

Employment And Poverty Reduction: Key Challenges

A country paper MALAWI

FINAL DRAFT

1.0 Introduction

This document constitutes a country position paper on poverty and employment in Malawi. It aims at analysing the possibilities of using employment and increased income opportunities as means to poverty reduction in the country. Unlike capital or land, labour is a resource that the poor have in abundance. Translating their labour into income through employment and other productive activities would be one important strategy for reducing poverty among them. This implies expanding employment and income generating opportunities for the poor people, and particularly those that live in the rural areas.

A recent special supplement report of the Director General of the International Labour Organisation (ILO) has observed that employment is the way out of poverty.¹ "This simple truth", maintains the report, "is understood by people the world over" (ILO, 2003:iii). However, common sense as this might seem to be, both international policies, and national policies in most countries, had, for a long time, not made the essential connection between employment creation and poverty eradication. This attitude has recently begun to change. At its conference in 2003, the ILO put on the international agenda the linkage between employment creation and poverty eradication. Delegates to the conference, and particularly those from Africa, confirmed the fundamental point that employment and empowerment were the best ways of breaking out of the poverty trap and of promoting dignity for all. To advance this goal, the ILO launched a pilot phase of national consultations focused on the challenge of eliminating poverty through employment. These consultative meetings provide a unique forum for dialogue between various constituents that engage in activities that impact on people's lives, their families, and communities in which they live and work.

As a result of the ILO initiative, the African Union (AU) Heads of State and Government agreed to convene a special Extraordinary Summit on Employment and Poverty Alleviation in Ougadougou, Burkina Faso, in September 2004. The Summit is expected to focus on ways of promoting employment as one of the means to alleviate poverty. Malawi committed itself to fully participate in the Summit in order to benefit from its outcome. This document is thus a response to the above initiatives. It is a product of a consultative process that brought together government officials and representatives of civic institutions. To a large extent, the information from which the document is prepared derives from official records: policy statements, briefs, reports, and others.

The document is divided into three main parts. The first is the contextual background to

¹ See ILO.2003. *Working Out of Poverty: Views from Africa*. Geneva.

poverty and employment in Malawi so as to provide a framework for the understanding of the relationship between employment, income generation and the efforts in poverty reduction analysed later. In this part of the document the focus is on the economic, political, and social contexts of Malawi's poverty, its causes, nature, and extent. The second part discusses the Malawi national poverty reduction agenda so as to highlight the key government frameworks for the anti-poverty programmes. This part also highlights the level of social dialogue in the formulation of the country's anti-poverty programmes and policies. What emerges out of this is an indication that Malawi, as a nation, has always been committed to fighting poverty. The third part discusses the official government programmes on poverty reduction, focusing on those that relate to employment opportunities, income generation, livelihoods and safety nets. Key success stories, limitations, and the potential of some of these programmes are analysed. In the fourth part are issues of employment and income opportunities in the rural economy, focusing on agriculture, fishing, and cultural industries. Also included in this part of the document is a section on the issues of social welfare that have direct bearings on the productivity of labour such as gender, health, and HIV/AIDS. These are included also to highlight the issues of equity and their links to poverty and the poverty reduction efforts. The last part outlines the main challenges to using employment as a tool for poverty reduction and discusses some possible points of action as a way forward. There is a section isolating the micro, small, and medium enterprises (MSMEs) as the sector of the Malawi economy that has the obvious signs of growth and possibly the greatest potential for employment creation. It is here where the link between employment and poverty reduction in Malawi could best be located.

At the end of the document is a conclusion that highlights the major challenges to using MSMEs as means to employment creation, income generation and poverty reduction. Some suggestions are made on how these challenges could be addressed. The proposals point to the possible ways of creating an enabling environment for enterprise development that leads to poverty reduction. They also suggest how Malawi, as a country, can better target its initiatives to meet the needs of the poor, and how the tremendous potential of the enterprising men and women can be harnessed.

2.0 Background

2.1 Poverty in Malawi

Malawi is one of the poorest countries in the world. It ranks third from the bottom on the 2003 Human Development Index (HDI) of the United Nations Development Programme (UNDP). At the regional level, the country ranks thirteenth on the 2000 Southern Africa Development Community (SADC) HDI, out of the fourteen countries of the region. That is second from bottom. The major factor accounting for this is the drop in life expectancy from 47 years in 2000, to 39 years in 2003 mostly as a result of the effects of the HIV/AIDS pandemic. Official records indicate that 65.3% of Malawians are poor which translates into 6.3 million people out of a population of 9.8 million people as of 1998. Among the poor, 28.2 percent are in abject or dire poverty. Some 75 percent of the poor are women. In this case, the poor are defined, using the World Bank standard, as those whose consumption of basic needs both food and non-food products is below the minimum level of US\$1 dollar per day. The 1998 Malawi Integrated Household Survey (IHS) used the local consumption standard of below a minimum level of MK10.47

(Ten Malawi Kwacha and forty-seven Tambala) per day.² At that time this was just about three-quarters of a dollar. About 40 percent of the poor lived on income of less than US\$0.30 per day.

A noticeable feature of Malawi's poverty is the level of inequality. Based on the 1998 IHS consumption data, the wealthier 20 per cent of the population consumed 46.3 per cent, while the poorest 20 percent consumed only 6.3 per cent of the total reported consumption of goods and services. In the urban areas, the richest 20 per cent consumed 58.4 per cent while the poorest 20 per cent consumed only 4.5 per cent. Consumption was also more unequally distributed within urban areas where the gini coefficient was 0.52 as opposed to 0.37 in the rural areas. The narrow gap in the rural areas is most likely due to the fact that the households there are uniformly poor, with little differentiation among them. Inequality makes Malawi's poverty more glaring. It becomes easy to distinguish between the rich and the poor.

Different groups of people are affected by the poverty situation in different ways. For example, the poverty incidence in Malawi is higher in the rural areas than in the urban areas. At least 66.5 per cent of the rural population and 54.9 per cent of the urban population are poor. The rural areas account for over 80 per cent of the country's population; and 91 per cent of the total poor. The poor households in both the rural and the urban areas have more dependants than the non-poor ones. The rural poor households have 1.5 more members than the non-poor ones. The average household size for the poor people is 5, while that for the non-poor people is 3.5. Female-headed households are disproportionately poor: 27.4 per cent of all the poor households in the country; and 63.5 per cent of the rural female-headed households and 66.0 per cent of the individuals in the rural female-headed households are poor.

2.1.1 Major causes of Poverty

The causes of poverty in the country are many. The key ones include: constraints on the productivity of land - inadequate access to land, crude and simple agricultural technologies, shifting cultivation, and rapid environmental degradation; constraints on labour - low levels of education, lack of technical and vocational skills, poor health status including the effects of HIV/AIDS, limited off-farm employment, rapid population growth and gender inequality; and constraints on capital, such as the lack of access to credit. Some analysts argue that in fact, Malawians lack a lending culture and respect for private property. Experience has shown that even where credit has been made available, the borrowers have not been good at repaying, while, on their part, the lenders have not been good at collecting their debts. In Malawian culture, there is also little distinction between a loan and a grant, or outright charity - especially if the resources are from a relation or a public institution. The implication is that people do not feel morally bound to repay their loans, let alone to repay in time. There is always an expectation of generosity. This is entrenched by a political culture that emphasises free gifts and handouts in a client-patron relationship between the state and the people.

The above problems are compounded by general weaknesses in the state institutional

² The figures cited in this section are predominantly from this source, and from the *Malawi Poverty Reduction Strategy paper*.

capacity. Thirty years of dictatorship killed creativity and professional independence in both the public and the private sectors. Ordinary citizens did not have adequate access to the delivery system of the usually politically loaded government programmes. The politics of the dictatorship killed the entrepreneurial spirit and dampened the investment mood. The private sector was hypersensitive to politics, and lacked initiative. On the positive side, the political regime emphasised the spirit of hard work, particularly in the agricultural fields. This, to a large extent, acted as a check on rural-to-urban migration. The regime also deliberately pursued policies and programmes aimed at keeping people on the land such as the establishment of the rural growth centres and the agricultural settlement schemes, most of which were irrigated schemes.

2.1.2 Socio-Economic Characteristics Of The Poor

The categories of the population most affected by poverty in Malawi include:

- Land-constrained smallholder farmers, particularly in the southern districts of the country where some areas face land shortages due to the legacies of the colonial economy;
- Labour-constrained female-headed households;
- Estate/farm workers and tenants - the latter especially in the central and, to some extent, in the northern districts where the tobacco estates have been opened up, especially from the 1970s;
- Temporary casual labourers – a lot of the rural poor depend on casual employment for their livelihood,
- Destitute or vulnerable children, such as orphans, street children and child heads of households - conditions that worsened by the effects of the HIV/AIDS pandemic;
- Persons with disabilities;
- Low income urban households - compounded by low wages and the rapidly expanding rural-urban migration;
- The elderly
- The less literate, less skilled, and the unemployed.

These categories of the poor suggest a direct connection between social and economic vulnerability, on the one hand, and poverty and on the other. This further suggests a vicious circle: social vulnerability leads to poverty, and vice versa; social vulnerability results in economic vulnerability that results in poverty, and vice versa. There is also a connection with levels of literacy. Adults who have at least basic primary education are rather less likely to be poor. This is particularly the case in the urban areas. However, fewer Malawians attain that level of education as only about 11.2 percent of the adults above 25 years have basic primary education (up to standard 8). The country's literacy rate is 58 percent, with the female literacy rate at 44 percent. Only 6.2 percent of the female population above 25 years of age is literate. Such disparities entrench the "feminisation" of poverty in the country.

Food insecurity is considered to be a major attribute of poor households in Malawi. Generally, the poor households spend most of their income on food. About 76 percent of the income of the poor is spent on food, while the non-poor households spend just about 55.4 percent of their income on food. The rural poor are likely to spend up to about 80.9 percent of their income on food compared to 57.5 percent for the urban

poor. Even worse, low income results in low levels of ownership of assets. Assets like beds, tables, chairs, and bicycles are absent in about two-thirds of the Malawi households. Lack of assets at the household level is another key attribute of poverty in the country.

