic Volume through Chileka and Lilongwe (1964-71)
(annual average growth-rates)

| Airport | Passengers handled | Freight | Mail |
|----------|--------------------|---------|------|
| Chileka | 11.9 | 17.5 | 6.2 |
| Lilongwe | 12.8 | 19.2 | 16.5 |

Source : Ministry of Transport and Communications

2.2.5. Telecommunications

At present more than 6,000 telephones have been installed and the number of telephone connections has grown at an annual average rate of 10 %. About 70 customers are connected to the telex services.

III. ECONOMIC TRENDS AND STRUCTURES

3.1. Macro-economic Trends

Malawi is one of the poorest countries of Africa and figures on the list of the 25 least developed countries of the world drawn up by the Santiago UNCTAD Conference.

However, growth of the economy since Independence has been rapid. Table 9 shows that, despite the setbacks caused by unfavourable weather conditions between 1966 and 1968 from which the recovery was impressive, total real Gross Domestic Product grew by nearly 70 % at an average annual rate of 7.7 % between 1964 and 1971. The growth of real Gross National Income was even faster, and GDP per head grew at 5 % annually (1).

TABLE 9 - Evolution of GDP and GNI, 1964-71 (2)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | Growth rates |
|---|-------|-------|-------|-------|-------|-------|-------|-------|--------------|
| Total GDP at 1964 market prices (mn U.A.) | 214.0 | 253.5 | 277.5 | 266.0 | 250.1 | 258.4 | 267.2 | 307.0 | |
| of which, monetary sector (%) | 52.5 | 54.6 | 56.2 | 59.0 | 56.7 | 60.0 | 60.9 | 61.5 | |
| GDP per head (U.A.) | 55.9 | 64.4 | 69.0 | 64.4 | 59.1 | 59.6 | 60.1 | 67.4 | 5.0 |
| Total real GDP (1964 = 100) | 100.0 | 118.1 | 129.8 | 144.9 | 136.2 | 140.8 | 145.6 | 167.3 | 7.7 |
| Real GNI (mn U.A.) | 205.5 | 258.6 | 290.5 | 277.3 | 257.9 | 267.4 | 275.3 | 318.7 | 8.8 |
| Real GNI per head (U.A.) | 53.6 | 65.9 | 72.2 | 67.3 | 61.0 | 61.7 | 62.0 | 69.9 | 6.2 |
| Real GNI (1964 = 100) | 100.0 | 125.8 | 141.4 | 157.5 | 146.5 | 151.8 | 156.3 | 181.0 | 8.8 |

(1) assuming rate of population growth of 2.6 %

(2) In February 1971 the KWACHA replaced the Malawi pound at the rate of 2 K. = £ 1 sterling (in fact this meant a halving of the value of the local currency relative to the old Malawi pound). In order to convert from Kwacha to U.A., a multiplicand of 1.4 was used for the years 1964 to 1966 (inc.) and of 1.2 for the years 1967-71 (inc.). This is in accordance with IMF conventions and takes account of the November 1967 devaluation of the £ sterling, to which Malawi currency has been attached throughout.

Source : Monthly Statistical Bulletin

TABLE 10 - GDP by industrial Origin, 1964 and 1971 (U.A. mn. at current prices)

| | 1964 | (%) | 1971 | (%) |
|---|--------------|---------------|--------------|---------------|
| <u>Agriculture</u> | | | | |
| Smallholdings : non-monetary | 88.1 | (42.0) | 116.4 | (34.9) |
| monetary | 22.3 | (10.6) | 37.2 | (11.1) |
| Estate/Government | 8.3 | (4.0) | 21.0 | (6.3) |
| TOTAL (I) | 118.7 | (56.6) | 174.6 | (52.3) |
| <u>Mining and Quarrying</u> | | | | |
| | 0.1 | (-) | 0.2 | (-) |
| <u>Manufacturing</u> : non-monetary | | | | |
| monetary | 6.6 | (3.1) | 7.6 | (2.3) |
| | 12.5 | (5.9) | 34.1 | (10.2) |
| <u>Building and Construction</u> : | | | | |
| non-monetary | 3.2 | (1.5) | 4.6 | (1.4) |
| monetary | 4.6 | (2.2) | 9.1 | (2.7) |
| <u>Electricity, Sanitation, Water</u> | | | | |
| | 1.5 | (0.7) | 3.8 | (1.2) |
| TOTAL (II) | 28.5 | (13.4) | 59.4 | (17.8) |
| <u>Public Administration, Defence</u> | | | | |
| | 19.3 | (9.2) | 23.9 | (7.2) |
| <u>Education</u> | | | | |
| | 3.9 | (1.9) | 7.3 | (2.2) |
| <u>Health</u> | | | | |
| | 1.5 | (0.7) | 2.4 | (0.7) |
| TOTAL (III) | 24.7 | (11.8) | 33.6 | (10.1) |
| <u>Distribution</u> | | | | |
| | 19.8 | (9.4) | 32.0 | (9.6) |
| <u>Banking, Finance</u> | | | | |
| | -0.3 | (-0.1) | 0.8 | (0.2) |
| <u>Transport, Communications</u> : | | | | |
| non-monetary | 0.6 | (0.3) | 1.0 | (0.3) |
| monetary | 7.3 | (3.5) | 15.8 | (4.7) |
| <u>Rents</u> : dwellings : non-monetary | | | | |
| monetary | 3.1 | (1.5) | 3.7 | (1.1) |
| | 1.8 | (1.0) | 3.6 | (1.1) |
| other | 0.3 | (0.1) | 0.6 | (0.2) |
| <u>Domestic Services</u> | | | | |
| | 2.2 | (0.9) | 2.9 | (0.9) |
| <u>Other Services</u> | | | | |
| | 3.4 | (1.6) | 5.6 | (1.7) |
| TOTAL (IV) | 38.2 | (18.2) | 66.0 | (19.8) |
| GDP at current factor cost | | | | |
| (Totals I to IV) : | 210.1 | (100.0) | 333.6 | (100.0) |
| GDP at current market prices | | | | |
| | 214.0 | (101.8) | 383.0 | (114.8) |
| GNP at current market prices | | | | |
| | 205.5 | (97.8) | 375.0 | (112.4) |
| Source : Economic Report 1972, N.S.O. | | | | |

In the economy as a whole, the subsistence sector declined from nearly half of GDP (48.4 %) in 1964 to 40.0 % in 1971. Agriculture remains by far the dominant sector, accounting for more than 50 % of GDP, the "subsistence" smallholdings themselves still contributing more than one third, despite a notable diminution of their relative importance (see Table 10). Secondary sector production including mining increased by more than 140 % (in terms of Kwachas) raising its share of total production from 13 % to nearly 18 % ; this represents an annual growth rate of more than 12 %, even including the subsistence sector which grew much more slowly.

TABLE 11 - Total Domestic Expenditure, 1964 and 1971 (market prices)

| | 1964 ₪ | | 1971 | |
|--------------------------------------|--------|--------|---------|--------|
| | Value | % GDP | Value | % GDP |
| 1. <u>Total Consumption</u> | 213.5 | 99.7 | 355.6 | 92.8 |
| Monetary : Government | (32.3) | (15.1) | (51.6) | (13.5) |
| Private | (73.1) | (34.2) | (164.4) | (42.9) |
| Non-monetary | 108.1 | 50.5 | 139.6 | 36.4 |
| 2. <u>Gross Fixed Capital Form</u> | 16.7 | 7.8 | 62.4 | 16.3 |
| 3. <u>Changes in Stocks</u> | -0.8 | -0.4 | 7.2 | 1.9 |
| 4. <u>Total Domestic Expenditure</u> | 229.4 | 107.2 | 425.2 | 111.0 |
| (1 + 2 + 3) | | | | |
| 5. <u>Trading Surplus</u> | -15.4 | -7.2 | -42.2 | -11.0 |
| 6. <u>GDP at Market Prices</u> | 214.0 | 100.0 | 383.0 | 100.0 |
| 7. <u>Net Factor Incomes Paid</u> | -8.5 | -4.0 | -8.0 | -2.1 |
| <u>Abroad (minus)</u> | | | | |
| 8. <u>GNP at Market Prices</u> | 205.5 | 96.0 | 375.0 | 98.0 |

₪ revised figures

Sources : (1) Economic Report 1972

(2) National Accounts Report (1964-68), N.S.O. 1970

N.B. : Figures are not strictly comparable

The most striking feature of the breakdown of the GDP into expenditure items (Table 11) is the significant rise, both proportionately and in absolute terms, of Gross Fixed Capital Formation between 1964 and 1971. As a percentage, investment fluctuated between a low of 8 to 10 % in 1964 to a high of around 20 % in 1968. Currently, investment expenditure is almost equally divided between public and private sources. Given the buoyant trend in the growth of the economy, the investment figures suggest a rather low capital-output ratio even when stocks are included in investment (for the period 1964-69, estimates of between 2.2/1.0 and 2.4/1.0 have been given relative to GNP) and this is an optimistic indication of the productiveness of capital accumulation.

So far as national savings are concerned, the situation has also been radically transformed since 1964. Until 1969, consumption by the public and private sectors exceeded GNP and only since 1970 has the economy been able to generate national savings. In 1971 they amounted to 5 % of GNP and are expected to rise to nearly 50 % of investment requirements by 1980.

3.2. Principal Sectors of Production

3.2.1. Agriculture

Nine out of ten Malawians depend directly on agriculture which accounts for about 50 % of GDP and absorbs probably 70 % of the active male population.

In Malawi it is estimated that over half (about 56 %) of the land area is suitable for cultivation ; of this, as yet only about one third is actually exploited, which gives an idea of the great potential still to be realized, particularly in the North of the country. The Central and Southern Regions account for some 90 % of the cultivated area of which nearly all (between 8 and 9 tenths) is under customary tenure - mainly mixed cropping of maize, pulses, millet, sorghum, groundnuts, cassava, potatoes, as well as rice, cotton, and fire-cured, sun/air cured, and oriental varieties of tobacco. The rest of the cultivated land is in specialized estates, originally maintained exclusively by European settlers, and these grow principal export crops only : tea, burley and flue-cured tobacco, and tung oil.

In agriculture as a whole, a very significant proportion (about 67 % in 1971) of total production remains within the so-called "subsistence" sector - although the relative importance of this sector is in rapid decline (see Table 11 above) - and is either consumed directly or traded locally. Thus the commodities sold to the Agricultural Development and Marketing Corporation (ADMARC, ex-Farmers' Marketing Board) which absorbs all estate production but a varying quantity of the total production of the respective commodities grown on smallholdings ; these latter amounts are therefore somewhat difficult to know with any degree of exactitude.

Table 12 below outlines the relative importance of Malawi's main produce in terms of approximate 1968 land distribution :

TABLE 12 - Principal Crops : Land Coverage in Hectares

| Crop | Area in '000 Hectares |
|---|-----------------------|
| Mixed Cropping : Maize | 1,100.0 |
| Pulses | 850.0 |
| Millet, Sorghum | 500.0 |
| Groundnuts | 450.0 |
| Cassava | 280.0 |
| Potatoes | 160.0 |
| Single Cropping : Tobacco : sun/air-cured | 4.3 |
| fire-cured | 26.7 |
| oriental | 0.1 |
| flue-cured = | 2.2 |
| burley = | 3.1 |
| Total | 36.4 |
| Seed cotton | 45.5 |
| Tea = | 14.5 |

= principally estate crops

(Other important crops for which figures are not available are sugar, rice, tung oil =, dark-fired tobacco)

Source : N.S.O.

The chief food crop is maize, grown on the largest land area (78 % of the total in 1968), and of which only a rather small proportion enters the monetary sector - less than 5 % of total production was bought by ADMARC in the year 1968-69. Nearly all maize is thus consumed directly or processed into traditional beer, but in certain years production yields a significant export surplus (see Table 13 below).

Customary land crops sold in significant quantities to ADMARC are dark-fired tobacco (mainly grown in the Northern Region), groundnuts, and cotton, and the greater part of production of these crops is destined for the export market.

Some idea of the evolution in the production of the principal crops can be gathered from the following table, setting out figures of marketed production :

MALAWI

PRODUCTIONS AGRICOLES

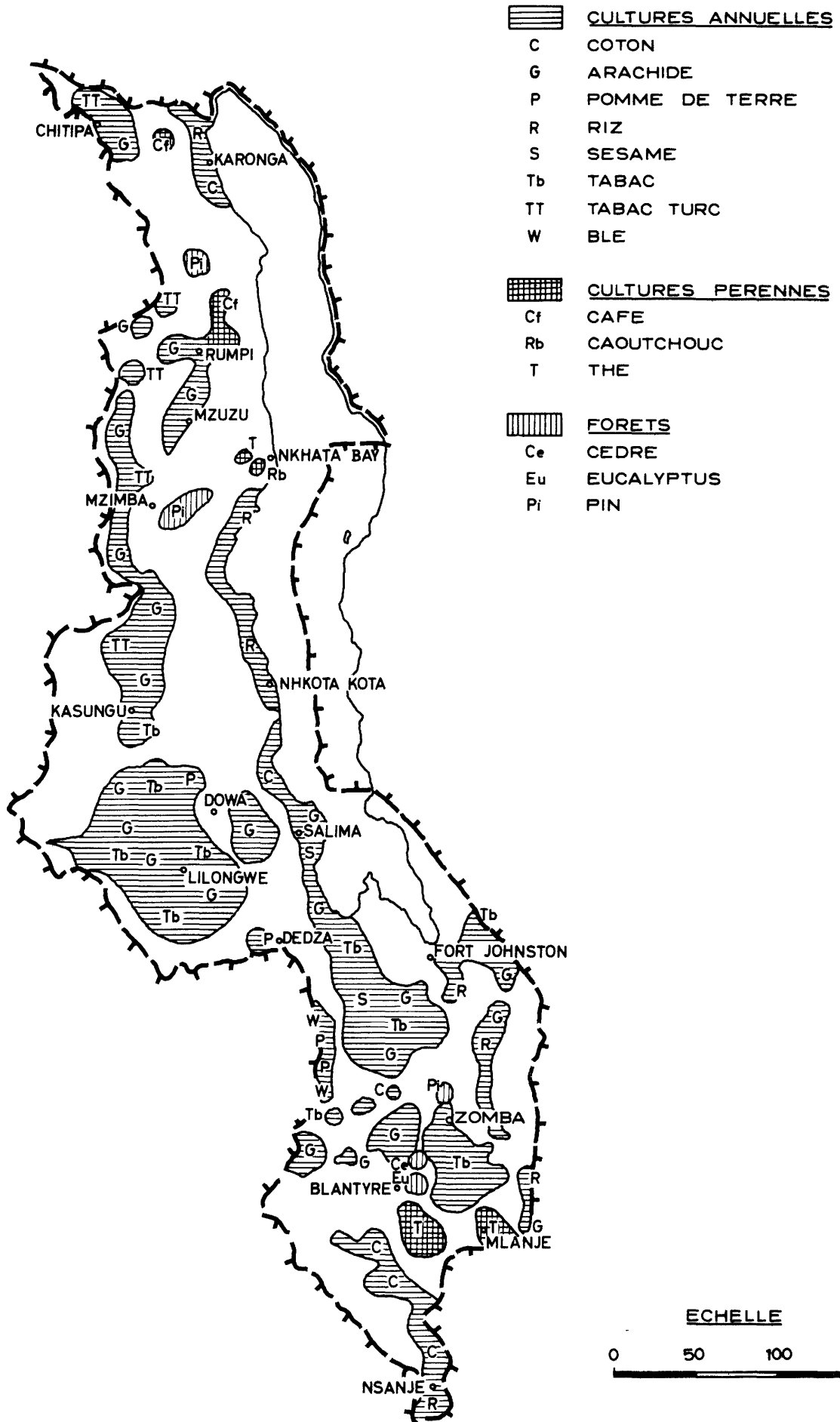


TABLE 13 - Marketed Production of Main Commodities, 1966-71 ('000 short tons)

| | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|--------------------------------|------|-------|------|------|------|------|
| <u>Tea</u> | 15.2 | 16.7 | 15.7 | 16.8 | 18.6 | 18.4 |
| <u>Tobacco</u> (Auction sales) | | | | | | |
| flue-cured | 1.2 | 1.8 | 2.7 | 2.7 | 4.6 | 6.3 |
| burley | 2.4 | 2.7 | 3.0 | 3.4 | 5.6 | 5.6 |
| fire-cured | 12.0 | 10.4 | 8.3 | 5.9 | 9.9 | 11.8 |
| sun/air-cured | 2.7 | 1.1 | 1.0 | 0.9 | 1.8 | 2.3 |
| Total * | 18.3 | 16.0 | 15.0 | 12.9 | 21.9 | 26.0 |
| <u>Groundnuts</u> | 46.5 | 47.3 | 25.1 | 40.9 | 29.8 | 41.9 |
| <u>Seed cotton</u> | 14.6 | 13.2 | 12.8 | 20.2 | 23.5 | 24.4 |
| <u>Maize</u> | 62.5 | 100.0 | 92.2 | 58.1 | 9.1 | 37.3 |
| <u>Pulses</u> | 20.3 | 23.3 | 3.8 | 18.1 | 8.9 | 19.0 |
| <u>Raw sugar</u> | 3.7 | 18.1 | 21.9 | 29.6 | 36.1 | 38.0 |
| <u>Paddy</u> | 4.5 | 35.1 | 2.3 | 9.3 | 9.9 | 20.0 |

* not including dark-fired tobacco

Source : ADMARC and Ministry of Agriculture

In fact, as already mentioned, these figures are not (except in the case of sugar and tea) figures of total production, but refer uniquely to the monetary sector. Thus the large variations that are apparent (see in particular maize) are not only due to marked climatic variations (with bad seasons from 1966-68), but also to farmers' reactions to price changes. ADMARC however does play an important role in attempting to keep prices steady and improve agricultural conditions in other ways.

Since their production is so closely tied to the export market, it is useful to analyse the principal agricultural commodities' output trends in terms of exported quantities. The relevant figures are reproduced in Table 14 (1).

(1) see also Table 25)

TABLE 14 - Composition of Agricultural Exports by Main Commodities, 1964-71 (U.A. mn.)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Smallholder Crops</u> : Tobacco ¹⁾ | 8.1 | 11.1 | 9.0 | 6.1 | 7.2 | 7.7 | 10.0 | 13.7 |
| Groundnuts | 3.1 | 4.6 | 3.6 | 8.3 | 5.4 | 6.7 | 5.0 | 7.1 |
| Cotton ²⁾ | 2.8 | 3.1 | 3.1 | 1.7 | 1.6 | 2.0 | 3.4 | 3.0 |
| Others ²⁾ | 3.1 | 2.9 | 5.0 | 6.7 | 7.0 | 5.2 | 3.0 | 4.3 |
| Total | 17.1 | 21.7 | 20.7 | 22.8 | 21.2 | 21.6 | 21.4 | 28.1 |
| <u>Estate Crops</u> : Tobacco ³⁾ | 3.6 | 3.4 | 3.6 | 4.0 | 5.4 | 7.4 | 9.8 | 12.5 |
| Tea | 9.2 | 10.5 | 12.3 | 10.8 | 11.6 | 11.4 | 13.1 | 14.0 |
| Others ⁴⁾ | 0.8 | 9.8 | 0.8 | 0.8 | 0.4 | 0.5 | 0.5 | 0.4 |
| Total | 13.6 | 23.7 | 16.7 | 15.6 | 17.4 | 19.3 | 23.4 | 26.9 |

1) dark-fired, fire-cured, sun/air-cured, oriental varieties

2) mainly maize, beans, peas, cassava, rice

3) flue-cured and burley varieties

4) tung oil, sugar, sisal

Source : N.S.O.)

Tobacco : For a long time, Malawi's tobacco industry has been under the shadow of the much bigger one in Rhodesia, but since U.D.I. it has made remarkable progress. In fact, the embargo placed on Rhodesian tobacco after 1965 has given a considerable fillip to Malawian tobacco exports, particularly of the flue-cured variety ; the value of estate tobacco exports as a whole increased by more than four times in terms of Malawi currency from 1965 to 1971, consolidating the importance of tobacco as the principal source of foreign earnings. Malawi's future in tobacco remains good and less dependent on Rhodesia's export prospects. Malawi's flue-cured leaf has improved greatly in quality and has now reached Rhodesia's pre-U.D.I. level.

Tea : Almost the whole of indigenous tea production is destined for the export market ; expansion in output has been rather modest because of the persistence of an excess supply on the world market, causing sharp price falls in recent years. But tea remains the second most important export commodity and efforts are being made to improve on quality, while production is being progressively extended to smallholdings.

Groundnuts : Adverse weather conditions and disease depressed production after the 1967 peak, but exports have begun to catch on again to a large anticipated expansion in external demand for the confectionery variety, of which Malawi can be expected to meet about 50 % of world consumption.

Other crops that have shown rapid production expansion since 1968 are seed cotton, pulses, rice and sugar, of which the latter is to benefit considerably from a recent agreement with the United States designed to establish a regular export quota of

15,000 tons annually from 1973 ; this could raise output to 60,000 tons by 1973. Sugar yields are vary high in Malawi : 15 tons per hectares of raw sugar a year.