2.2 Economic Context

The economic context of Malawi's poverty is that of decline. The key indicators of the country's economic performance in recent years show elements of decline due, mostly, to the poor performance of the agricultural sector. As discussed in the subsequent sections of this document, Malawi depends on agriculture, and particularly tobacco, tea and sugar for its export earnings. For a long time agriculture, and especially export agriculture, has been the engine of growth. Periodic droughts and other unfavourable weather and climatic conditions have negatively affected the performance of the agricultural sector over the last two decades. The continued withholding of donor support, fiscal deficit, interest rates of up to 35 per cent, and both local and foreign debt servicing has compounded the situation. Debt servicing has resulted in interest rates remaining high. This clouds out private sector growth and development leading to low generation of jobs. To emphasise the point, the economic decline for the period between the late 1990s and the early 2000s is outlined below.

Data are more readily available for the 1990s.³ Throughout this period, the country underwent extended periods of macroeconomic instability caused, to a large extent, by fiscal deficits. Evidence for economic hardship is found in the country's basic economic indicators as summarized in the table below. These show that throughout the 1990s Malawi's economic trends were rather erratic, showing more negative than positive indicators. Real growth went down from negative 10 per cent in 1994 to 8.2 percent in 1996, averaging an impressive 8 per cent during the period from 1995 to 1997. This was on account of the broad-based agricultural output led by the smallholder burley tobacco sector. The current account deficit was expected to widen from \$52m in 1997 to \$134m in 1998, and then narrow slightly to \$128m in 1999. Imports were projected to rise by 16% from \$400m in 1997 to \$465 in 1998, as the government compensated for the vastly reduced 1997/98 food crop harvest by purchasing food and foodstuffs from the neighbouring countries. Much of the tobacco, the major cash crop, was sold at the below-market rate of \$1.38/kg, which reduced the ability of farmers to purchase seed and fertilizers for the coming season. Income per capita declined by 11 per cent between 1991 and 1995. These trends continued for the greater part of the late 1990s resulting in growth averaging only 2.6 per cent between 1998 and 2000.

The summary of the country's basic economic indicators during the last half of the 1990s is as follows:

³ The data for the early 2000s are scattered in various documents. The analysis here thus stops at the year 2000.

Table 1: Basic economic indicators

Economic indicators	1994	1995	1996	1997	1998
GDP at market prices (MKm)	10,251	22,435	34,853	41,703	52,405
Real GDP growth (%)	-12.9	13.5	14.5	5.2	3.3
Consumer price inflation (av.%)	34.7	83.4	37.6	9.2	29.7
Population ^a (m) estimated	9.46	9.79	10.14	10.44	10.81
Exports fob (\$m)	363	424	518	546	455 ^b
Imports fob(\$m)	639	631 ^c	618 ^c	597 ^c	537 ^b
Current-account balance (\$m)	-450	-410 ^c	-151 ^c	-65c	-307 ^b
Reserves excl gold (\$m)	43	110	226	162	270
Total external debt (\$m)	2,025	2,242	2,312	2,206	2,222 ^b
External debt-service ratio, paid %	20.6	26.2	16.2	12.4	24.5 ^b
Tobacco production ('000 tones)	97	130	141	158	134
Exchange rate (av;Mk:\$)	8.736	15.284	15.309	16.444	31.073

September 1999 MK43.58: US\$1, February 2001 MK80.8: US\$1.

Source: *Economic Intelligence Unit, 1999*

In 1999, a real GDP growth of 4.25% was forecasted, up from 3.3% in the previous year. Much of this was due to the expansion in peasant production as a result of government directly providing inputs to the smallholder farmers. The move was more of a political campaign for the general elections, than a concrete policy measure. Most of the projections for this period were actually not achieved.

Recently the National Economic Council reported that the Malawi economy has remained quite unsatisfactory in the past five years (GOM 2001). Relative stability and growth have been experienced but only with insignificant margins. The major reasons for this are numerous and include high levels of inflation, fiscal imbalances, and external shocks. Major underlying factors to the poor performance include depreciation of the national currency (the Kwacha) against the United States dollar, high interest rates and poor tobacco prices offered at the auction floors. Revised real GDP in 2000 grew by 2.1 percent, which was lower than the 3.6 percent growth registered in the previous year. On the other hand, inflation declined from 44.9 per cent in 1999 to 29.5 percent in 2000. The high inflation rate is attributed to general increases in prices of commodities, which are in turn influenced by the increases in petroleum prices. The poor tobacco prices experienced in 2000 were largely on account of the external performance. The rate of economic growth in 2003 was 4.4 percent, slightly below a target of 4.5 percent. Inflation averaged 9.6 percent, compared to a target of 5.0 percent (GOM, 2004:6).

The agricultural sector experienced a 46 per cent drop in the growth rate, from 10.1 per cent in 1999 to 5.4 percent in 2000. This was attributed to a big decline in the performance of the smallholder sector. The growth rate of the smallholder sector dropped sharply from 13.4 per cent in 1999 to 1.7 percent in 2000. The decline mainly

emanated from the poor performance of the tobacco industry. The large-scale agriculture sector performed better, rising from a declining growth rate of 1.9 percent in 1999 to 21 percent in 2000. This was a result of good performance of the sugar and tea industries.

The manufacturing sector declined by 2.5 percent in 2000 from 1.8 percent in 1999. The contributing factors included poor micro-economic environment and lack of fiscal incentives. Instability of the exchange rate of the Kwacha to the dollar and high interest rates adversely affected foreign and local financing, respectively. The bank rate went up from 47 per cent mid 1999, to 61.3 per cent at the beginning of 2000. Commercial banks minimum interest rates went up as high as 59 per cent during the same period. Industry claimed that lack of fiscal incentives such as surtax on selected products and excise duty on the importation of manufacturing equipment and machinery negatively affected production and sales revenues. The construction sector also registered a huge drop in the growth rate from 10.1 per cent in 1999 to 1.9 percent in 2000. Just like the manufacturing sector, instability of the exchange rate and high interest rates had debilitating impact on the construction industry. All these developments had negative effects on the creation and availability of jobs on the labour market.

The above trends, though with some minor changes, continued in the period between 2001 and 2003. The implication is that at present the government must reduce expenditure by cutting down on non-priority areas. It is anticipated that the restoration of fiscal discipline will stimulate private sector investment and growth that will lead to more employment and income opportunities for people.

2.3 Political Context

The political context is that of a country in transition. Until recently, Malawians did not experience living in an open society. A hundred years of colonial rule (1891-1961) were immediately followed by thirty years of dictatorship (1964-1994). The last ten years have been characterised by a transition to multi-party democracy and the institutionalisation of rights and freedoms. These changes necessitate the establishment of new institutions to respond to the new challenges. More importantly, the political changes entail the emergence of a new political and socio-economic culture in which people have become freer than was hitherto the case. People have acquired social, political and economic rights that have to be fulfilled. Not surprisingly, the right to work, the right to fair wages, the right to employment at a labour market of one's choice, and the right to pursue an economic living anywhere in the country without discrimination, are constitutional rights in Malawi. In the same vein, the Malawi Constitution provides for the freedoms of assembly and association. This means that producers, consumers, employers and workers are free to mobilise and organise themselves. In turn, such freedoms and rights enhance the bargaining power of these people. The changed political environment, combined with the constitutional rights and freedoms, create an atmosphere in which, if properly managed, a culture of tripartism and social dialogue may flourish. Adherence to a democratic culture calls for respect for three-sided processes of dialogue and consultation between state (the government), society (producers, consumers, workers, etc), and capital (business owners, investors, financial institutions, etc) in all important matters of public and economic policy making.

The changing political situation has provided space for civic engagement. Good evidence for this has been the rapid growth of civic bodies over the last ten years. These vary from human rights and governance NGOs, to women's organisations, youth organisations, relief providers, faith-based bodies, community-based organisations and others. Currently there are over 250 registered non-governmental organisations in Malawi. By international standards this is not a very large number, but what is particularly noticeable is that most of these have been registered over the last ten years. For example, out of the 27 trade unions registered in the country, 21 were registered in 1995 alone, 6 in 1998, and the remaining few between 1999 and 2004. Also important has been the unionisation of rural workers. Currently, there are three unions that draw their membership from rural workers: the Plantation and Agricultural Workers Union, the Tobacco Tenants and Allied Workers Union of Malawi, and the Tea, Coffee, Macadamia and General Workers Union.

Social and political dialogue is further facilitated by the emergence of the civil society coalitions, which have become a common feature of civil life in Malawi of late. There are civil society coalitions dealing with economic justice, such as the Malawi Economic Justice Network, with a membership of over 70 civil society bodies; the Human Rights Consultative Committee (HRCC), a grouping of the human rights and governance civic bodies; the Civil Society Agriculture Network (CISANET), the Gender NGO Network, and others in education, health, land, and the environment. The NGOs are also grouped into an umbrella membership body, the Council for Non-governmental Organisations in Malawi (CONGOMA), while the trade unions have two federations: the Malawi Congress of Trade Unions (MCTU) and the Congress of Malawi Trade Unions (COMATU). These have engaged the state and the related public institutions such as the constitutional bodies (Human Rights Commission, Law Commission, Ombudsman, etc) on a variety of issues that have bearings on society. They have also actively participated in the formulation of public policies and policy frameworks, including those relating to the fight against poverty.

Granted such positive developments, there are still a few limitations to the opening up of space for civic engagement in the country. First is the question of the representativeness of the civic bodies. With the exception of the faith-based organisations and the trade unions, most civic bodies do not have a clear constituency that they can claim to represent. Second, much as the civic bodies may claim to be speaking on the behalf of the poor, there are no obvious indications that the poor are being mobilised. The situation is worsened by the fact that the poor have almost no capacity to mobilise and organise themselves, and to directly engage the state and other services providers. Third, being new, the majority of the civic bodies have not fully established themselves in society. As a result, their operations tend to be limited to specific geographical areas, or to specific and narrow issues rather than dealing with the wider contexts in which the issues they deal with are located. For example, if they deal with the issues of human rights, it would have been expected to link these not only to the issues of political and social power and freedoms, or civil liberties, but also to the control, distribution, and access to resources. That way the issues of human rights would be linked up with those of poverty. Fourth, there is ample evidence suggesting that internal bickering and rivalries are common among the various confederations of

the trade unions and the NGOs. This makes it easy to politically divide them. Consequently, what emerge are allegiances and patron-client relationships with the state and capital.

Civic engagement and social dialogue are not politically neutral processes. They create some tensions between the state (read government) and the civil bodies, particularly in relation to matters of policy making which is the constitutional function of the state. Naturally, the state would like to protect its constitutional mandate by making sure that it preserves policy making and implementation as its prerogatives. For this reason, the state will always question the mandate of the civic bodies in policy matters. The state, be it in Malawi, or elsewhere, prides itself in having been voted to power and carrying the mandate given to it by the voters to formulate and implement policies. Such mandate does not exist in the civic bodies. Increased participation of civic bodies in policy issues has the effect of shrinking the policy functions of the state, a position the state finds rather unacceptable. On the positive side, effective social dialogue and civic engagement reduce the centralisation of power in the state and open up debate on public policies. Policy information becomes more readily available to the citizens; there is public ownership of the policies, and their implementation becomes easier and potentially more effective.

2.3.1. Governance

In line with the above political changes, the government of Malawi has in the recent past demonstrated its commitment to improving both political and corporate governance in the country. The government designed a decentralisation programme to bring power close to the people. By January 2004, 50% of the ministries had devolved their functions to the district assemblies, though at different levels. In addition, the government has created a number of institutions and projects to support improvements in governance. These include the creation of the Office of the Ombudsman to check on government's excess use of power and to intercede between the population and the government. It has also created the Anti Corruption Bureau to investigate the cases of corruption and improve transparency within the public sector; the Law Commission to review laws that are inconsistent with the constitution and to draft new ones in their place; and the Human Rights Commission to investigate human rights abuses and, wherever necessary, recommend for legal redress. Plans are underway to give the Anti Corruption Bureau more independence in investigation and trial of suspected corrupt cases. The Industrial Relations Court was established to handle labour-related cases.

2.4 The Employment Situation

The promotion of harmonious labour relations through social justice and peace, and the development of skilled human resources through technical and vocational training is a priority of the Malawi Government. This is particularly the case considering the rate at which the labour force is growing in the country. The labour force grew from 2.3 million in 1977, to 3.5 million in 1987, to 4.5 million in 1998 (NSO, 1998:108). This growth is predominantly a result of the rapid population growth, calculated at between 2.4 and 3 percent per annum. Over 75 per cent of this labour force is locked up in the smallholder agricultural sector. The share of the smallholder farmers (*alimi* or *achikumbe*) has been steadily increasing since the 1970s. It is worth noting that the effects of the HIV/AIDS

pandemic may in the medium and long-term perspectives, affect the growth rate of the labour force. HIV/AIDS prevalence data indicate that 16.4 per cent of the economically productive age group (15-49 years) is infected. AIDS is said to be the single largest cause of adult death in the country. The causes and consequences of the pandemic are closely associated with the wider issues of development, economic, and social welfare such as poverty, incomes, livelihoods insecurity, education, as well as gender inequality.

The 1998 population census report shows that 2,323,818 Malawians were "not economically active" in that year (NSO, 1998:108). These included 1,757,650 students; 356,459 "home workers"; 131,534 who had "never worked before" and were "not seeking employment"; and 78,175 unspecified "others". Those officially recorded as unemployed were 50,361, comprising 15,097 who had "worked" and were "seeking employment"; 9,658 who had "worked before" but were "not seeking employment"; 25,606 who had "never worked" and "were seeking employment". These figures are rather confusing and do not give a clearer picture of the situation. For example, to be a student does not imply to be "economically inactive". Many students engage in various economic activities while pursuing their studies. Similarly, those looking for work may be unemployed but not necessarily "economically inactive". In the Malawi case, there is almost no difference between being self-employed and being "unemployed" because being employed is understood in terms of being engaged in wage labour. A person could be employed outside the formal wage labour market in the informal sector, peasant agriculture, family-based cottage industries and others.

The above figures do not therefore provide a clearer picture of the levels of unemployment and underemployment in the country. Data on job seeking collected by officers in the Ministry of Labour and Vocational Training in 2003 rose by 92.16 per cent from 4,898 in 2002 to 9,412 that year. However, these figures only give a picture of those that came forward to register as job seekers at official centres. They do not include those that did not register as job seekers. The important thing is that they give some picture of the magnitude of the rate at which unemployment is rising in the country. Further evidence for this comes from figures on school graduates and dropouts. Based on data from the Ministry of Education and Culture in 2000/1, about 750,000 children entered school annually. Of these, 150,000 finished primary school; 50,000 proceeded to secondary school. About 600,000 dropped out of primary school and entered informal employment for their livelihood. The informal labour market is said to have had an absorption capacity of just about 30,000 to 35,000 people. It means that over 200,000 boys and girls sought for other sources of income other than wage employment. In the absence of comprehensive data on unemployment, these figures suggest that unemployment is a serious problem in Malawi. Added to it is the problem of underemployment.

The factors contributing to unemployment in Malawi include: the mismatch of skills being demanded and skills being supplied or available on the labour market; retrenchments due to negative developments in the economy, the mismatch between the rate of the labour force growth and the rate of economic growth, combined with the rate of population growth. More recently, the causes of unemployment in Malawi have included retrenchment of workers due to the privatisation of state-owned enterprises, and the unqualified liberalisation of the economy, which result in some enterprises

folding up on account of failure to compete.

The 1998 population census report indicates that 4,458,929 Malawians were working in that year. The following was the distribution of the economically active population engaged in the various sectors of the Malawi economy at that time:

Table 1: Economically Active persons aged 10 to 64 employed by industry

Industry	Urban	Rural	Total
Agriculture, Hunting, Forestry	90360	3634335	3724695
Fishing	1754	417132	417132
Mining and Quarrying	686	2499	1813
Electricity, gas and Water	5261	7319	2058
Manufacturing	45205	73278	118483
Wholesale & retail Trade	128887	128502	257389
Hotels and Restaurants	8913	6390	15303
Transport, storage and Communication	24334	8289	32626
Finance and Insurance	4672	427	5099
Real estate & Business activities	6517	2341	8858
Public administration	75333	26100	101433
Community and Social Services	62019	74338	136357
Education	30051	49701	79752
Health and social work	16812	15119	31931
Other Community services	15156	9518	24674

Source: National Statistical office, 1998 Population and Housing Census

Though these figures are fairly outdated, they provide some insights into the employment situation in the country. The figures show the dominance of the rural economy, represented by agriculture, hunting, forestry, and fishing. This is because the large section of the Malawi population is still tied to the land. Granted that, the figures also show the large contribution to employment opportunities in the manufacturing, trade, and the service sectors such as hotels and restaurants, transport, storage and

communication, finance and insurance, and real estate and business activities. These are the sectors of the economy where micro, small, and medium enterprises are dominant. If combined, these sectors of the Malawi economy therefore provide a large labour market. The size of the social sectors: community and social services, education, health and social work, and the "other community services" is a reflection of the government's commitment to community development.

3.0 The National Poverty Reduction Agenda

3.1 National Frameworks

Turning specifically to the topic of poverty and employment, it is important to note that the development policy goal of the Malawi government is poverty reduction. It was a campaign promise in the run up to the adoption of multi-party politics between 1992 and 1994. However, as a political and development practice, the "*fight against the three dread enemies: poverty, ignorance, and disease*" was an aspect of the one-party regime's livelihoods policy. The policy frameworks for this were the *Statement of Development Policy (DEVPOL) of 1967* and the *Growth Through Poverty Reduction of 1989*. The livelihoods policy centered on the provision of basic needs for human survival: adequate food, clothing, and shelter, combined with increased access to medical and health facilities for the majority of the Malawi population. The difference between then and now is in the way the current government has produced explicit policy frameworks for poverty reduction. Development planners, designers and implementers are required to consistently use these frameworks as guides to their work. The national budget is also designed in such a manner as to reflect the anti-poverty agenda of the government. Private investors, development partners, and assistance providers are required to respond to the government's anti-poverty priorities and targets.

Against the above background, Malawi adopted *poverty alleviation* as a development strategy in 1995, just a year after the fall of the one-party dictatorship. The goals of the national *Poverty Alleviation Programme (PAP)* are to:

- Raise the productivity of the poor
- Promote sustainable poverty reduction
- Enhance participation of the poor in the socio-economic development process so as to raise and uphold individual and community self-esteem
- Increase income and employment opportunities for the poor

From its start the programme adopted a "targeting" approach. Strategies were developed for each category of the poor, based on the major causes of their poverty. Line ministries, the private sector, development partners, non-governmental organisations and other civil society bodies are required to respond through policy, project, technical and financial interventions. The primary role of government is to create an enabling environment for poverty alleviation by instituting a systematic review of policies and regulations.

In addition to the PAP Policy Framework, Malawi has outlined its anti-poverty agenda in its Vision 2020 document adopted in 1997 after a consultative process. The *Vision 2020* document recognizes the importance of accelerating enterprise development as a strategy for attaining fair and equitable distribution of income and wealth. One of the

proposed specific strategies is to make credit accessible to all levels of the population through a variety of lending institutions. The ultimate purpose of the *Vision 2020* is to develop the country into a medium income country.

In 2002, as a requirement of the World Bank and the International Monetary Fund, Malawi adopted the *Malawi Poverty Reduction Strategy* (MPRS). The development of the MPRS, like that of the PAP and the *Vision 2020* preceding it, was a consultative process that involved cross-sections of the Malawi society, including the rural poor. The overall goal of the MPRS “*is to achieve sustainable poverty reduction through socio-economic and political empowerment of the poor*”. The strategy centers on four pillars:

- *Sustainable Pro-poor economic growth*: by economically empowering the poor by ensuring macro-economic stability, access to credit and markets, skills development and employment generation.
- *Human Capital development*: by ensuring that the poor have the health status and the education to lift themselves out of poverty.
- *Improving the quality of life for the most vulnerable*: by providing sustainable safety nets for those who are unable to benefit from the first two pillars above.
- *Good governance*: by ensuring that public and civil society institutions and systems protect and benefit the poor.

Four issues cut across these pillars: (attention to) HIV/AIDS, gender, the environment and science and technology.

The contents of the MPRS directly respond to the Millennium Development Goals (MDGs) set out in the United Nations (UN) Millennium Declaration. The Millennium Declaration binds all the UN member states to join forces in the fight against poverty, illiteracy, hunger, lack of education, gender inequality, child and maternal mortality, disease and environmental degradation. The MDGs place on the developing countries such as Malawi the responsibility to undertake policy reforms and strengthen governance to liberate the creative energies of their people. Malawi committed itself to the MDGs’ requirement to halve the population of the poor by 2015. A key feature of strengthened governance is the participation of civic bodies in public policy making and implementation. This is what social dialogue and civic engagement are about.