Livestock : There are only about 500,000 head of cattle out of a total livestock population of some million and a half, but with per capita meat consumption at a low level of less than 5 kg. a year (of which one third is beef), Malawi is able to satisfy nearly all of home demand. Annual livestock population increase has been slightly faster than the increase in the human population, but it will be necessary to raise this rate of growth in order to meet future home consumption which can be expected to increase faster with the rise in personal incomes.

Fisheries : Table 15 shows a rapid increase in total landings since 1967.

TABLE 15 - Total Fish Landings, 1966-71 (short tons)

| | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|--------------------|--------|--------|--------|--------|--------|--------|
| Estimated landings | 19,300 | 15,800 | 19,800 | 26,000 | 37,000 | 40,000 |

Source : Department of Fisheries

This increase has permitted Malawi, which consumes as much fish per head as all other meats, to remain a net exporter. Trawling methods in Lake Malawi have greatly contributed to this increase but further expansion is subject to the physical constraints of existing waters, since Lake Malawi has a limited fish capacity (due to its depth), and the other sources - which are at least as important - include Lake Chilwa which is capable of drying up as in 1967, and the Lower Shire whose fish population could be threatened by hydro-electric power development (see below, 3.2.3.).

Forestry : In 1970 the Forestry Department had some 14,000 hectares of softwood timber plantations under its control. At present, the domestic market is unable to meet the rapid increase in demand for wood for construction but it is planned to extend plantations in order gradually to exclude the need for foreign timber which is being imported in substantial quantities. A pulpwood project at Vipya also provides for the gradual elimination of imported paper and pulp from the 1980s.

3.2.2. Mining and Industry

3.2.2.1. Mining

Mining activity is limited to small-scale, exploitation of limestone for cement making, and of rare earth deposits for export. Exploration continues into the possibility of large bauxite deposits at Mlanje which, if proved, and with ample enough sources of electric power (e.g. from Cahora-Bassa) could be used for aluminium smeltings.

Other current investigations are into monazite deposits, and the possible existence of copper, nickel, titanium, niobium and uranium.

3.2.2.2. Manufacturing

This is still a small sector, representing 12.5 % of GDP in 1971 (see Table 10). However its growth since Independence has been rapid, if we exclude the cottage industries : monetary manufacturing grew from about 6 % to about 10 % of total product the seven-year period 1964-71, i.e. by more than 200 % in value terms (i.e. in Kwacha). From 1964 to 1967, the number of enterprises with more than 20 employees progressed from 100 to 132, although the increase has been slower since then. Part of this brisky growth is due, of course, to Malawi's low starting point because of the customs union with Rhodesia (until 1963) where most consumer goods industries were established and grew.

Its evolution has seen three phases. Before Independence, manufacturing consisted exclusively of processing agricultural products for export - mainly tea and tobacco. Since 1965 the Government, mainly under the auspices of the Malawi Development Corporation set up the previous year, has encouraged more consumer goods industries such as sugar refining, food processing, and soap, cigarettes, soft drinks, beer, household utensil and textile manufacturing, and transport equipment repair ; this second phase has been designed to substitute home-produced goods for imports. In a new phase, it is intended to promote more consumer industries orientated specifically towards the export market, particularly in food processing and textiles. Other long-term possibilities for export promotion exist in pulp and paper manufacture, and in bauxite exploitation, which were mentioned above (3.2.1. and 3.2.2.1.).

The participation of the Government in industrial manufacturing development has taken various forms, including the raising of protective customs tariffs in return for guarantees by the domestic industries concerned of price stability ; provision of initial and recurrent investment allowances ; and the providing of suitably prepared industrial sites for private enterprises. Financing of industrial expansion has come for the most part from external private sources, which it has been the policy of the Government to encourage. However the degree of local participation has been enhanced in recent years by the activities of the Malawi Development Corporation and the extension of the scope of such State bodies as the Forest Industries Division, the Ministry of Agriculture and Natural Resources, and ADMARC.

3.2.2.3. Building and Construction

From 1964 to 1971 the value of building and construction as a whole more than doubled, making this the second fastest growing sector after manufacturing ; in 1971 the sector accounted for about 4 % of GDP (see Table 10). Investment in this sector since 1964 has tended to rise less rapidly than the level of gross fixed capital formation,

but from a low point in 1967, it rose rapidly to a peak in 1969 (6 % of GDP) as a result of public spending on the Nacala rail link and the Zomba-Lilongwe road (see Table 16).

TABLE 16 - Value of Building Activity, 1964-1971 (U.A. mn.)

| | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|------|------|------|------|-------|------|
| <u>Net Output : Building and Construction</u> | | | | | | |
| Monetary | 6.4 | 8.2 | 10.2 | 10.1 | 9.8* | n.a. |
| Non-monetary | 4.0 | 4.1 | 4.2 | 4.3 | 4.9* | n.a. |
| Total | 10.4 | 12.3 | 14.4 | 14.4 | 14.7* | n.a. |
| <u>Private Contractors' work</u> | 5.9 | 9.6 | 22.7 | 20.2 | 17.0* | n.a. |
| <u>Ministry of Works</u> | 4.3 | 5.2 | 4.9 | 5.3 | 7.0 | n.a. |
| <u>Value of buildings completed :</u> | | | | | | |
| Blantyre | 3.6 | 2.3 | 6.1 | 4.7 | 4.2 | 5.1 |
| Lilongwe | 0.2 | 0.4 | 1.3 | 1.9 | 0.5 | 0.7 |
| <u>Cement Sales ('000 tons)</u> | 44.1 | 55.5 | 83.6 | 77.5 | 71.6 | 81.1 |

* estimate n.a. = not available

Source : Economic Planning Division ; Monthly Statistical Bulletin

In real terms, the level of output has fallen back in two successive years since 1969, but figures for the value of building plans passed in 1972 for Blantyre and the new capital at Lilongwe indicate that a new increase in real output can be anticipated in the near future.

The inadequacy of domestic cement output (despite a rapid rise in recent years), and the lack of skilled domestic manpower will mean that the future expansion in construction will have to continue to rely in large part on foreign-based private contractors; the consequent repatriation of substantial proportion of construction earnings will necessarily imply a low rate of domestic value-added return in this sector.

3.2.3. Energy

3.2.3.1. Electricity

Total sales by the Electricity Supply Commission of Malawi (ESCOM) of electric power have increased from 77.4 million kWh. in 1967 to 132.4 million kWh. in 1971, an increase of more than 70 % in four years :

TABLE 17 - Sales of Electricity Units by ESCOM (Kwh mn.)

| Year | Domestic Tariff | Industrial, Commercial | Total |
|------|-----------------|------------------------|-------|
| 1967 | 15.8 | 61.6 | 77.4 |
| 1968 | 18.4 | 75.5 | 93.9 |
| 1969 | 20.7 | 85.0 | 105.7 |
| 1970 | 23.2 | 98.7 | 121.9 |
| 1971 | 25.2 | 107.2 | 132.4 |

Source : ESCOM

At present total output is about 36 MW, of which 24 MW comes from the single hydro-electric source at Nkala Falls (of which the second stage was opened in 1966). Future expansion will rely on extension of hydro-electric power with the opening of a second scheme in 1973 at Tedzani Falls. This will have an initial capacity of 16 MW, to be extended to 48 MW in two successive phases by 1980. Only in early 1972 was the National Grid extended outside the Southern Region to link Lilongwe with Nkala Falls, but further extensions of the Grid are planned in the near future.

With the initial surge of industrial growth among new enterprises over, the biggest future additions to demand are expected to come from the Vipya pulp and paper scheme and exploitation of the Mlanje bauxite deposits ; in the long term, further extension of hydro-electric capacity on the Shire river is foreseen, as well as the possible importation of electrical power from the Cahora-Bassa scheme on the Zambezi.

3.2.3.2. Water

Rural water supplies are mainly provided by boreholes, of which there has been a large increase in recent years. Lilongwe is also adequately supplied from the Kamuzu Dam, opened in 1968, which will have sufficient spare capacity until about 1980. However Blantyre, at 1000 metres, presents more of a problem since about 80 % of its needs must be pumped up from Walker's Ferry, 35 kms. away on the Shire river, and its demand is expected to increase by about 10 % each year. Further additions to existing pumping facilities on the Shire river are therefore planned in order to increase the rate of flow through the existing pipeline which still has a lot of spare capacity.

3.3. Money and Finance

3.3.1. Banking and the Monetary System

From the Bank of Rhodesia and Nyasaland emerged the Bank of Malawi which was set up in 1964 and which began its own note issue in the same year. The Malawian pound stood at par with the British pound until February 1971 when the currency unit changed its name to Kwacha (K) and halved its value relative to the pound sterling (see note, page 11).

Its present official rate of exchange to the unit of account (= to the pre-devaluation U.S. dollar) is of 1 K = 1,087 U.A. (1).

The two commercial banks operating in Malawi - Barclays Bank D.C.O. and the Standard Bank - were joined in 1970 by the Commercial Bank of Malawi owned by a major Portuguese Bank and the Malawi Development Corporation. Other financial institutions are the Post Office Saving Bank, New Building Society, and National Insurance Company.

From 1966, the total money supply has grown roughly in parallel with the growth of GDP (see Table 18) and in 1971 it was about 21 % of monetary GDP. Total domestic credit accelerated sharply again in 1971 after a very small rise in 1970 accounted for by the poor crop season of that year ; however credit to the private sector has shown a very steady increase throughout this period, growing generally faster than credit to the public sector.

TABLE 18 - Changes in Money Supply, 1966-1971 (U.A. mn.) (1)

| | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|--------------------------|-------|------|-------|-------|-------|------|
| <u>Sources</u> | | | | | | |
| 1. Supply of Money | 26.0 | 29.5 | 30.1 | 34.2 | 39.3 | 46.5 |
| 2. Quasi-Money (2) | 9.4 | 12.9 | 15.6 | 15.9 | 18.5 | 22.7 |
| 3. Total (1 + 2) | 35.4 | 42.4 | 45.7 | 50.1 | 57.8 | 69.2 |
| % increase (year-on) | +19.7 | +8.3 | +9.3 | +15.4 | +19.9 | |
| <u>Uses</u> | | | | | | |
| 4. Total Domestic Credit | 22.9 | 31.1 | 32.2 | 37.0 | 37.8 | 49.5 |
| % increase (year-on) | +35.8 | +3.6 | +14.7 | +2.3 | +30.8 | |
| 5. Total Foreign Assets | 14.4 | 12.0 | 13.1 | 13.9 | 22.2 | 24.6 |
| % increase (year-on) | -17.0 | +9.8 | +6.3 | +59.5 | +10.9 | |
| 6. Total (4 + 5) | 37.3 | 43.1 | 45.3 | 50.9 | 60.0 | 74.1 |

(1) For all years, the pre-1972 rate of conversion of K 1.0 = 1.2 U.A. was used

(2) Time and Savings deposits of commercial banks, P.O.S.B. and Reserve Bank, except government and bankers' deposits

Source : Reserve Bank of Malawi

As to price indices, are of course strongly weighted by food items (especially the "Low Income Index") and variations tend to follow the seasons through the year (see table 19).

(1) The Malawi Kwacha does at present fluctuate with the Pound Sterling (June 1973)

TABLE 19 - Price Index 1968-1972 (1) (yearly averages : 1970 = 100)

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|--------------------------------------|------|------|-------|-------|-------|
| <u>Low Income Index</u> : all items | 90.5 | 91.3 | 100.0 | 108.1 | 112.2 |
| foodstuffs | 84.6 | 86.1 | 100.0 | 111.2 | 115.9 |
| <u>High Income Index</u> : all items | 90.3 | 94.7 | 100.0 | 107.7 | 110.7 |

(1) Blantyre Retail Prices Low Income refers to households with yearly expenditure up to K 600 (720 U.A.) ; High Income refers to households with yearly expenditure greater than K 2,000 (2,400 U.A.)

Source : Monthly Statistical Bulletins

Since 1969 an acceleration of the rate of price increase coincides with a rise in money supply, but the most recent official figures for the Low Income Blantyre consumer Price Index show a reduction in the rate of inflation from 7.8 % for the year ending August 1970, to 6.9 % up to August 1971 and 4.4 % up to August 1972.

3.3.2. Public Finance

A summary of the evolution of public finance since 1964 is given in Table 20 :

TABLE 20 - Public Finance : key ratios (%) (1964-1971)

| | 1964 | 1966 | 1968 | 1970 | 1971 |
|--|------|------|------|-------------------|-------------------|
| Public Consumption/GDP | 15.7 | 15.6 | 16.4 | 15.4 | 13.5 |
| Public Investment/GDP | 5.2 | 8.0 | 8.1 | 9.3 | 8.4 |
| Import Duties/Total Public Accounts Revenue | 14.4 | 34.2 | 31.6 | 34.2 [⊠] | 29.6 [⊠] |
| Tax Ratio (= $\frac{\text{Tax revenue}}{\text{GNP}}$) | 8.6 | 10.9 | 13.0 | 10.7 [⊠] | 11.2 [⊠] |
| Externally-held public debt/GNP | n.a. | n.a. | 31.0 | 41.3 | 36.5 |

n.a. = not available

⊠ refers to financial years beginning 1st April

Source : Ministry of Finance

In a period of seven years, public consumption has been contained within limits of between 13.5 and 15.7 per cent of GDP while public investment has shown a general upward trend, increasing by more than three times in absolute terms, and still accounting in 1971 for slightly more than half of total investment (51 %). Since 1966, import duties have constituted approximately one third of total public receipts, bringing the tax ratio to over 10 %. Finally, figures for externally-held public debt, which increased by 70 %

between 1968 and 1971, reflect in part the diminishing importance of grants as a source of external finance (see 3.4.2.3.).

TABLE 21 - Central Government Budget 1964-1972 (mn. U.A.)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 [⊗] | 1970/1 | 1971/2 |
|-------------------------------------|-------|-------|-------|-------|------|-------------------|------------------|------------------|
| Gross Current Expenditure | 44.8 | 46.2 | 49.7 | 46.6 | 48.2 | 46.9 | 56.2 | 60.7 |
| Gross Current Revenue | 30.7 | 28.6 | 35.3 | 36.3 | 40.5 | 40.2 | 52.8 | 60.5 |
| Deficit | -14.1 | -17.6 | -14.4 | -10.3 | -7.7 | -6.7 | -3.4 | -0.2 |
| U.K. Budgetary aid | 14.0 | 16.7 | 11.9 | 10.0 | 7.7 | 6.7 | 5.0 [⊗] | 0.7 [⊗] |
| <u>Development Expenditure</u> | 7.6 | 13.2 | 17.9 | 12.7 | 16.6 | 21.6 | 42.2 | 37.4 |
| financed by : | | | | | | | | |
| External grants/loans | 4.9 | n.k. | n.k. | n.k. | 10.1 | 17.6 | 38.7 | 26.9 |
| Domestic borrowing other sources | 2.7 | n.k. | n.k. | n.k. | 6.5 | 4.0 | 3.5 | 10.5 |

n.k. = not known

⊗ excess budgetary aid adjusted in following years

⊗ refers to 15-month period ending 31.3.70. In this year the financial year ceased to coincide with the calendar year

Source : Ministry of Finance, N.S.O.)

The Revenue Account (1) budget has been in deficit since independence, but that the size of the imbalance has fallen progressively from being nearly one third of total expenditure^{to} nearly nothing in 1971/2 (see Table 21). In every year, this deficit has been financed by a British Government grant. But, largely thanks to the steady progression of tax revenue (particularly indirect taxation - see Table 22 - of which the greater part has been import duties), which has amounted to more than 10 % of GNP since 1969 (see Table 20) and the buoyancy of borrowed resources, Malawi has eliminated any further need for budgetary aid fully two years before the originally agreed date of its termination, and this without further foreseeable increases in rates of taxation.

(1) The Malawi budget comprises a Development and a Revenue Account, the former including all investment expenditure plus "some recurrent expenditure of a development nature" (particularly in agriculture) while the latter covers recurrent expenditure and debt servicing. In reality this division is not very distinct - and does not correspond precisely to capital and recurrent expenditures - since items may be switched between accounts according to the availability of external resources.

TABLE 22 - Central Government Receipts on Current and Development Accounts 1964-72 (mn.UA)

| | 1964 | 1968 | 1969 [⌘] | 1970/1 | 1971/2 ^{⌘⌘} |
|------------------------------|------|------|-------------------|--------|----------------------|
| Direct Taxes | 7.0 | 11.9 | 13.6 | 14.6 | 16.6 |
| Other Compulsory Transfers | 0.6 | 0.4 | 0.4 | 0.3 | 0.6 |
| Indirect Taxes | 6.2 | 13.3 | 15.6 | 20.5 | 26.4 |
| Voluntary Current Transfers | 24.2 | 11.2 | 9.5 | 8.1 | 5.2 |
| Income from Entrepreneurship | 0.7 | 2.4 | 3.1 | 3.7 | 3.3 |
| Miscellaneous | 1.8 | 0.2 | 0.1 | 0.2 | 0.2 |
| Capital Transfers | 0.6 | 0.3 | 0.2 | 1.4 | 0.3 |
| Interest + Loan Redemption | 1.5 | 1.9 | 2.0 | 2.9 | 4.3 |
| Borrowing | 3.5 | 17.6 | 21.9 | 45.3 | 36.7 |
| Total Revenue | 46.1 | 59.2 | 66.4 | 97.0 | 93.6 |
| + Tees, Sales, Recoveries | 4.4 | 5.6 | 5.4 | 6.0 | 7.0 |
| TOTAL RECEIPTS | 50.5 | 64.8 | 71.8 | 103.0 | 100.6 |

⌘ 15 months ending 31.3.70

⌘⌘ Estimate

Source : Ministry of Finance, N.S.O.

Despite the necessity for financial stringency, expenditure on the Revenue account has progressed from 47 mn. UA in 1969 (15 month period) to an expected 67 mn. n.a. in the financial year 1972/3 (table 23). Public debt charges have regained the high level of 1964 and accounted for more than 16 % of total expenditure in 1972/3 ; this item has shown the fastest growth since 1968 and may be expected to grow more (absolutely and proportionately) in future years, implying the necessity to restrain growth in other expenditure categories below the rate of growth of revenue which was of the order of 13 % per year between 1968 and 1972.

TABLE 23 - Central Government Expenditure on Current Account - 1964-1972 (mn. UA)

| | 1964 | % | 1968 | % | 1969 [⊗] | % | 1970/1 | % | 1971/2 ^{⊗⊗} | % |
|-----------------------------------|-------------------|-------|-------------------|-------|-------------------|-------|--------|-------|----------------------|-------|
| <u>General Services</u> | n.a. [⊗] | | n.a. [⊗] | | 13.4 | 26.3 | 13.7 | 24.4 | 15.0 | 24.7 |
| General Admin. | n.a. | | n.a. | | 7.2 | 14.1 | 7.2 | 12.9 | 8.1 | 3.2 |
| Defence | 1.0 | 2.2 | 1.3 | 2.7 | 1.4 | 2.8 | 1.5 | 2.6 | 1.7 | 2.9 |
| Justice, Police, Prisons | 3.4 | 7.6 | 4.9 | 10.1 | 4.8 | 9.4 | 5.0 | 8.9 | 5.2 | 8.6 |
| <u>Natural Resources</u> (1) | 2.8 | 6.3 | 3.4 | 7.0 | 3.7 | 7.2 | 3.9 | 6.9 | 4.3 | 7.0 |
| <u>Manpower</u> | n.a. | | n.a. | | 14.3 | 27.9 | 15.0 | 26.4 | 16.1 | 26.8 |
| Education | 5.1 | 11.4 | 8.3 | 17.2 | 9.3 | 18.2 | 9.6 | 16.9 | 10.3 | 16.8 |
| Health | 2.5 | 5.6 | 3.3 | 6.8 | 3.5 | 6.8 | 3.8 | 6.7 | 3.9 | 6.4 |
| Community Development and c. | n.a. | | n.a. | | 1.5 | 2.9 | 1.6 | 2.8 | 1.9 | 3.1 |
| <u>Communications</u> | 2.3 | 5.1 | 2.6 | 5.4 | 2.7 | 5.3 | 2.7 | 4.8 | 2.6 | 4.2 |
| Transport | 0.6 | 1.3 | 0.6 | 1.2 | 1.7 | 3.3 | 1.6 | 2.8 | 1.4 | 2.3 |
| Posts, Telecomm. | 1.7 | 3.8 | 2.0 | 4.1 | 1.0 | 2.0 | 1.1 | 2.0 | 1.2 | 1.9 |
| <u>Other Services</u> | n.a. | | n.a. | | 4.9 | 9.6 | 5.7 | 10.1 | 6.3 | 10.3 |
| <u>Public Debt Charges</u> (2) | 9.1 | 20.3 | 4.8 | 9.9 | 5.9 | 11.6 | 8.1 | 14.4 | 10.1 | 16.5 |
| <u>Unallocable</u> | n.a. | | n.a. | | 6.2 | 12.1 | 7.3 | 13.0 | 6.7 | 11.0 |
| <u>Total</u> | 44.8 | 100.0 | 48.4 | 100.0 | 51.1 | 100.0 | 56.4 | 100.0 | 61.1 | 100.0 |

⊗ not available due to changes in expenditure classification

⊗⊗ 15 months up to 31.3.70

⊗⊗⊗ estimate

(1) Agriculture, fisheries and forestry

(2) Should not include debt servicing of Public Enterprises

Source : Ministry of Finance

Development expenditure (Table 24) has grown steadily since 1964, from 7.5 mn. UA (17 % of expenditure on current account) to the exceptionally high level in 1970/1 of 42.3 mn. UA (75 % of expenditure on current account). This figure was inflated as a result of a huge final payment of 12.1 mn. UA for the completion of the Nacala rail link, but the level of expenditure for 1971/2 is expected to reach the high level of 40.5 mn. UA. Since 1969, the most significant increases in expenditure apart from transport - which have been in agriculture, fisheries and forestry ("Natural Resources"), accounting for nearly one third of total expenditure; power with high anticipated spending on Tedzani Falls; and the new capital at Lilongwe.