3.2 Social Dialogue and Tripartism

The MPRS is considered by many observers to be the single most important framework for analysing poverty in Malawi. Important also is the extent to which it facilitates tripartism and social dialogue among the stakeholders. The making of the PAP, the *Vision 2020*, and the MPRS was a participatory process. The government facilitated the formulation of working thematic groups that debated and designed the frameworks. The making of the *Vision 2020* was probably the most consultative and the participatoriest of all the three frameworks described above. Consultative meetings were arranged from the villages, to the district, to the regional and the national conferences. There were opportunities for the public to participate through radio programmes, and through written or oral submissions to the coordinators of the process.

Reviews of the making of the MPRS suggest that much as there was a consultative process, this was limited by the short timeframe given to the process, the differences of understanding of what the framework was about, and the tensions between government and civil society organisations. The timeframe for consultation with the poor in the rural areas was rather limited, to the extent that the process stopped at the district headquarters. Initially, there was no common understanding of what this process was all about. To some people it was just a mechanism for accessing resources under the IMF/World Bank highly indebted poor countries (HIPC) initiative. To others it was a budgeting tool; and yet others took it for just another consultative process of public policy making. It took a long period of time for a common understanding to emerge. Civil society organisations that participated in the process often complained of short notices for meetings, lack of access to key public information that was in the custody of the government; and lack of ownership of the process. The feeling was that they were being invited as "strangers" rather than as co-owners of the strategy. On their part, government officials complained of the "militant attitude" among some members of the key civil society organisations.

3.2.1 Framework for Economic Growth

An important aspect of the MPRS is that it is a framework for the design and implementation of a pro-poor national budget. Using the MPRS, the Malawi Government and its stakeholders deliberately designed a system of priority protected pro-poor expenditures (PPEs) with the aim of hedging priority poverty reducing activities. For example, during the 2002/03 fiscal year the total amount allocated for such activities was 9.8 billion Malawi Kwacha (MK9.8 billion).

More recent, the Malawi Government has developed the *Malawi Economic Growth Strategy* (MEGS) aimed at generating high and sustainable broad-based economic growth of 6.0 percent per annum over the long-term period through the promotion of investment, productivity and trade. The long-term goal of the MEGS is the diversification of the Malawi economy, especially by adding value to agro-products, and shifting to light manufacturing industry. It envisages economic growth centres in specific areas of the country where there are special economic advantages in terms of products and the potential for raw material generation. The MEGS is expected to lead to the development of the Malawi Growth Strategy Action Plan (MAGSAP).

The MEGS is an attempt to complement the goals, strategies and policies aimed at the sustainable pro-poor growth as set out in the other anti-poverty policy frameworks, and particularly those in the PAP, the Vision 2020, and the MPRS. The MEGS recognizes agriculture as the dominant sector of the Malawi economy in the medium term, but puts emphasis on the development of the private sector in the short term. It proposes that an economic growth rate of 6.0 percent is what is required for Malawi to meaningfully reduce its unemployment, underemployment, and poverty. As noted in the preceding account, over the last two to three years, the rate of economic growth has not exceeded 4.4 percent, compared with the MPRS estimate of 4.5 percent in 2003. A moderate growth rate of 4 percent would increase employment from 3.8 million to 5.4 million that is by 1.6 million people, which are still less than the increase of the labour force of 1.7

million people. This would mean that the current level of unemployment and underemployment would get worse. A low growth rate of 3 percent would mean over 25 per cent of the labour force being unemployed. As discussed elsewhere above, the current poor economic performance suggests that, though feasible, the 6.0 percent growth rate is not easy to achieve without strict fiscal discipline.

From the above outline, it is clear that Malawi's poverty reduction agenda centers on the promotion of economic growth and the provision of livelihoods and safety nets to the poor. The creation of employment opportunities is seen as a derivative of economic growth while the generation of income opportunities is seen as a livelihoods strategy. Safety nets are provided, not just as an economic necessity, more as a matter of social welfare. It is for this reason that the issues of health, nutrition, food security, rural and community development, and the fight against HIV/AIDS are mainstreamed in the government's anti-poverty policy frameworks. These are also among the key areas for priority pro-poor expenditures (PPEs) as hedged in the national budget in line with the *Malawi Poverty Reduction Strategy*.

4.0 Employment Creation Programmes

In relation to employment and poverty reduction, it is worth noting that the Malawi Government has directly embarked on, or indirectly supported a number of programmes linking the creation of income opportunities to efforts in poverty reduction. The account below concentrates on some thematic areas where the government has demonstrated its commitment to employment creation for the various labour categories.

4.1 Employment for rural communities

In Malawi, underemployment and unemployment are rampant in the rural areas. Recognising this fact, the government is now convinced that an integral part of private sector reforms is to shift the development focus to rural communities. The rural areas will become the battle ground for the war against poverty. This is because the larger percentage of the Malawian people in the rural and peri-urban areas lives in abject poverty. The idea is therefore to provide small-scale employment and income generation from the perspective of livelihoods and safety nets for the rural communities. The livelihoods and safety nets approach entails the creation of an enabling environment for sustainable livelihoods for the poor through provision of credit and finance; development of effective and efficient human resources for micro, small, and medium size enterprises (MSMEs); facilitation of access to essential services; and building institutional capacity in both state and non-state support organisations linked to enterprise development, vocational and technical education, credit provision, business training and employment generation.

The government of Malawi has taken several initiatives to improve access to opportunities for generation of employment especially in the micro, small and medium enterprises. This follows the realisation that the formal sector has not substantially grown over the past years. One good example of an official intervention in this area is the Enterprise Development and Employment Generation Programme (EDEP). The key features of which are:

- Creation of an enabling environment for micro, small, and medium enterprises
- Development of effective and efficient human resources for MSMEs
- Provision of access to credit and finance
- Facilitation of MSMEs' access to other essential services.

The initial EDEP interventions ran from 1997 to 2002, supported by the United Nations Development Programme (UNDP). They covered 13 of the country's 26 districts; and involved 13 intermediary support institutions and services providers. The programme's credit scheme reached out to 4,464 small and medium size enterprises. Women owned some 75 per cent of these. A major component of the initial EDEP was capacity building in both the intermediary support institutions and the beneficiary membership associations and advocacy groups. By carrying out their respective tasks and using programme resources allocated to them, the services providers enhanced their capacity to deliver. On their part, the services beneficiaries had their capacity built by gaining new skills through training programmes.

Granted the above successes, EDEP had a few problems. Reviews have shown that the selection of the services providers was done without prior assessment of their capacity and suitability for their assignments.⁴ There were no proper follow-up mechanisms for the entrepreneurs who were trained under the programme. As a result, quite a number of them pulled out. Some of those trained did not receive the credit. The training concentrated on business management, and less on vocational and technical skills. There was also considerable duplication of the training offered, with some of the participants having received similar training elsewhere. The training participants were not mobilised to approach the market as a group. Even worse, some of the trained entrepreneurs did not access the credit. More seriously, the programme was intended to receive support from a number of donors. Most of these pulled out, leaving UNDP as the sole funding agency. UNDP, itself, reduced the funding originally committed to the programme, an action that affected the size and delivery of the activities.

EDEP, rather than being a time-bound programme, has now become a government strategy for pro-poor economic growth that leads to income generation and employment creation. Initially it started without a comprehensive policy framework. Recognising the crucial role the micro, small and medium enterprises play in employment generation the government developed the *Micro and Small Enterprises Development Policy Statement* in 1999. The policy aims at creating an enabling environment within which MSMEs can thrive, by combining minimum regulation with maximum openness, and by providing equal incentives for all enterprises regardless of their size. It is hoped that the policy will ensure that all the factors affecting the operations of MSMEs and their competitiveness are adequately addressed and that adequate support is provided. This implies the removal of all discriminatory practices against MSMEs in matters of access to markets, credit and finance.

The Malawi Government observed that access to credit, savings opportunities, and other

⁴ These are covered in F.C. Makoza, E.W. Chirwa, and G.J. Magai, Enterprise Development and Employment Generation Programme (EDEP) MLW/97/001, Termination Evaluation Report Vol.1. For the Ministry of Commerce and Industry.

financial services is one of the major constraints to enterprise development in the country. This is more so among the micro enterprises that form up to 96.4 per cent of all the MSMEs, and particularly those owned by women. The formal financial sector does not cater for these because they do not have collateral and security guarantees. They are also regarded to be high-risk clients who are unable to repay loans and the cost of delivering credit and savings to them is said to be high. The Government thus developed a comprehensive *Micro-finance Policy Statement* in 2002 to provide a framework for the financing of MSMEs. The objective of the policy is to promote the development of a sustainable micro finance industry that provides credit, savings opportunities and financial services to low-income people that will create wealth and employment in the country.

The extent to which the finance services providers are following the policy is yet to be assessed. There is no evidence of the major financial institutions changing their negative attitude towards micro-enterprises. However, a positive development has been in the liberalisation of the financial market resulting in the emergence of micro-lending institutions some of which are membership based. Good examples include the National Business Association of Malawi (NABW) and FINCA. These complement the efforts of the parastatal-like credit providing institutions such as the Smallholder Development Organisation of Malawi (SEDOM), the Malawi Rural Finance Company (MRFC), and the Development of Malawi Traders Trust (DEMATT). The latter provide both credit and skills training. The MRFC specialises in credit provision for agro-based enterprises.

4.2 Growth Strategy for MSMEs

The *Micro and Small Enterprises Development Policy Statement* has now been translated into a National Strategy for Enhancing the Growth of MSMEs. The strategy's overall goal is to promote, support and facilitate private sector efforts in order to make Malawi a manufacturing based economy capable of creating and sustaining a competitive advantage in the domestic and international markets. The strategy is a framework within which the different policies have been translated into initiatives and institutional frameworks to facilitate the implementation of the set policies. It is an integrated package of measures that recognize the need for increased partnership involving government, non-governmental organizations, MSME support organizations, and the private sector. It places emphasis on programmes that are private sector driven and those that focus on fostering the development of efficient linkages and networking among MSMEs, buyers, suppliers, technical and financial services. The strategy also recognizes the need to strengthen institutions to provide appropriate and efficient technical services to upgrade the competitiveness and productivity of MSMEs. These institutions will be supported so as to become credible partners in policy dialogue and implementation.

4.2.1 Potential of MSMEs

If combined, the *Micro and Small Enterprises Development Policy Statement* and the *Micro-finance Policy Statement* are meant to provide a framework for pro-poor economic growth that generates incomes and creates employment opportunities at the same time. There is a favourable environment for this development. A characteristic feature of the Malawi economy over the last ten or so years has been the fast growth of the micro and

small enterprises. In this case the micro enterprises are those that employ between 1 and 4 people and have a turnover of up to MK120,000.00. The small enterprises are those that employ between 5 and 20 people and have a turnover of up to MK4.00 million. The medium enterprises employ between 21 and 100 people and have a turnover of above MK4.00 million, and up to MK10.00 million. The large enterprises employ above 100 people, and have a turnover of above MK10.00 million.

In 1987 the National Statistical Office registered 405 firms in the manufacturing sector. Some 88 or 21.73 per cent of these were micro enterprises; 107 or 26.42 per cent were small scale; 106 or 26.17 per cent were medium scale and 104 or 25.68 per cent were large scale. By 1998, the number of formal manufacturing enterprises rose to 691, representing an average annual increase rate of 5.10 percent. The largest average rate of annual increase, 13.95 per cent, were among the micro enterprises. These grew from 88 to 223 over this period. Small enterprises increased from 107 to 176, representing an average annual increase rate of 5.86 percent. The medium enterprises rose from 106 to 152 at an annual average rate of 3.77 percent; while the large enterprises rose from 104 to 140, at an annual average rate of 2.77 percent. From these figures it is clear that the micro, small, and medium enterprises have the potential for growth. This is where the signs of growth are obviously visible. On the negative side, the low rate of growth in the large enterprises may have a depressing effect on the expansion of the formal wage labour market given that, comparatively, this ought to absorb larger numbers of formal waged workers.

4.2.2. Effects of Privatisation

Given that the large-scale enterprises are fewer in Malawi there are therefore limited opportunities for formal wage employment, except for in the public sector. To date, the public sector is probably still the largest market for long-term wage employment in the country. This limitation is exacerbated by the fast growth rate of the country's labour force as outlined elsewhere above, and the economic downturn that has forced some larger enterprises to close down over the past few years, and thus forcing large numbers of people out of the wage labour market. Not less than 17 large-scale companies or enterprises have closed down over the last five or so years, most of these on account of failure to compete at both the local and international levels. The effects of privatisation worsen the plight of the large-scale enterprises.

By 2001, not less than 38 state-owned enterprises had been sold either completely or in part in the form of shares.⁵ These were in manufacturing, hospitality, farming, marketing, and finance categories. More were lined up for sale by 2005. Given that 150 entities were initially targeted for sale, and only 38 have been sold so far, one would argue that the rate of privatisation is much slower than anticipated. The reasons can only be speculated. It could be the case that the listed entities are regarded as less profitable. Indeed, most of them experienced financial hardships between 1997 and 1999. In fact, they were sold while, and because, they were experiencing financial hardships. It could also be indicative of the inadequacies of the commercial class in the country: few potential buyers and/or risk takers.

⁵ The number has gone up, but the exact figure was not readily available at the time of compiling this document.

One immediate effect of the privatisation process on public sector spending is the apparent reduction in the share of government spending towards the statutory organisations from 5.26% between 1987 and 1995 to 3.02% in the period after 1996. By mid July 1999 the process had raised about MK850 million, which was almost 1% of the country's GDP at the time. Other effects include switched ownership to groups of Malawians and foreigners most of whom had obtained the ownership at concessionary rates. There is, however, the argument that privatisation largely benefits politicians, bureaucrats, and the rich people. Most of the latter have foreign origins. It is further argued that privatisation has opened up new avenues for corruption at various levels. There is now enough evidence suggesting that corruption is indeed common in Malawi. In 2000, a report of the Public Accounts Committee of Parliament revealed that over MK125 million was lost to corrupt practices in the Ministry of Education alone. Several arrests were made. By July 2000, the Anti-Corruption Bureau had over 6,000 reported corruption cases to investigate. Such practices divert the much-needed public resources away from the government's poverty priority areas.

The restructuring of the privatised companies is accompanied by some loss of jobs. The formal wage labour market becomes smaller and its absorption capacity becomes limited. This, combined with the rapid growth of the labour force, result in high levels of both unemployment and underemployment. Such a development may simply lead to the entrenchment of the "informal" sector. Much as this is important for income opportunities and "petty" employment, there is a danger that the job market so created tends to be of a temporary nature characterized by low wages, high turnover rates, and rather indecent working conditions.

The "informal" sector is indeed expanding in Malawi. This is partly as a result of political and economic liberalisation, and partly also due to the increase in the rural-urban migration of the younger people who cannot find employment in the rural economy. The population of the urban youth who cannot find employment on the limited open job market is another major factor. As will be shown in the subsequent sections of this document, this is a result of the failure of the wage labour market to absorb school graduates and those that drop out of school. With the introduction of free primary school, increasing numbers of young men and women are thrown into the labour market that cannot absorb them. Those that drop out of school compound the situation. A large section of these become "petty traders" and "petty producers".

The Government has responded to this development by creating opportunities for this class of entrepreneurs. Flea markets have been constructed in the major towns with funds from the Press Trust Fund, which is a public fund. Some of the "vendors", as they are popularly known, access credit through the Youth Fund established in 1996. Unfortunately, the vendors' response to the flea markets has not been impressive. In the major towns the vendors have refused to move into the flea markets arguing that the markets are located far from where the potential customers frequently pass. They also argue that the flea markets do not have adequate space to accommodate everybody. They are also resentful of the city or town assemblies collecting daily market fees, preferring, instead, yearly or quarterly licences.

An aspect of the "informal" sector that often evades the official eye is cross-border trade. Apart from being subjected to customs on the borders, there is not much that goes into the official records about this component of the "informal" sector. Closely linked to this is oscillating labour migration. This takes a variety of forms: ranging from migration for wage employment, to migration for cross-border trade. At its peak in the 1970s, oscillating migration to the mines of South Africa absorbed some 15 per cent of the economically active adult male population of the country. The formal arrangements between the governments of Malawi and South Africa for this system ended in the early 1990s. However, there is ample evidence suggesting that the numbers of Malawians migrating to South Africa for employment and "informal" trade is on the increase. For example, the number of Malawians who had overstayed their visa periods in South Africa increased from 1,410 in 1992, to 11,025 in 1996. Those deported increased from 157 in 1992 to 2,284 in 1997. If those who were on the safe side of the South African immigration laws were taken into account, such figures would suggest that there is a large movement of labour between Malawi and South Africa that takes a variety of forms. The same applies between Malawi and its immediate neighbours such as Mozambique, Tanzania, Zambia and Zimbabwe.

The key issue here is that the development and operations of this movement of labour becomes part of the larger context of the "informal" sector that operates across political and state boundaries. The regulatory framework for such labour movements can only be effectively provided through bilateral or multilateral regional arrangements. Good examples would include some kind of a free labour market for the SADC or COMESA region; and protocols on the Free Movement of People in the region. There are some serious sensitivities to such proposals at the regional level, with Botswana and South Africa being resentful of the proposals on the free movement of people in the region. The reasons being that the two countries are the targeted final destinations of the majority of the migrant job seekers.

The above limitations have bearings on policy options. The immediate policy focus of the government is therefore to promote self-employment, and semi-permanent wage employment in agriculture, and in micro, small and medium enterprises. It is hoped that interventions in these sectors, as a short and medium term strategy, will enhance economic growth that would eventually lead to income generation and employment creation at home. Such a strategy will also enhance livelihoods and safety nets for the poor. The EDEP programme fits into this approach.

4.3 Projects Under HIPC initiative

There have also been other initiatives in various ministries and government departments. For example, a number of projects were embarked on under the HIPC initiative. Among the notable ones is the Economic Empowerment Programme (EEP), also referred to as the Economic Activities Programme (EAP), in the ministry of Gender, Child Welfare and Community Services, which offers training to vulnerable groups like orphans, women and poor men who organise themselves in groups and are given initial capital from HIPC resources through the commercial banks. These groups are also linked to other micro finance institutions as alternative sources of capital. The beneficiaries of this fund are trained and efforts are underway to continue building

capacity of the district assemblies to administer the fund through outsourcing to established micro finance institutions within the districts. This is in line with the spirit of decentralisation, which emphasises on transferring the power to the people at local levels. Second is the Skills Development and Income Generation Project supported by the African Development Fund. Just like in the EEP, the project allocates funds to literacy graduates so that they engage in self-employment to improve their welfare.

Similar programmes were initiated in the Ministry of Trade and Private Sector Development (formerly the Ministry of Trade, Commerce and Industry). Some 350 entrepreneurs in 12 districts were supported in the Poultry Development Programme; 40 in the bee keeping business, and 120 in mushroom production. Work was initiated to construct a production centre for fruit juice processing in one district.

Support to the development of micro enterprises and the provision of livelihoods and safety nets are not just prerogatives of the government. Service delivery is one of the key functions of civic institutions. There are over 100 civic institutions in the country providing credit and training to entrepreneurs, and supporting the development of MSMEs, almost in every category the government supports. The most effective are the faith-based and the international NGOs. These have much closer contacts with the rural poor than the government, partly because of their ideology, and partly also because they have a philanthropic approach to their work. Further strength of the civic institutions lies in their small and sharp focus, specific targeting, project-oriented approach, strict monitoring and evaluation procedures. However, the budgetary horizons of most of them are rather narrow. They cannot take on large-scale pro-poor programmes. In some cases, their interventions only duplicate those of government. This is largely due to the lack of coordination, linkages and interface between the government programmes and the projects of the civic institutions.