TABLE 24 - Central Government Expenditure on Development Account, 1964-72 (mn. UA)

| | 1964 | % | 1968 | % | 1969 ^{***} | % | 1970/1 | % | 1971/2 ^{****} | % |
|---------------------------------|--------------------|------|------|------|---------------------|-------|--------|-------|------------------------|-------|
| <u>Natural Resources</u> (1) | n.a. ^{**} | | n.a. | | 6.4 | 29.7 | 8.0 | 18.9 | 11.6 | 28.7 |
| <u>Manpower</u> | 1.6 | 21.0 | 2.0 | 12.0 | 2.1 | 9.7 | 3.6 | 8.4 | 3.4 | 8.3 |
| Education | 1.6 | 21.0 | 1.3 | 7.8 | 1.8 | 8.3 | 3.4 | 8.1 | 2.7 | 6.7 |
| Health | - | - | - | | 0.3 | 1.2 | 0.1 | 0.3 | 0.7 | 1.6 |
| Community Develop. | - | - | 0.7 | 4.2 | - | 0.2 | - | - | - | - |
| <u>Communications</u> | n.a. | | n.a. | | 8.0 | 36.9 | 22.3 | 52.6 | 9.8 | 24.2 |
| Transport : roads | n.a. | | n.a. | | 4.2 | 19.5 | 9.0 | 21.6 | 6.8 | 16.8 |
| rail | n.a. | | n.a. | | 2.6 | 11.9 | 12.1 | 28.7 | 0.5 | 1.3 |
| Posts, Telecomm. | 0.2 | 2.7 | 0.6 | 3.6 | 0.7 | 3.1 | 1.1 | 2.5 | 1.2 | 2.9 |
| <u>Other Economic Serv.</u> | n.a. | | n.a. | | 5.1 | 23.7 | 8.5 | 20.1 | 15.7 | 38.8 |
| of which, | | | | | | | | | | |
| Power | 0.4 | 5.4 | - | - | - | - | 0.9 | 2.1 | 3.8 | 9.5 |
| New Capital City | - | - | 0.2 | 1.2 | 1.6 | 7.2 | 3.2 | 7.5 | 3.7 | 9.3 |
| <u>Total</u> | 7.5 | | 16.8 | | 21.6 | 100.0 | 42.3 | 100.0 | 40.5 | 100.0 |

* not available due to changes in expenditure classification

** 15 months up to 31.3.70

*** estimate

(1) agriculture, fisheries and forestry

Source : Ministry of Finance

The public sector in Malawi comprises (in addition to central and local government), ADMARC (Agricultural Development and Marketing Corporation), Air Malawi, Blantyre Water Board, Capital City Development Corporation, ESCOM (Electricity Supply Company of Malawi), Malawi Broadcasting Corporation, Malawi Development Corporation, Malawi Housing Corporation, Malawi Railways Group (including Lake Service and Road Motor Service), Reserve Bank of Malawi, and Smallholder Tea Authority. Public sector finance as a whole has seen a marked improvement in recent years. Gross public sector savings were negative in 1967 but have markedly increased since to an estimated total of nearly 7 mn. UA in 1971. This turnaround in fortunes has been due mainly to an improved performance by ADMARC which alone accounted for 70 % of total net profits of the public enterprises in 1970. Malawi Railways also made a small profit in 1970 and the build-up in traffic on the new Nacala line should soon be reaping its rewards.

The contribution of profits to investment in the public enterprises has been generally rather small (of the order of 20 % in 1970) and the principal sources of contribution are borrowing from the Government (e.g. CCDC and ESCOM) and direct borrowing (e.g. Malawi Housing Corporation).

3.4. External Relations3.4.1. External TradeExports

Domestic exports have constituted around 30 % of monetary GDP since Independence, growing at an annual average rate of 9.0 % (1) ; this total is of course very strongly weighted by the agricultural sector which makes up about 95 % of the value of domestic exports.

TABLE 25 - Exports 1964-1971 (mn. UA)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | | |
|---|-------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| <u>Smallholders Crops</u> | | | | | | | | | | |
| Tobacco (1) | 8.1 | (25.2) | 11.1 | 9.0 | 6.1 | 7.2 | 7.7 | 10.0 | 13.7 | (23.4) |
| Groundnuts | 3.1 | (9.7) | 4.6 | 3.6 | 8.3 | 5.4 | 6.7 | 5.0 | 7.1 | (12.1) |
| Cotton | 2.8 | (8.7) | 3.1 | 3.1 | 1.7 | 1.6 | 2.0 | 3.4 | 3.0 | (5.1) |
| Beans, Peas, | 2.1 | (2.6) | 2.6 | 1.8 | 1.8 | 1.0 | 1.2 | 1.2 | 1.5 | (2.6) |
| Maize | 0.7 | (2.2) | - | 2.2 | 3.9 | 4.0 | 2.6 | - | 0.5 | (0.8) |
| Cassava | 0.2 | (0.6) | 0.2 | 1.0 | 0.6 | 1.7 | 0.8 | 0.9 | 0.7 | (1.2) |
| Sunflower seed | - | - | - | - | - | - | 0.2 | - | 0.4 | (0.7) |
| Rice | 0.2 | (0.6) | 0.2 | 0.2 | 0.2 | 0.1 | 0.3 | 0.7 | 1.1 | (1.8) |
| Coffee | 0.1 | (0.3) | - | - | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | (0.3) |
| Total | 17.3 | (53.9) | 21.8 | 20.9 | 22.7 | 21.1 | 21.6 | 21.3 | 28.2 | (48.0) |
| <u>Estate Crops</u> | | | | | | | | | | |
| Tobacco (2) | 3.6 | (11.2) | 3.4 | 3.6 | 4.0 | 5.4 | 7.4 | 9.8 | 12.5 | (21.3) |
| Tea | 9.2 | (28.7) | 10.5 | 12.3 | 10.8 | 11.6 | 11.4 | 13.1 | 14.0 | (23.9) |
| Tung Oil | 0.6 | (1.9) | 0.8 | 0.5 | 0.5 | 0.3 | 0.4 | 0.5 | 0.3 | (0.5) |
| Other (3) | 0.1 | (0.3) | - | - | 0.3 | - | 0.1 | - | - | (0.5) |
| Total | 13.5 | (42.1) | 14.7 | 16.4 | 15.6 | 17.3 | 19.3 | 23.4 | 26.8 | (45.7) |
| <u>Main Manufactures</u> | | | | | | | | | | |
| Cattle Cake | 0.2 | (0.6) | 0.3 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | (0.7) |
| Cement | - | - | 0.1 | 0.2 | 0.1 | 0.2 | - | - | - | - |
| Wooden boxes | 0.2 | (0.6) | 0.2 | 0.1 | - | - | 0.1 | 0.1 | 0.1 | (0.1) |
| Clothing and Footwear | - | - | - | 0.1 | 0.1 | 0.2 | 0.5 | 0.6 | 0.3 | (0.8) |
| Other (4) | 0.1 | (0.3) | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | (0.5) |
| Total | 0.5 | (1.5) | 0.7 | 0.7 | 0.6 | 0.9 | 1.2 | 1.3 | 1.3 | (2.2) |
| Other Misc. Comm. (5) | 0.8 | (2.5) | 0.8 | 0.6 | 0.8 | 0.9 | 1.6 | 2.2 | 2.4 | (4.1) |
| Total Domestic Exports | 32.1 | (100.0) | 38.0 | 38.6 | 39.7 | 40.2 | 43.7 | 48.2 | 58.7 | (100.0) |
| Re-exports | 1.5 | | 1.5 | 9.0 | 8.2 | 6.8 | 7.5 | 7.6 | 11.7 | |
| Total exports | 33.6 | | 39.5 | 47.6 | 47.9 | 47.0 | 51.2 | 55.8 | 70.4 | |
| Total dom. exp. as % of Mon. GDP | 31 | | 30 | 29 | 30 | 27 | 27 | 26 | 29 | |

(1) in value terms, overall growth figures are undertaken by the conversion into units of account (UA) - see note on p. 11

Table 25 shows that the value of total domestic exports has grown closely in line with the growth of GDP since 1964 at an annual average rate of 10 % (1), with exports of estate-grown crops doubling in value in seven years, and exports from smallholdings increasing by more than 60 %. However Table 26 reveals that while the overall value increase of domestic exports up to 1967 was entirely attributable to volume growth, the rise since 1967 is due to the very favourable trend in export prices in recent years. Since 1967 in fact, despite a large rise between 1970 and 1971, the quantum index shows a net fall, but a certain distinction is due to the quantities of maize exported which, following enormous year to year changes in the marketable surplus, contribute to large variations in export figures. Thus, while Malawi traded 100,000 tons of maize in 1967, this amount fell away to nothing in 1970 and only rose to 5,000 tons in 1971.

TABLE 26 - Domestic Export Indices - Unit Value + Quantum 1964-1971 (1967 = 100)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| <u>All items</u> | | | | | | | | |
| Unit Value Index | 103.9 | 109.2 | 105.7 | 100.0 | 111.0 | 118.8 | 127.3 | 135.6 |
| Quantum Index | 67.9 | 74.7 | 78.9 | 100.0 | 91.4 | 91.3 | 87.6 | 97.0 |

Source : N.S.O.

As already noted (section 3.2.1.), smallholding exports are dominated by tobacco (dark-fired, fire-cured, sun/air-cured, oriental varieties), which make up about one quarter of the total value of domestic exports.