4.3.1 The Rural Development Fund

Since the government has committed itself to implementing policies designed to balance economic and social prosperity between the urban and the rural areas, it has created a special Rural Development Fund (RDF) to the tune of K500 million to provide soft loans to indigenous Malawians to enable them to start new businesses or to expand existing ones. With this fund the government is targeting households that are facing increased economic and social problems such as those headed by women, the elderly people, young persons and children, orphans, and the people with physical disabilities. It is expected that the RDF will initially be piloted in six districts that offer the potential for success, depending on their resource endowment. Thereafter the programme will be rolled out to other districts. What is not clear about this programme is how different it will be from the other integrated rural development programmes previously or currently in place in the country. Good examples are those enterprise programmes supported by the Malawi Rural Finance Company, formerly the Revolving Fertilizer Fund that provides credit to rural producers and entrepreneurs.

4.3.2 Challenges for such Programmes

The major challenge for such programmes is to market the beneficiaries' products.

These have difficulties in effectively penetrating the foreign as well as the domestic markets. As a result, with the exception of agricultural produce, the market for the poor people's products, and especially those originating in the rural areas, is rather small. Recently, a proposal has been made to organise the successful groups into cooperatives so that they can exhibit their products at international trade fairs. However, there is need for training and capacity building for these people so that quality assurance for their products is guaranteed.

4.4 Employment, Livelihoods And Social Welfare

As mentioned elsewhere above, the approach of the Malawi Government has been to combine employment generation, creation of income opportunities, and the provision of livelihoods and safety nets. The largest livelihoods and safety nets programme in Malawi is the Malawi Social Action Fund (MASAF), supported by the World Bank; the Department for International Development (DfID) of the British Government; and the International Development Agency (IDA). Launched in 1995, MASAF's objective is *to contribute to the goal of poverty alleviation through the creation and provision of improved social and economic services to the people.*

The Social Fund operates as a combination of mechanisms for economic and social welfare through provision of strategies for livelihoods, safety nets, communal asset generation and rehabilitation, income opportunities and employment creation. It is also a basket mechanism for an Integrated Rural and Community Development Programme.

MASAF has several components, the large ones being:

- *The Public Works Programme (PWP)* for direct employment generation among the very poor families in food deficient areas. Employment is provided through labour-intensive public works such as roads, bridges, public buildings, small-scale irrigation schemes, and others in cash or in the form of food-for-work. The community workers also receive agricultural inputs as a way of enhancing their agricultural production. By focusing on public amenities, the PWP also contributes to the generation and rehabilitation of communal physical assets. In this, the communities are required to make a contribution, normally in the form of their free labour.
- *The Sponsored Sub-Project Programme (SSP)* is a safety net operation through the provision of financial grants and technical support for projects targeted at the marginalized persons. It also provides support to networking activities among non-governmental organizations (NGOs) and community based organisations (CBOs) that act as partners in this programme. The SSP component supports a variety of income generating opportunities such as livestock production, small-scale food processing industries, vocational skills training, childhood development, and orphanages. The component beneficiaries are predominantly vulnerable persons such as orphans, street children, people with disabilities, the aged and those infected and affected with HIV/AIDS.
- *Poverty Support Monitoring Facility* to monitor levels and trends in the social

indicators of poverty.

To date, two phases of the Social Fund have been completed: MASAF I from 1995 to 1998, and MASAF II from 1998 to 2003. By end of June 2003, an accumulative total of 2, 255 projects had been approved under MASAF II alone. Of these, 1,877 had been completed, directly benefiting some 2,377,375 people. A major component of this phase was the provision of support to pro-poor economic growth through micro and small enterprises development, and through the sponsored sub-projects programme using the *Decentralisation Policy* adopted in 1999. Among others, the *Decentralisation Policy* aims at empowering the poor to effectively participate in economic affairs and decision-making processes. The third phase, MASAF III, began in November 2003. It envisages a situation in which resources will be controlled at the district level, close to the poor people.

Both the MASAF framework and the *Decentralisation Policy* contain strong elements of capacity and institution building. They provide for institutional arrangements and decentralised decision-making processes that start with village-based committees, to the local area, to the district headquarters. This is to ensure that the rural poor are fairly represented; and that the institutions that are close to the poor are directly involved in the management of both the Social Fund and its social and economic projects. However, the employment generated by the MASAF projects has some major limitations. These include seasonal variability and lack of sustainability. Since the employment is more of a livelihoods and safety nets strategy, it is not of a permanent nature. The livelihoods approach in MASAF takes advantages of crisis situations such as periods of food shortage to attract labour. Consequently, much of its orientation is towards food for work, and free communal labour as the people's contribution to the interventions. By design, most of the MASAF interventions are in the rural areas where the majority of the Malawian poor live. This reduces the benefits of the Social Fund to the urban and peri-urban poor. Admittedly there are some MASAF projects in the peri-urban areas, but these are much fewer.

5.0 The Rural Economy and Rural Development

Malawi is predominantly a rural and agrarian economy. Agriculture is the mainstay of the country's economy. Over 80 per cent of the country's population derives their livelihood from the rural economy that mainly comprises smallholder food crop cultivation. Agriculture contributes 37 per cent of the Gross Domestic Product (GDP). It offers over 80 per cent employment to the country's labour force, and accounts for over 90 per cent of the foreign exchange earnings. More than 65 per cent of the raw material requirements of the country's manufacturing sector derive from agriculture. In 1995, agriculture employed some 375,941 wage workers, more than half the total wage employment in the country – calculated at 700,558 people that year. This means that in the long-term perspective agriculture will continue to be the focus of the country's development efforts. However, the trends in this economic sector suggest that there is need for diversification both within the sector itself, and away to other sectors.

5.1 Smallholder Agriculture

The largest sector of the rural economy is the smallholder peasant agricultural sector. It utilises some 1.8 million hectares of land under customary land tenure system. About 3 million farm households are engaged in smallholder subsistence agriculture in Malawi. This sub-sector dominates the production of food crops such as maize, rice, cassava, sorghum, and a variety of other crops. Smallholder agricultural production accounts for 80 per cent of the country's food production; and 10 per cent of agricultural export earnings. It contributes more than 70 per cent to the agricultural GDP; 20 per cent to the total GDP; 90 per cent to agricultural employment; and 70 per cent to the country's total workforce.

The use of family and household labour, and the use of the simple and low cost technologies are among the dominant features of smallholder agricultural production in the country. Also dominant is the small land holding. In most parts, and particularly in the southern part of the country, most farm families have landholdings of less than 0.5 hectare. A landholding of 2 hectares is officially regarded as the manageable and desirable amount for effective agricultural production for the Malawi farm household. It is not surprising therefore that the land-constrained smallholder households, tenants, farm workers, and the temporary *ganyu* seasonal workers are among the categories of the Malawian population most affected by poverty.

5.2 Large-Scale Estate Agriculture

Second largest is the large-scale estate sector, comprising some 13 per cent of the total land area of the country under leasehold and freehold land tenure systems, and specialises in export cash crop production. Tobacco alone accounts for about 60 per cent of the total estate land, 20 per cent for tea, 18 per cent for sugar, and 2 percent for other cash crops. The estate sector accounts for 25 per cent of the agricultural GDP; 9 percent of the total GDP; 90 per cent of agricultural export earnings; and provides 10 per cent of agricultural employment. It also generates 45 per cent of formal employment. Though wage labour is common on both the tea and tobacco estates, to a large extent the tobacco estates rely on the tenant system for its labour supply. An estimated 589,000 rural people are tenants on the tobacco estates. The tenancy system provides the estate owners with a variety of other forms of non-paid labour, and work in kind, provided by women and children in the tenant family. Another important labour regime is that of *ganyu*, seasonal, temporary piecework. The poor households rely on this to supplement their cash incomes and their food resources.

Child labour is also common on the tea and tobacco estates. A recent official report indicated that out of an estimated 3.2 million children in the 5 to 17 years age group, 1.4 million were engaged in child labour within their family's houses or outside their homes in economic and non-economic activities. In this case child labour was defined as any activity or task that is detrimental to the health, safety and education of a child; or is likely to cause harm to the morals of the child and would affect the normal development of the child. It is worth noting here that to a lot of the poor households, child wage labour is a survival strategy. The contribution the children make to the cash and food requirements of the households is more than a supplement to the efforts of their parents and adult members of the households. Recently the Malawi Government committed itself to the elimination of the retrogressive and oppressive forms of child

labour, while the tenancy system is now under review for possible reform.

5.2.1 Strategies for Improving Agricultural Employment

From 1995 the government instituted a number of reforms in the agricultural sector aimed at improving the sector's productivity and absorption capacity. The government completed and adopted the *Agricultural and Livestock Development Strategy and Action Plan* (ALDSAP) aimed at achieving accelerated broad-based agricultural and rural development goals focused on the fight against hunger and poverty. The other objectives of ALDSAP include: improving food self-sufficiency and nutritional status of the people, expanding and diversifying agricultural and livestock export products and rural farm incomes; and promoting economic growth while conserving natural resources. ALDSAP has four main thrusts: increasing and widening the range of food crops grown and marketed to meet the needs of all people; removal of restrictions to participation in any production and marketing activities of agricultural products; broadening the export base diversifying away from burley tobacco; and expansion of livestock activities by integrating them into the core farming system.

The Government also put in place the Malawi Agricultural Sector Investment Programme (MASIP), a ten-year rolling investment plan for the agriculture sector, coupled with the Agricultural Productivity Investment Programme (APIP). During the 2002/03 fiscal year, some 54,300 out of a target of 55,000 farmers accessed loans from the Agricultural Productivity Investment Programme in line with the objectives of the MPRS. Remarkable progress was also made in activities relating to smallholder irrigation. Close to 40,000 out of the planned 50,000 treadle pumps were bought, and 180 of the targeted 200 motorised pumps were procured and issued out to farmers on loan. Some great achievements were realized on river diversion as 349 km of the planned 99 km of canals were constructed. However, not all the treadle pumps were distributed as some smallholder farmers could not afford them at the prevailing market price of MK10,000.00. Within the current budget, the government has allocated over K400 million towards the improvement of irrigation in the country. The aim is to expand access to productive land and farming so as to retain the labour employed in the agricultural sector and improve the earnings from the agricultural industry.

In keeping with the commitment to providing safety nets, the Government introduced the Starter Pack Programme or what, from 1999/00, became the Target Input Programme (TIP). As the name suggests, the idea is to provide starter packs of agricultural inputs to the poor households and to the socially and economically vulnerable individuals who cannot afford the inputs on the open market. It was expected that the recipient households would be graduating from receiving the free inputs after three years. However, instead of decreasing, the recipients increased from a target of 2 million to 2.78 million during the 2002/03 fiscal year. The planned budgetary allocation of MK10 million was exceeded by more than 300 per cent to MK323 million. The reasons were varied: ranging from increased demand due to winter cropping that was not originally planned for, to pilferages, and logistical and administrative inadequacies in the distribution system.