Since 1964, the quantities of tobacco exported have increased by more than 50 %, while tobacco has benefited from buoyant prices (which have nearly doubled since the trough in 1967). Groundnuts contributed to 12 % of total domestic exports value in 1971 - more than double the value exported in 1964 - and the main constraint on expansion is on the supply side (here again subject to the erratic size of surplus bought in by ADMARC).

(1) In value terms, overall growth figures are understated by the conversion into units of account (UA) - see note on p. 11

Foot-notes table 25

- (1) Dark-fired, fire-cured, sun/air-cured, oriental tobaccos
- (2) Fire-cured and burley tobaccos
- (3) Sisal, sugar
- (4) Glycerol, paper products, holloware, fishing nets
- (5) Mainly fish, hides and skins, precious stones, migrants effects

Source : National Statistical Office, Compendium of Statistics for Malawi.

Among estate crops, the flue-cured and burley tobaccos have shown the most spectacular rise in both volume and value terms (the former benefiting from the consequences of the Unilateral Declaration of Independence in Rhodesia) ; their share of total domestic exports has risen from 11.2 % to 21.3 % between 1964 and 1971. With improvements in output and quality tea has maintain a small progression despite falling world prices.

With a very strong current bias towards agricultural exports, Malawi is looking to a substantial absolute rise in exports of manufactured goods between now and 1980. The latter do at present represent about 2 % of domestic exports (mainly cattle-cake, clothing and footwear).

The growth of re-export earnings since Independence has made an important contribution to the overall growth of total export value. The five-fold increase in the value of re-exports is mainly attributable to the post-auction packing of Zambian tobacco, which was previously sent to Rhodesia.

Imports

Between 1964 and 1971, imports grew at an average annual rate of 17.5 % (see Table 27). Imported consumer goods grew much more slowly than other categories and their share consequently fell from about one half of the total to 27 % ; this partly reflects the success of efforts to produce import substitutes in manufacturing, but is also indicative of the high and rising proportion of imports in the form of plant, machinery and transport equipment. In other principal categories, the most rapid rise in demand for imports has been in capital goods (24.4 % increase per annum), about half of which is transport equipment, and in building and construction materials (22.9 % p.a.), partly as a consequence of the inadequacy of indigenous industries such as cement, and of supply difficulties in local firms.

TABLE 27 - Composition of Imports by End-use, 1964-1971 (%)

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | Annual(1) average increase |
|---------------------------------|------|------|------|------|------|------|------|------|----------------------------------|
| Consumer goods | 49 | 50 | 38 | 40 | 34 | 31 | 27 | 27 | 8.2 |
| Capital goods | 15 | 15 | 22 | 20 | 27 | 25 | 23 | 22 | 24.4 |
| Building & Constr. Materials | 6 | 7 | 6 | 7 | 7 | 10 | 7 | 8 | 22.9 |
| Other Intermed. goods | 29 | 26 | 32 | 32 | 30 | 32 | 40 | 40 | 19.3 |
| Other | 1 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 36.9 |
| Total Imports | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 17.5 |

(1) calculated on basis of Kwacha values

Source : National Statistical Office

Terms of Trade (Table 28) have been fairly stable since 1960, except for a sudden deterioration in 1967 and 1968, which may be accounted for by the devaluation of that year. The terms of trade have since increased, with a particularly sudden rise in export prices for most products (except cotton), and the most markedly, for groundnuts.

TABLE 28 - Terms of Trade, 1960-1970

| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Export Unit Value Index | 107 | 107 | 107 | 104 | 107 | 110 | 108 | 101 | 96 | 112 | 120 |
| Import Unit Value Index | 101 | 101 | 102 | 103 | 104 | 106 | 108 | 110 | 106 | 110 | 117 |
| Terms of Trade | 106 | 106 | 106 | 101 | 103 | 103 | 101 | 91 | 91 | 102 | 102 |

Source : U.N.D. Handbook of International Trade and Development Statistics, 1972

The geographical orientation of Malawi's trade (shown in Table 29) is dominated by the importance of her traditional trading partners. The U.K.'s share of exports has only slightly declined since Independence from nearly 50 % to 44 % in 1971, with the (enlarged) Common Market share remaining stable (58 % in 1971), in seven years, the total value of Malawi's exports to U.K. and to Europe has doubled, while imports have risen by more than three times so that the E.E.C. as a whole is now a more important supplier than any other single partner, with a share of 38 %.

TABLE 29 - Direction of Trade, 1964-1971 (mn. U.A.)

| | 1964 | % | 1966 | % | 1968 | % | 1970 | % | 1971 | % |
|---|------|-------|------|-------|------|-------|------|-------|-------------------|-------|
| (a) <u>Destination of Malawian Exports</u> (f.o.b.) | | | | | | | | | | |
| Enlarged E.E.C. | 18.8 | 58.3 | 31.9 | 65.4 | 30.9 | 64.1 | 34.6 | 58.0 | 41.7 | 58.5 |
| of which, U.K. | 15.9 | 49.3 | 23.4 | 48.0 | 23.4 | 48.7 | 27.4 | 46.0 | 31.6 | 44.4 |
| Zambia | 0.2 | 0.7 | 2.1 | 4.3 | 3.1 | 6.3 | 4.4 | 7.3 | 5.3 | 7.4 |
| Rhodesia | 4.5 | 13.9 | 2.9 | 6.0 | 2.9 | 6.0 | 5.2 | 8.6 | 5.3 | 7.5 |
| South Africa | 1.6 | 5.0 | 1.5 | 3.0 | 2.1 | 4.5 | 3.8 | 6.4 | 3.4 | 4.8 |
| United States | 1.0 | 3.1 | 1.2 | 2.6 | 2.0 | 4.1 | 1.5 | 2.5 | 2.8 | 4.0 |
| Other Countries | 6.1 | 19.0 | 9.1 | 18.7 | 7.2 | 15.0 | 10.3 | 17.2 | 12.7 | 17.8 |
| Total (mn. UA) | 32.2 | 100.0 | 48.7 | 100.0 | 48.2 | 100.0 | 59.8 | 100.0 | 71.2 | 100.0 |
| Total (mn. K.) | 23.0 | | 34.8 | | 40.0 | | 49.7 | | 59.3 | |
| (b) <u>Origin of Malawian Imports</u> (f.o.b.) | | | | | | | | | | |
| Enlarged E.E.C. | 11.4 | 28.5 | 28.4 | 37.4 | 27.0 | 40.2 | 30.0 | 35.1 | 41.0 [*] | 38.1 |
| of which, U.K. | 9.4 | 23.4 | 23.6 | 31.0 | 21.5 | 30.8 | 22.8 | 26.6 | 30.8 [*] | 28.1 |
| Zambia | 1.4 | 3.4 | 7.3 | 9.6 | 2.8 | 4.0 | 3.2 | 3.7 | 3.8 [*] | 3.5 |
| Rhodesia | 15.7 | 39.1 | 3.3 | 4.3 | 12.6 | 18.0 | 18.6 | 21.6 | 15.9 [*] | 14.7 |
| South Africa | 2.4 | 6.0 | 5.5 | 7.2 | 7.7 | 11.2 | 10.8 | 12.6 | 11.3 [*] | 10.5 |
| United States | 0.9 | 2.2 | 2.4 | 3.2 | 3.9 | 5.6 | 4.5 | 5.2 | 4.4 [*] | 4.1 |
| Other countries | 8.3 | 20.8 | 29.1 | 38.3 | 14.8 | 21.0 | 18.3 | 21.8 | 31.4 [*] | 29.1 |
| Total (mn. UA) | 49.5 | 100.0 | 76.0 | 100.0 | 68.8 | 100.0 | 85.4 | 100.0 | 107.8 | 100.0 |
| Total (mn. K.) | 28.6 | | 54.3 | | 58.2 | | 71.4 | | 89.8 | |
| * at c.i.f. values | | | | | | | | | | |
| Source : N.S.O. (figures marginally from table 25) | | | | | | | | | | |

Within Africa, trade with Rhodesia has stagnated partly as a result of U.D.I. and Malawi's import-substitution policies ; the value of trade in both directions has remained about the same, since Independence, but relative shares have fallen significantly. However trade with Zambia and South Africa has expanded, particularly with the former country with whom future prospects are bright and certain to develop further as a result of the establishment of diplomatic relations in 1970 and the current confrontations between Zambia and Rhodesia. Exports to the United States have also risen significantly, with good prospects for tobacco and sugar (the latter as a consequence of a new quota agreement) ; at the same time, the U.S. has become an important trading partner of Malawi and in 1971 it represented about 4 % of the latter's imports and exports values.

3.4.2. The Balance of Payments

3.4.2.1. Pattern and Perspectives (see Table 30)

Malawi's trade balance worsened considerably between 1964 and 1966, but a rapid rise in re-exports and earnings from non-factor services has accompanied the growth of imports and prevented a further deterioration after 1966. Non-factor services have approximately quadrupled since 1964 with increased local spending by diplomatic and technical assistance personnel, as well as higher tourist earnings. The Government is hopeful that re-export and invisible earnings will continue to rise rapidly, while the growth-rate of total fixed investment (with a high import content) slows down. But improvements in the trade balance will also depend on the future trend in primary product prices. The latter have gone very much in Malawi's favour in recent years, but cannot be counted upon to do so indefinitely.

The progressive deterioration in the current account balance is partly due to the decline in U.K. budgetary aid (see Government and Private Transfers). Net Factor Income Payments, which have been fairly stable since Independence are expected to rise sharply in the next few years, in line with the anticipated rise in private foreign investment (and thus in profit remittances abroad). As a result, net factor income payments are expected to double by 1975.

On capital account the favourable trend has benefited up to now from the rather "soft" terms under which the Malawi Government has been able to borrow (see Net Official Long Term). This has greatly contributed to Malawi's ability to maintain an approximate overall balance (on capital and current accounts together), but her future capacity to do so will largely depend on her being able to prevent any deterioration on capital account through a hardening of official borrowing terms.

At the end of 1972, Malawi's official exchange reserves amounted to 27.6 mn. UA, or the value of a little more than 3 months' imports ; this is a position that the Government has been able to maintain in recent years.

TABLE 30 - The Balance of Payments, 1964-1971 (mn. UA)

| | 1964 | 1966 | 1968 | 1970 | 1971 |
|---|-------|-------|-------|-------|-------|
| <u>Current Account</u> | | | | | |
| Total Domestic Exports | 32.1 | 38.6 | 40.2 | 48.2 | 58.7 |
| Total re-exports | 1.5 | 9.0 | 6.8 | 7.6 | 11.7 |
| Total Imports (1) | 54.0 | 98.3 | 95.4 | 110.5 | 122.5 |
| Non-factor Services | 4.5 | 8.4 | 9.6 | 9.7 | 21.7 |
| Adjustments (2) | 0.5 | 1.3 | 1.1 | 1.2 | - (3) |
| Trade Balance | -15.4 | -41.0 | -37.7 | -43.8 | -42.1 |
| Net Factor Income Payments | -8.7 | -7.9 | -8.4 | -5.9 | -7.9 |
| Net Government & Private Transfers | 25.4 | 23.6 | 19.8 | 15.7 | 13.3 |
| Current Account Balance | 1.3 | -25.3 | -26.3 | -34.0 | -36.7 |
| <u>Capital Account</u> | | | | | |
| Net Private Long Term | 1.5 | 4.5 | 9.1 | -4.2 | 7.8 |
| Net Official Long Term | 1.4 | 7.3 | 14.0 | 34.8 | 19.9 |
| Net Short Term (incl. errors and omissions) | 1.4 | 7.0 | 5.0 | 9.0 | 8.6 |
| Net Monetary Movements | -0.8 | 1.4 | 0.1 | 2.5 | 1.6 |
| Capital Account Balance | 3.5 | 20.2 | 28.2 | 42.1 | 37.9 |
| <u>Overall Balance</u> | +4.8 | -5.1 | +1.9 | +8.1 | +1.2 |

Source : N.S.O., Monthly Statistical Bulletin, Government Memoranda)

(1) f.o.b. values up to 1970, c.i.f. values thereafter

(2) to "payments" basis ; this is to take account of such items as stocks held outside Malawi

(3) incorporated in "invisibles" since separate figures for these two categories were not available

3.4.2.2. Public aid

From 1969 to 1971, Malawi has received net aid disbursements averaging 31.85 mn. UA per annum, with a grant element of 79 %.

This amount corresponds to 14.5 % of GNP (4th place in the world ; Tropical Africa average : 4.5 %), 27 % of imports (Tropical Africa average : 15 %) and 7.2 UA per capita (Tropical Africa average : 4.6 UA ; AASM average : 7.6 UA).

Some 27 % of all aid received come from multilateral sources, as against 10 % during the period 1964 to 1969. This is due to increased participation by the World Bank Group through the I.D.A. Up until 1972, more than 20 mn. UA of I.D.A. aid had been allocated - mainly to agricultural development projects around Lilongwe and the Shire Valley - and in early 1972, a further 10 mn. UA was promised for a rural development project at Karouga.

The principal bilateral donor is still the U.K., which contributed some 113 mn. UA between 1966 and 1971 in the form of technical assistance, interest-free loans, and grants-budgetary aid being the largest constituent.

With the phasing out of budgetary assistance, U.K. aid has diminished progressively, but it still accounted for some 65 % of total net bilateral disbursements during the period 1969-71, i.e. 15 mn. UA per annum. This amount represents over 15 % of total British net aid disbursements to African countries and is the highest received by any African country from Britain.

Other major bilateral aid donors are the United States, West Germany - which has financed a section of the Lakeshore Road (see above, section 2.2.1.) and will concentrate in the future on a settlement scheme at Salima - and Portugal - which has recently made funds available for the financing of a road project linking Blantyre with the Mozambique border. Also South Africa has become an important aid donor (since 1967), though its aid does not figure in the DAC data. South Africa disbursed about 10 mn. UA on the Nacala rail link between 1968 and 1970 and more than 3 mn. UA on the new capital city between 1970 and 1972. Both loans were on hard terms.

Grants constituted by far the major source of development funds before 1966, but their share has diminished significantly since then.

As to loans, Malawi has succeeded in obtaining about four fifth of them on "soft" repayment terms (if the New Capital City loan at 4 % over 20 years is included).

The greater part of foreign public loan disbursements (70-80 %) does now go to financing the Government development budget, of which it makes up about four fifth of total expenditures. Most of the rest is destined for government enterprises. A further small percentage goes to the private sector through the government (in addition to allocations of this kind made under the development budget).

Since 1970, when national savings became positive for the first time since Independence, they have never accounted to more than a quarter of total investment requirements. This proportion is likely to rise further, but also Malawi's external borrowing requirement will continue to grow rapidly. As U.K. aid is expected to continue in the future

at the present annual rate of about 15 mn. UA, Malawi will have to rely increasingly on other aid sources.

3.4.2.3. External Debt

Public external indebtedness has trebled in the space of five years, obtaining the level of 231.2 mn. U.S. dollars (incl. undisbursed) at the end of 1972.

At the same date, the most important creditor was the U.K., representing some 60 % of the outstanding amount of loans from governments (40 % of total loans) followed by South Africa with 14 % and West Germany with 7 %. Loans from I.D.A. represented almost the totality of indebtedness to international organizations, which accounted for 22 % of total external public debt.

The latter amounted to 36.5 % of GNP at the end of 1971. Its average terms were fairly soft : 2.6 % interest over 23.6 years.

Debt service payments have been increasing steeply over the past few years reaching the level of 8.6 mn. UA in 1971, as against 4.5 mn. UA in 1967. Their rise in terms of total exports was, however, relatively limited thanks to Malawi's remarkable export performance : 11 % in 1971 as against 9.3 % in 1967.

Debt service payments rise to an amount of 14.7 mn. U.S. dollars in 1972, declining very slowly afterwards (still 8.1 mn. U.S. \$ in 1992).

Unless the growth of export earnings accelerates even further, Malawi's debt servicing could well rise above 20 % of export earnings by the end of the decade, which is a dangerously high ratio.

IV. SOCIAL STRUCTURE

4.1. Manpower : Employment and Wages

Total paid employment in the Malawi economy grew from 127,800 in the year of Independence to 159,300 in 1970 and jumped to 173,300 in 1971. Although these figures slightly underestimate the total (since they are based on returns from establishments employing 20 and more workers, and thus exclude about 30,000 in regular employment), the number in paid employments represents less than 10 % of the total active population, and is far below the number (approaching 300,000) of those in paid jobs abroad : principally in Zambia, Rhodesia, Mozambique and South Africa.

In 1970, 30.9 % of those in paid employment worked in the public sector.

The sectorial breakdown of employment (see Table 31, following page) reveals not surprisingly that agriculture absorbs a high proportion of paid labour (33.7 % in 1970) - although it is certain that the ratio of paid to unpaid labour is lowest of all within this sector, which supports some nine-tenths of the population - but this figure has diminished somewhat since 1964 with only a small increase in absolute numbers in 6 years. Manufacturing has shown a large increase in absolute numbers in permanent employment since 1964 and now accounts for more than 12 % of the total. The services sector (items 6,8,9) also accounts for more than one-third of paid employment, proportionately slightly less than in 1964. Permanent construction employment declined proportionately in 1971 from 11.5 % in 1970, partly as a result of the completion of the Nacala railway, but employment in this sector has been growing steadily since 1964 and is expected to rise quite rapidly in the long-term as work on the new capital (Lilongwe) project gets under way.

African earnings have shown a large overall increase since 1964, particularly in mining and quarrying and in construction, but levels remain very low in certain sectors and especially in agriculture and mining. Private employment is generally better paid and in electricity and water, construction and transport, the differences between wages paid by private and government concerns is very marked.

Urban-rural wage differentials are widening. This has the obvious effect of stimulating migration to the towns. It is not clear to what extent this arrival of job-seekers in urban areas tends to restrain wage rises there, but the increasing gap has the very undesirable effect of worsening the terms of exchange between agriculture and the towns, with farm inputs and consumer goods becoming ever dearer for the agricultural sector. The Government's National wages and salaries Policy established in 1969 attempts to apply the principle of relating earnings increments to increases in productivity, to a development strategy based on rapid improvements in agriculture, and it is hoped that this will result in a rise in real rural incomes relative to urban wage-earners.

TABLE 31 - Structure of Employment and Average Monthly African Earnings, 1964 and 1970 (K.)

| | | 1964 | | | 1970 | | |
|--|------------|------------------|------------|---------------|------------------|------------|---------------|
| | | No. of Employees | % of Total | Earnings (K.) | No. of Employees | % of Total | Earnings (K.) |
| 1. Agriculture, Fishing & Forestry | Private | | | | 48,581 | 30.5 | |
| | Government | | | | 5,114 | 3.2 | |
| | Total | 49,250 | 38.5 | 6.8 | 53,695 | 33.7 | |
| 2. Mining, Quarrying | Private | | | | 472 | 0.3 | |
| | Government | | | | 204 | 0.1 | |
| | Total | 260 | 0.2 | 8.7 | 676 | 0.4 | |
| 3. Manufacturing | Private | | | | 18,762 | 11.8 | |
| | Government | | | | 701 | 0.4 | |
| | Total | 7,800 | 6.1 | 25.6 | 19,462 | 12.2 | |
| 4. Electricity, Water | Private | | | | 1,229 | 0.8 | |
| | Government | | | | 508 | 0.3 | |
| | Total | 1,180 | 0.9 | 19.0 | 1,737 | 1.1 | |
| 5. Construction | Private | | | | 12,877 | 8.1 | |
| | Government | | | | 5,478 | 3.4 | |
| | Total | 14,010 | 11.0 | 10.3 | 18,355 | 11.5 | |
| 6. Transport, Storage, Communications | Private | | | | 6,560 | 4.1 | |
| | Government | | | | 1,930 | 1.2 | |
| | Total | 5,300 | 4.2 | 43.0 | 8,490 | 5.3 | |
| 7. Distribution, Hotels & Restaurants | Private | | | | 12,250 | 7.7 | |
| | Government | | | | - | - | |
| | Total | n.a. | n.a. | n.a. | 12,250 | 7.7 | |
| 8. Financing, Insurance, Business Services | Private | | | | 1,228 | 0.8 | |
| | Government | | | | - | - | |
| | Total | n.a. | n.a. | n.a. | 1,228 | 0.8 | |
| 9. Community, Social, Personal Services | Private | | | | 8,132 | 5.1 | |
| | Government | | | | 35,316 | 22.2 | |
| | Total | n.a. | n.a. | n.a. | 43,448 | 27.3 | |
| 10. Services Sector (7+8+9) | Total | 49,970 | 39.1 | n.a. | 57,044 | 35.8 | |
| 11. All industries | Private | | | | 110,092 | 69.1 | |
| | Government | | | | 49,250 | 30.9 | |
| | Total | 127,800 | 100.0 | 9.0 | 159,342 | 100.0 | |

Source : N.S.O., Economic Planning Division

To put these aims in perspective, Table 32 gives some idea of the evolution of the productivity of wage employment in the period 1964-1969. Two things are immediately clear from this table : (a) both net monetary output and employment have risen considerably faster in demand-based industries - comprising mainly consumer goods - than in supply-based industries (agricultural and raw material processing) ; and (a), the development of demand-based industries was rather labour-absorptive, in line with the Government's policy of limiting as far as possible the development of labour-saving techniques in manufacturing. In very crude terms, manpower productivity increased in most years rather more outside the para-agricultural sector, than within it.