In order to improve returns from agricultural produce, the government has placed highest priority on diversifying the sources of foreign exchange through the

establishment of an integrated cotton textile industry through promotion of investment in cotton ginning, cotton spinning, fabric printing and garment manufacturing that will open opportunities for the country to produce forward and backward linkages with other industries and enable the country to create thousands of jobs, and result is better redistribution of wealth and prosperity. For a long time the agricultural sector had depended on exporting unprocessed products. The integrated cotton industry is an attempt to add value to the country's products. At present Malawi is designing the One Village One Product (OVOP) programme that aims at adding value to products produced by small rural entrepreneurs. It therefore offers a good opportunity for using agriculture to boost and bolster rural MSMEs. It is at this level that investments in agriculture and those in MSMEs can potentially be linked.

To improve access to land, to provide security of tenure, and to give land a value, the Government, since 2002, embarked on a Land Reform Programme. It started with the design and adoption of a new *Land Policy* following a Presidential Commission on Land. The Programme has several components. The key ones are: the implementation of the Land Policy itself; the Land Law Reform Project - aimed at establishing a comprehensive legal framework for the implementation of the policy; the Customary Land Reform Project – aimed at registering land titles to secure tenure and sustain rural livelihoods; and the Community Based Rural Land Development Project, aimed at resettling land constrained poor families from the densely populated districts of the country.

The combination of the agricultural reforms and the land reforms will in the long-term have effects on the rural labour markets particularly in relation to the supply and the exchange of labour and the terms at which the exchange takes place. Among the labour supply systems most likely to be affected will be the labour tenancy system, and, possibly, the supply of child labour. Titling of land entails private ownership. This, in turn, nullifies communal ownership and usufruct rights to land. The result is exclusion and dispossession. As more people are subjected to this process, more labour will be freed from land. Security of land tenure and increased value of customary land will also affect the structure and the dynamics of the rural household labour supply. As noted above, the other side of security of tenure is dispossession. As some people securely consolidate their pieces of land, and the land gains value, there will be all kinds of speculative tendencies and behaviours. These will increase the levels of dispossession and insecurity on the part of those who can no longer access land. Such people will be forced out of the rural economy into the labour market. The need to diversify the economy and to create off-farm employment will become apparent. Malawi therefore needs to prepare for this as it embarks on its land reform programme.

5.3 Fishing, Fish Processing And Trading

Another important sector of the rural economy is fishing, fish processing and trading. Artisanal fishing provides employment to some 270,000 households along the country's lakes, and to over 500,000 fishermen, fish processors and traders.⁶ Women constitute the majority of the fish processors. Research indicates that the country's fish stocks are

⁶ These figures are outdated. The fishing trading chain is much longer than the official record suggest.

fast dwindling, and a lot of people face the ever-increasing possibility of being forced out of the industry. The artisanal fisheries industry is thus losing the potential for self-employment.

The Government has responded to this development with a number of policy and regulatory interventions in the fisheries industry. First was the introduction of the Fisheries Co-management Programme in mid-990s, in the southern sections of Lake Malawi and the Upper Shire River, where the richest fishing grounds are located. The programme has since been extended to other sections of the lake, as well as to lakes Chilwa and Chiuta. The Programme provides for a fisheries management partnership between the government, on one hand, and the fishing communities, on the other. There is also an elaborate component of capacity and institution building. Local structures are set up, and their members are trained in issues of fisheries management, conflict resolution, group dynamics and other human relations. The local institutions set up under this arrangement access credit and finance as a group, or their members as individuals. From 1996, the Government introduced a new fisheries legislation to provide the legal framework for the Co-management Programme. It has also established a fisheries master plan covering the period from 2002 to 2005 to regulate and coordinate the management of the fisheries sector so that it continues to be a source of employment in the country.

5.4 Capacity and Institution Building

5.4.1 Technical Entrepreneurship and Vocational Training (TEVET)

For meaningful poverty reduction through employment, issues of human resource development and institution building are crucial. Well-conceived and efficiently executed education and training contribute to raising workers' productivity, and their capacity to earn decent incomes in all sectors of the economy. The workers increase their employability, which is an important attribute in today's labour markets where the workers' skills and know-how largely determine employment outcomes. Training further assists workers in their own self-development provides them with the means to change careers if they so choose, and paves the way for more remunerative jobs in wage and self-employment. Governments invest in education and training because a skilled workforce can generate higher economic growth and improve living standards.

From 1995, the Malawi Government introduced Free Primary Education as a way of attaining higher literacy levels, and to ensure access to education for children from poor families who could not afford school fees. Restrictive practices such as the mandatory wearing of school uniforms were removed. Girls who became pregnant while in school are now allowed back after the maternity period. The results are noticeable. Enrolment increased from 1.9 million to 3 million between 1995 and 1997. The numbers have continued to increase ever since. Intake for secondary and tertiary education has also expanded over the last ten years. However, the education system has faced a number of challenges to this development. Increased enrolment has been achieved at the expense of quality. The dropout rate has gone up, with about 20 per cent of the children entering primary school not completing the programme. The majority of these leave school before they have acquired basic literacy levels, meaning that they would enter

the job market in a disadvantaged position. There are also glaring gender inequalities, with girls constituting only 39 per cent of the school enrolment. This is considering that women constitute 52 per cent of the Malawi population. The literacy rate is thus disproportionately in favour of men at 56 percent compared to 44 percent for women.

A labour market study done in 1998 observed that the education system is not able to provide people who are joining the labour market with the relevant technical, vocational or entrepreneurial skills that would make them effectively employable. On its part, the technical, vocational, and entrepreneurial training system is not flexible enough to produce an adequate number of graduates of high quality skills and competences. Worse still, the system is inundated with structural problems to the extent that it cannot face the challenges of the dynamic labour market.

The high drop out rate, and the compromised quality, mean that those affected cannot be considered for vocational and technical education. Vocational and technical education is probably the most important human resource development strategy for a country that is moving towards industrialisation and the establishment of a manufacturing economy. Levels of technical education and vocational training in Malawi are still low. There is only one university college offering a small number of technical subjects, with low intake. In 1998, seven government aided technical colleges that offer formal training in various trades including in the fields of building and construction, engineering, horticulture (though inactive then) and printing were placed under the Ministry of Labour and Vocational Training in order to ensure that the government's employment policy should be linked to vocational training policy for easy implementation and flexibility. To date the government has seven technical and vocational training institutions, and one for medium enterprise, entrepreneurial and business skills training. There are also well over 170 private technical institutions in the country. These, combined with those operated or assisted by the government, have a total capacity of 19,441 spaces per year. Of these, about 1,441 are in the public technical schools, and about 18,000 in the private technical education institutions. This is one of the many limitations of technical education in the country. It is also noted that the technical education providers only provide for 18 trades, mostly in what are regarded as the traditional technical subjects. Malawi also has limited numbers of skilled and professionally qualified technical teachers.

In 1999, the government phased out the Industrial Training Unit in the Ministry of Labour and Vacation Training and replaced it with the Technical, Entrepreneurial and Vocational Education and Training (TEVET). The TEVET policy is to promote an integrated, demand-driven, competency-based modular technical, entrepreneurial and vocational education and training system. It is also intended to support the adoption and application of appropriate technologies; to promote managerial and business skills and spirit of entrepreneurial culture with regard to both wage and self-employment; and to facilitate sound and sustainable financing and funding mechanisms. The TEVET programmes include the Skills Development Initiative (SDI), to promote the provision of training through the traditional apprenticeship scheme especially for the youth; the Small Enterprise Development (SED), to address the needs of the informal sector; the Private Sector Training Programme, to promote skills development at the work place; and the Apprenticeship Scheme, to produce apprentices.

The Ministry constituted, through Parliament, an autonomous body called the TEVET Authority (TEVETA) that looks at TEVET issues. Its mission is to contribute to personnel development and to respond to labour market demands by providing technical, entrepreneurial, and vocational education and training thereby increasing productivity and the production of better quality goods, using environmentally appropriate technology, instilling a spirit and culture of entrepreneurship regarding both wage and self-employment and consequently reducing poverty. TEVETA has non-formal training programmes as well as on-the-job training programmes. With UNDP and ILO support, the Ministry reconstituted the Malawi Entrepreneurship Development Institute (MEDI) as an autonomous trust that is able to operate independently from government with only indirect links to the Ministry of Labour and Vocation Training. MEDI is the only entrepreneurship training institution in Malawi with the aim of developing and promoting the indigenous entrepreneurial community.

With the introduction of free primary school, the providers of technical and vocational education are facing increasing pressure to expand. The prospective number of annual entrants into the training market is around 600,000. These institutions can only accommodate about 19,441. The gap is just too huge. Technical and vocational education also suffers from gender imbalances, with young women being unfairly represented partly because of the high female drop out rates and other imbalances in the primary school system, and partly also due to the stereotype view that such education is for men. Also acting as a deterrent is the requirement for user fees. These are fairly high in the private institutions. The present TEVET curricula are said to be outdated and restricted to a narrow spectrum, not reflecting the demands of the economy.

5.4.2 Youth Development Programme

The government of Malawi recognises that the way forward in the generation of employment is to equip the youth with the knowledge and the skills necessary for their full participation in the social, cultural, economic and political development of the country. The areas of focus will be on skills training for self-employment, preventive health services, and provision of recreational facilities. The government seeks to empower the youth by creating new opportunities for self-employment for them by providing soft loans to enable them start their own businesses. The government also seeks to establish training centres, especially for vendors that will empower a large number of youths to financially stand on their own through viable business ventures. In order to ensure that the young men and women are fully involved in nation building, the government is establishing a National Development Service for the Youth (NDS), whose main mission is to train, equip and empower the young people to effectively participate in the economic, political, social and cultural development of the country. The youth will be deployed to assist in relief and other development programmes besides engaging in their own income generation programmes.