TABLE 32 - Productivity in Industry, 1964-1969

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | % age changes | | | | | Annual Average Growth |
|--------------------------------|------|------|------|------|------|------|---------------|-----------|-----------|-----------|-----------|-----------------------------|
| | | | | | | | 64/ 65 | 65/ 66 | 66/ 67 | 67/ 68 | 68/ 69 | |
| <u>Supply-based Industries</u> | | | | | | | | | | | | |
| Net output (K.mn.) | 2.8 | 3.3 | 4.2 | 3.9 | 4.3 | 4.3 | 18 | 27 | -7 | 10 | 0 | 9 |
| Employment (000) | 6.4 | 6.7 | 7.6 | 8.5 | 8.8 | 8.2 | 5 | 13 | 12 | 4 | -7 | 5 |
| Net output per worker (K.) | 0.36 | 0.49 | 0.56 | 0.46 | 0.49 | 0.52 | | | | | | |
| <u>Demand-based Industries</u> | | | | | | | | | | | | |
| Net output (K.mn.) | 2.8 | 3.8 | 6.9 | 7.5 | 11.5 | 14.2 | 36 | 68 | 17 | 53 | 23 | 38 |
| Employment (000) | 4.7 | 5.3 | 6.9 | 8.2 | 10.0 | 11.8 | 13 | 30 | 19 | 22 | 18 | 20 |
| Net output per worker (K.) | 0.60 | 0.71 | 0.94 | 0.92 | 1.15 | 1.20 | | | | | | |
| <u>All Industries (K.)</u> | | | | | | | | | | | | |
| Net output (K.mn.) | 5.6 | 7.1 | 10.7 | 11.5 | 15.7 | 18.4 | 27 | 51 | 7 | 37 | 17 | 27 |
| Employment (000) | 11.1 | 12.0 | 14.5 | 16.6 | 18.7 | 20.0 | 8 | 21 | 15 | 13 | 7 | 13 |
| Net output per worker (K.) | 0.51 | 0.59 | 0.74 | 0.69 | 0.84 | 0.92 | | | | | | |

Source : N.S.O., Annual Survey of Economic Activities, 1969

4.2. Manpower : education and skills

In recent years, the Government has begun to apply itself to the formulation of educational policy in line with manpower requirements, and in 1971, a comprehensive manpower survey was launched with the aim of matching education output more closely to the needs of the economy.

Although no more than one-third of those of school-age enrol in primary education only about one primary school leaver in ten can be sure of a secondary place (see Table 33), the Government is therefore concentrating on expanding the secondary and post-secondary levels. 23 day secondary schools have been planned so as to increase the number of those sitting School Certificate to about 2,600 by 1973/4. Primary expansion has thus been temporarily arrested, but many more teachers are being trained, to raise standards in Primary Schools. At post-secondary level, the expansion of the number taking degrees is expected to develop further with a greater intake to the University of Malawi.

TABLE 33 - Education output - 1964 and 1970

| | 1964 | 1970 |
|---|--------|--------|
| <u>Schools and Colleges</u> *: Primary School Leavers | 30,700 | 27,500 |
| Junior Certificate (1) | 1,610 | 3,310 |
| School Certificate (2) | 690 | 1,820 |
| Degrees (3) | n.a. | 100 |
| <u>Teacher training</u> (4) | 15 | 343 |
| of which primary | 15 | 306 |
| <u>Technical training</u> (5) | n.a. | 297 |
| <u>Agriculture</u> (degree/ diploma) | - | 28 |
| <u>Public Administration</u> | - | 15 |
| <u>Health</u> (6) | - | 70 |

* these figures refer to those completing courses, even if the candidates do not pass the exams

- (1) two years secondary education, excludes external candidates
- (2) includes "Advanced Level"- normally at least 4 years secondary education ; excludes external candidates
- (3) includes overseas degrees
- (4) all levels
- (5) artisan-type training ; laboratory techniques ; secretariat ; telecommunications ; engineering ; business studies ; public health inspection
- (6) registered nurses and medical assistants.

Source : "Statement of. Dev. Policies, 1971-1980"

Agriculture has been introduced into primary and secondary curricula^{*}, and large numbers of rural training centres have been established since 1964.

* technical level vocational facilities have been extended to 12 schools under an IDA-financed project.

So far as "High and Intermediate Level Manpower" is concerned, the manpower survey found that the overall indigenous component was as high as 90 % with almost 40,000 persons falling into this category. The degree of localisation is much lower however in the Senior Civil Service (67 % in 1971) but this percentage is rising with the increasing numbers of degree-holders and diplomates. In the High Level Manpower category as a whole, the Government seems to be in no great hurry to raise the degree of localisation to 100 %. At the Middle Level instead, with a serious shortage of technical skills and rather limited possibilities for expatriate recruitment, first priority goes to accelerating technical training for local staff.

4.3. Health

Present facilities are poor, with a total of about 3,000 hospital beds, or 1.3 bed per 1000 persons, provided almost equally by the Government and the religious missions. The densities of health units (including dispensaries) is about one per 20,000 persons. Moreover, there are as many as 44,000 persons per physician.

V. PLANNING AND PERSPECTIVES

5.1. Institutions

The first "Development Plan" was published in 1961 and was designed to cover the years 1962-65. The plan was of the "shopping list" type, with a series of rather unrelated targets.

Independence in 1964 saw the publication of a second "Development Plan" for the years 1965-69, which was again mainly a detailed examination of individual projects.

From 1966 however, the Government set in motion the three-year "rolling" programmes which are in use today. These detailed outlines of public sector investment projects are drawn up each year by the President and the National Development Council.

In 1968, a "super-Ministry" was established, bringing together the separate Ministries of Natural Resources, Planning, and Trade and Industry. However, this arrangement proved too cumbersome and in 1969 planning became the responsibility of the new Economic Planning Unit under the President ; the role of ADMARC was greatly enhanced, and three Ministries of Agriculture, Natural Resources, and Trade and Industry were set up again.

Seven years of partial planning orientation by the Government culminated at the end of 1971 with the publication of a very important document, "Statement of Development Policies, 1971-1980" where for the first time a coherent strategy of development and an explicit indication of future policy orientation was laid down.

5.2. Achievements

Despite the only very recent appearance of a published overall strategy by the Government, the planning apparatus (which includes a high proportion of expatriate specialists) has worked well in support of development.

Since 1964, an important basic physical infrastructure has been created. Transport by road and rail has been upgraded and extended ; two important hydro-electric power schemes have been created ; and a new capital city has been started. With such a high demand on resources, certain social amenities have lagged behind somewhat, but an education programme is underway, and a new university is being built at Zombu.

While expenditure on development account has increased more than six-fold (in terms of Kwacha) in the space of seven years, the need for external budgetary support has been eliminated. The ratio of total fixed capital formation to monetary GDP has risen from 15 % in 1969 to nearly 27 % in 1971. In the agricultural sector considerable efforts have been made to increase production of export commodities among smallholders and comprehensive rural development projects are centred on Karonga and the Salima-Lilongwe region.

In Industry, the Government has looked favourably on the advent of foreign capital, and private investment has vastly increased. 1968 saw a wild change of attitude in this domain with the encouragement of the participation of ADMARC and the MDC (Malawi Development Corporation) in private enterprise, but the climate remains very favourable for the foreign investor, particularly in view of the country's high degree of political continuity.

5.3. Strategy

The general strategy for the next ten years as laid down in the "Statement" is the continued concentration of the national development effort on small-scale peasant farming. This will give "top priority to raising agricultural productivity" through, on one hand, irrigation and settlement schemes, and on the other, extension and marketing operations. Great emphasis is to be placed on the traditional crops, with a special effort to be made in rice and timber production. (the latter as part of the Vipya pulp and paper project). All other aspects of development planning are to be subordinate to this primary goal.

Government participation in manufacturing industry is intended to encourage labour-intensive production (although it is stressed that this must not mean harbouring inefficiency) and rural-urban wage differentials are to be kept under close scrutiny by the National Wages and Salaries Policy control ; these measures are intended to secure favourable terms of exchange between the peasant and the urban worker.

Transport policy will lean towards the development of feeder road networks to facilitate the moving of agricultural produce to sales outlets.

Education will be orientated to meet more fully agricultural manpower requirements.

The establishment of the new capital at Lilongwe aims to move the commercial and industrial focal point of Malawi development away from the heavily concentrated South, and also encourage the opening up of new agricultural areas outside the favoured Shire valley region.

5.4. Disequilibria and Conclusions

In many ways, Malawi's development strategy seems determined to make the most of the acute disequilibria that characterise the economy. There are two aspects of this, and both deserve to be discussed in their broadest perspectives : the first concerns resource endowments, the second regional imbalances.

In the first place, the Government aims to exploit the land and labour that are available in abundance, economising on capital and skills, in the absence of a plentiful and lucrative primary mineral commodity like Zambia's copper, or Nigeria's oil.

In investing all its hopes in the primary sector, Malawi can somewhat redress the imbalance between the estates and the smallholders, as well as bring a progressively larger proportion of agricultural production within the monetary sector. This implies a heavy dependence on export-led growth, relying on the favourable evolution on the world market of the three traditional estate-crops - tobacco, tea and groundnuts, accounting at present for four-fifths of domestic export earnings - and the development of maize and rice production.

Up until now, Malawi's foreign earnings have undoubtedly benefited from certain unforeseen windfalls : U.D.I. in Rhodesia brought Malawi more flue-cured tobacco customers, and the Zambia-Rhodesia border blockade has considerably boosted invisible earnings (through tobacco processing and transit freight shipments). In addition, the past few years have seen particularly buoyant world prices for its primary commodities. On the other hand, the long-term outlook for tea is rather bleak, with current world overproduction ; moreover, the demand for Malawi's groundnuts cannot but remain uncertain until she is able to enter into an agreement with the European Community ; and finally, diversification within agriculture is unlikely to substantially reduce the vulnerability of Malawi's export receipts to changes in world market conditions (see section 3.4.3.).

As to the marked regional imbalance which Malawi inherited from its former colonial attachments to the South, the Government's strategy shows a clear determination to offset the concentration of resources in the Southern Region, and indeed it is becoming a matter of necessity for the country to make more of its soil resources further North.