5.5 Health, Social Welfare and HIV/AIDS

In addition to poverty, Malawi is waging a related war against HIV/AIDS. The understanding is that the effective management of the basic health services and the

control of the HIV/AIDS pandemic are essential to the nation's economic productivity and survival. The prevalence rate of HIV/AIDS in Malawi is at 10% of the total population, with the urban prevalence rate estimated at 15%. Currently, it is understood that there are some 700,000 reported cases of HIV/AIDS in Malawi. HIV/AIDS is largely affecting the economically active population within the age ranges of 15 - 49 years, at the rate of 14 per cent. The infection rate among the women aged between 15 and 24 years is about 4 to 6 times higher than that of the young men in the same age group. The infection rate among women attending antenatal clinic varies from 10 per cent in rural areas to 35 per cent in the urban areas. With the advent of HIV/AIDS, there is a corresponding increase of about 2 to 4 times in tuberculosis. This is probably also the case with other opportunistic infections such as meningitis, skin other cancers. In fact, the people living with HIV/AIDS are much closer to dying when they are not treated for the opportunistic infections.

In order to respond to the HIV/AIDS crisis, the government of Malawi formed the National AIDS Commission to coordinate the HIV/AIDS activities in the country. In addition, the government has taken a holistic approach to dealing with the problems caused by HIV/AIDS. These include the provision of free ARV drugs to the people affected by HIV/AIDS and reducing the morbidity and mortality through the implementation of the Essential Health Package for free at the point of delivery. The government also launched the National HIV/AIDS policy in February 2004, which spells out strategies to deal with the HIV/AIDS scourge in the country. The new Malawi government also seeks to ensure that people in rural areas, especially women and the disabled do not travel long distances to hospitals and clinics by constructing new health centres and guaranteeing the provision of universal health. This is in recognition that poor health leads to the under-performance of labour.

5.5.1 Challenges to Health Services Delivery System

The biggest challenge to the health sector relates to poor people's access to ARVs. While the government and other stakeholders are providing free ARVs, the coverage is rather small such that many people that require the drugs cannot access them, and especially in the rural areas and among the rural poor. The free distribution of ARVs is currently targeting about 36,000 patients by 2005, and up to 80,000 by 2008. The government started the programme with a pilot of a few selected sites but now has rolled it out to all the districts of the country. Some private sector companies have started their own programmes for their workers. Whether this is done out of philanthropy or simply out of the realization that the HIV/AIDS pandemic had debilitating effects on productive is unclear. There is no evidence for a philanthropic approach to workers' welfare in Malawi. The government has also started the free distribution of drugs for the treatment of the AIDS-related opportunistic infections, and is providing training in the administration and management of ARVs.

For this programme to run adequately, the Malawi Government requires additional medical staff - doctors, nurses, paramedics, and others some of whom should also receive specialised training in the administration of ARVs. In addition, the laboratory equipment for testing the CD4 count and its accompanied tests is not available in many rural health facilities, making the programme difficult to administer. Equipment for

measuring the viral load is also required. With a programme of this nature effectively running, it is hoped that the longevity of labour among the people living with HIV/AIDS will be improved, and thus contributing to increased potential for a more productive labour force.

6.0 Challenges to Economic Growth For Poverty Reduction

The proceeding account has demonstrated that the official stance in Malawi is that economic growth is a highroad to poverty reduction. This entails the efficient utilization of the country's financial, economic, natural, and human resources so as to create new wealth through the production of goods and services for both domestic consumption and for export. To that effect, the current Malawi Government has made proposals for a number of reforms that will trigger economic growth. The key ones are:

- Fiscal discipline and the reduction of public expenditure;
- Tax reforms aimed at instituting a tax structure that is simple, fair and efficient;
- Provision of tax incentives with a view to attracting and promoting investment that would in turn create employment opportunities;
- Reforming the industrial sector in order for the country to improve the supply side, and to regain the comparative advantages;
- Promotion of a basket of commodities in order to diversify the export base and to attract foreign direct investment in the productive sectors;
- A proper mix of trade related policies and a review of exchange control procedures that ensure that liberalization of the current account is not abused and that the targeted manufacturing sectors are effectively cushioned from external shocks;
- Removal of constraints to growth in agriculture, tourism, mining, and energy sectors of the economy;
- Infrastructure and institutional development
- Food security; and
- Introduction of HIV/AIDS policies in the workplace.

6.1 Priority Areas And Entry Points

Granted the beauty of the above proposals, the discussion above indicates that the various sectors of the Malawi economy do not have the same or equal potential to create sustainable employment. There are major limitations to job creation in some sectors while opportunities exist in others. The sector currently best poised for job creation is the micro, small, and medium enterprises. This is where there are obvious signs of growth. Second is agriculture. These two could be taken as the short and medium term focus area while large enterprises could be considered in the long-term perspective.

Several interventions and measures could be instituted in order to move the economy towards an agro-based light manufacturing and services delivery economy. These include:

First would be the promotion of the value-added agro-based MSMEs along the lines adopted by countries that have instituted Export Promotion Zones (EPZs). Malawi has a

legal framework for this. There is an EPZ act of parliament though utilised mostly by foreign textile companies. This would entail a deliberate policy of promoting small-scale agro-based industrialization. This intervention would require introduction and implementation of a legal framework that provides both local and foreign investors with a package of attractive fiscal and customs incentives, the availability of relatively cheap and abundant labour, rental of industrial buildings at low cost, and others. The model would also entail utilising international export and import agreements such as the AGOA; and lobbying for more of those.

Second would be the promotion of agro-based light industries, particularly those in food processing and semi-processed raw materials to take advantage of the agricultural and rural development reforms. This would require linking agro-based MSMEs to the development of cooperatives and other producer and consumer associations so as to enhance the bargaining capacity of the agricultural producers and consumers.

Third would be to institute a legal and policy framework for the registration and licensing of MSMEs so as to give such enterprises official recognition and to allow them access credit and other services. This would assist in reducing the “informalisation” of the MSMEs.

Fourth would be the promotion of income generating opportunities by facilitating access to financial means to grassroots entrepreneurs in the form of outright cash grants and micro credit schemes. The very poor beneficiaries would be awarded cash grants to set up their small enterprises while those slightly better off would be required to take collateral-free loans with low interest rates through the micro credit schemes. The beneficiaries of the credit schemes would be provided with training for capacity building. This would entail also building capacity in the service organisations such as technical schools and vocational centres.

Fifth would be the provision of formal vocational and technical training for professional business skills. The trainees would be required to undergo an apprenticeship programme that involves attachment to micro, small, medium and large enterprises.

Lastly, it would require aligning the current tax reforms and other fiscal legal frameworks with the initiatives in the MSMEs policy frameworks. The Malawi government has already embarked on these.

7.0 Conclusions

Much as economic growth may be a highroad to job creation and, eventually, to poverty reduction, there is much more to the process than meets the eye. There are several challenges to achieving the vision of using employment, and particularly the employment generated by MSMEs as means to poverty reduction:

First, and foremost, the MSMEs (or EPZ) approach has been adopted by a number of African, and indeed third world countries. This increases competition at both the global and regional levels. The competitiveness of the Malawi products would entail following strict quality standards. Investors in the Malawi economy would need a lot of incentives

to attract them, otherwise they would rather go to the bigger and more lucrative regional economies. To address the issues of competition and incentives, it would require a joint approach in the continental and regional communities, to effectively lobby for more favourable terms.

Second, and related to the above, the international market requirement of at least 35 percent local material content is rather prohibited. This is an issue that would need to be debated at the international level in the regional and continental communities such as SADC, COMESA and AU.

Third, at the local level, for at the local level, it would require an expansion of physical, finance, and social assets. Thus, there is need for deliberate political choices and decisions. These, in turn, require political will and the right political mindset. Choices and decisions will have to be taken on how the country manages and utilizes its land, labour and capital. These are issues of governance, which have, of late, become major conditionalities for development aid and the movement of finance capital. Taking stern measures against those that misuse or mismanage public resources, for example through corrupt practices. In a context of transitional politics, there are dangers here that such an approach can easily degenerate into a witch-hunt.

Fourth, the country's labour force is expanding at a growth rate that is much faster than the rate of economic growth. This trend may, in the long-term be affected by the effects of the HIV/AIDS pandemic. It means that the strategies for economic growth and the measures dealing with employment and income generation would have to mainstream strategies dealing with the HIV/AIDS pandemic at all the key levels. At the international level, it means lobbying for assistance for the national HIV/AIDS programme such as for the training of medical personnel, acquisition of medical technologies and medicines. It would also mean joining forces with other countries in the continental and regional communities to lobby for improved access to the global resources, such as the global HIV/AIDS funds. At the moment, most African countries, including Malawi, do not freely access these resources due to the stringent access requirements.

Fifth, to date, Malawi does not have a job creation policy as such. This means that the MSMEs strategy and all the other economic growth strategies would have to be anchored on a strategy for job creation. It should be noted that MSMEs (or EPZs) have a tendency for institutionalising temporary employment, low wages, long working hours, and other forms of indecent working conditions. For employment to meaningfully contribute to poverty reduction, these would have to be addressed in such a manner that both the employers and the employees are not unnecessarily victimized. The poor labour regime associated with the EPZs may conflict with international labour standards, and particularly those advocated by the ILO. At this level, the international fora provided by the AU, SADC, COMESA, and other regional communities could be used to standardise labour laws and policies. Any strategy for job creation that leads to linking employment to poverty reduction would of necessity have to incorporate the issues of decent work, honourable working and living conditions, social welfare, social security, and social justice. Continental and regional communities can assist in coming up with protocols on these topics.

At the local level, institutional and legal reforms would be instituted to provide frameworks in industrial development, wages and working conditions along the lines of the international protocols. The local industrial development laws, the minimum wages regulations, and all the other laws regulating working conditions would be reviewed, and possibly changed to answer to the requirements of the official vision on industrial development, job creation and poverty reduction, and the international commitments to decent employment.

Finally, the strategy would need elaborate institutional linkages and networks. Specific institutions would be deliberately selected to act as the key process drivers. These would be given specific mandates, and their capacity built to the level that they could effectively engineer the required change. For example, this would require raising the profile of the Ministry of Labour and Vocational Training as the line ministry to be responsible for the implementation of the *working out of poverty* strategy. Other institutions, such as those responsible for technical and vocational training would also need their capacity to be built. In this respect, the government would be required to look for assistance in the area of capacity building for poverty reduction in the key ministry and the related institutions.

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